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BUSINESS REVIEW

Spotlight on issues
affecting business

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BUSINESS

REVIEW

BoE: UK ECONOMY SET FOR RAPID REBOUND

The Bank of England (BoE) is predicting a resurgence in economic activity later this year with the vaccination programme expected to spark a return to brisk growth from the spring onwards.

According to the BoE's latest forecast, the UK economy is set to contract sharply in the first quarter of 2021 as a result of continued lockdown restrictions. However, while the Bank stressed the outlook remains 'unusually uncertain', its projections point to a significant rebound over the remainder of the year.

The forecast assumes the vaccination programme allows lockdown restrictions to be eased between April and September which results in consumers becoming increasingly confident about spending. BoE Governor Andrew Bailey described the vaccine rollout as "excellent news" saying it would speed up a return to normal life and support "a sustained recovery" from the second quarter onwards.

There was also positive news from Hitachi Capital Business Finance's latest quarterly Business Barometer, which found the proportion of UK small businesses predicting growth was unchanged in January despite the new year lockdown. In total, the survey suggests a quarter of small businesses expect to see growth in the next three months, almost twice the proportion forecasting growth in the first lockdown last March.

CBI CALLS FOR POST-COVID ROADMAP

The Confederation of British Industry (CBI) has urged the government to work with business to formulate a roadmap out of lockdown that can facilitate a post-COVID economic recovery.

With the government expected to set out its lockdown exit strategy on 22 February, the CBI believes there is an opportunity to 'use time wisely' and plan the best way to safely reopen the economy. The business group has identified six key elements it believes will help firms prepare for the lifting of restrictions.

These include confirming what will be considered low, medium or high-risk economic activity; deciding whether or not there will be a return to tiering and outlining how the vaccine will be deployed once the most vulnerable groups have been inoculated.

In a letter to Business Secretary Kwasi Kwarteng, CBI Director-General Tony Danker wrote, "There is huge appetite among businesses to help the government create and deliver a roadmap out of lockdown that lasts, has national consensus and kickstarts our economic recovery as 2021 unfolds. Businesses are currently completely in the dark when planning for the weeks and months ahead and this is hindering investment. We can provide more clarity and do the prep work now to enable them to plan for reopening and growth."

INSURANCE VERDICT – 'BIG VICTORY' FOR SMALL FIRMS

A Supreme Court ruling in favour of small firms, means that thousands of policyholders will now receive payouts for coronavirus-related business interruption losses incurred during the first national lockdown.

The business interruption insurance test case was brought by the Financial Conduct Authority, which believes around 370,000 policyholders stand to benefit from the verdict. The Federation of Small Businesses described the ruling as a 'big victory' that will bring 'clarity and hope' to affected firms.

Association of British Insurers (ABI), Director General Huw Evans, also welcomed the clarity the judgement brought to a number of complex issues and promised that insurers would settle all valid claims as soon as possible. In total, the ABI expects the insurance industry to pay out more than £1.8bn in COVID-related claims across a range of products, including business interruption policies.

Mr Evans added, "We recognise this has been a particularly difficult time for many small businesses and naturally regret the COVID-19 restrictions have led to disputes with some customers. We will continue to work together as an industry to ensure customers have the clarity they need when it comes to what they can expect from their business insurance policies."

For the latest information on COVID-19 and the measures the government are taking visit the government website.

OTHER NEWS

LATE TAX FILING PENALTIES WAIVED

HMRC will not now issue late filing penalties to anyone submitting their self-assessment tax form online by 28 February. The policy change was announced six days prior to the original 31 January deadline, after the tax authorities admitted this year's filing rate was being hampered by the pandemic. In total, 1.8 million taxpayers missed the initial deadline. Despite the concession, taxpayers were still obliged to pay their bill by the end of January with interest charged on any outstanding liabilities.

GEN Z BUSINESS START-UPS

A survey commissioned by Mushroombiz has found that one in seven 18 to 24-year-olds plan to start their own business in 2021. This suggests a significant proportion of school and university leavers are rejecting the COVID-hit jobs market, in a bid to take control of their careers. If those plans are acted upon, then a record 800,000 new Gen Z businesses could start up this year.

UK FIRMS ACHIEVE UNICORN STATUS

Six UK private start-ups last year celebrated the rare achievement of attaining unicorn status. This elite list includes electric vehicle developer Arrival, cybersecurity firm Snyk, used car marketplace Cazoo, events software provider Hopin, sportswear label Gymshark and recipe box delivery service Gousto. A unicorn is defined as a privately held start-up company valued at over \$1bn.

QUIRKY QUOTE:

"You never know how strong you are until being strong is your only choice"

— Bob Marley

GOVERNMENT CRACKDOWN ON LATE PAYERS

The government has announced an overhaul of the Prompt Payment Code in order to ensure an increasing proportion of small businesses are paid on time.

Estimates suggest that around £23bn of late invoices are currently owed to small and medium-sized firms which impacts those businesses' cash flow and ultimately their survival. To help tackle the problem, the reformed code now requires a company's CEO or Finance Director, or the business owner, to take personal responsibility for paying suppliers on time.

In addition, from 1 July, all signatories to the code will be obliged to pay 95% of invoices from small businesses (those with less than 50 employees) within 30 days. This halves the payment period companies currently have, in which to settle small supplier invoices.

The Federation of Small Businesses (FSB) has been at the forefront of efforts to rid the UK of its late payment culture through the #FairPayFairPlay campaign. FSB National Chair Mike Cherry welcomed the government announcement and encouraged all firms to implement delivery of the changes swiftly. Mr Cherry added, *"Ending our pernicious poor payment culture for good over the coming months will be fundamental to turning our hopes of economic recovery into reality."*

THE KEY EMPLOYEE MOTIVATOR – APPRECIATION

New research has offered a fresh insight into how firms can best support and motivate their teams during the pandemic, as well as identifying the key demotivating factor that is sure to de-energise any workplace.

According to a study of over 2,000 UK employees conducted by YouGov on behalf of Vestd, the top motivator was being appreciated and thanked by managers, with more than a third of all respondents selecting this option. Perhaps unsurprisingly, *'a large salary'* was the second most popular choice, while *'working with purpose'* was the third most commonly cited motivating factor.

Interestingly, when asked whether they would rather work for an organisation with an excellent reputation for wellbeing or one that would pay them a higher salary, almost two-thirds of respondents prioritised wellbeing over cash. This was particularly the case for women, with almost three-quarters of all female employees favouring wellbeing.

The survey also sought to ascertain the ultimate demotivator and top of the pile was poor management communication which was cited by seven out of ten respondents. This vividly highlights the importance of regular check-ins and team meetings in order to keep employees in the loop with any information of relevance to them or their role.

Business resilience: How small firms survived 2020

Research undertaken by Small Business Britain has provided an insight into how small firms have managed to survive during the pandemic.

In a report entitled 'How to be resilient', Small Business Britain reveals the key factors it believes have contributed to business survival, based on the results of surveys and conversations with individual firms. While acknowledging that different businesses have been impacted in different ways, some common themes, actions and approaches are highlighted within the report.

When it comes to financial measures, the research found:

- **53% of small businesses received government grants**
- **44% added new revenue streams**
- **29% took out Bounce Back Loans**
- **29% implemented working from home**
- **27% put staff on furlough**
- **23% reduced operational costs**

Other key responses were also identified, including:

- **58% of businesses increased their own or their staff's digital skills**
- **50% added new technology to the business**

Overall, the report suggests that embracing digital technology, diversification and accessing government financial support packages have been the main survival strategies small firms have adopted so far during the pandemic.

COVID loan scheme changes

Small firms are to be given more time to repay government support loans taken out to help businesses survive the pandemic.

Under the new terms, businesses will have the option of paying the loans back over ten years rather than six and the opportunity to make interest-only payments for specified periods during the loan. Firms will also be able to pause repayments entirely for up to six months.

Commenting on the changes, the Chancellor said, "Businesses are continuing to feel the impact of extended disruption from Covid-19, and we're determined to give them the backing and confidence they need to get through the pandemic. That's why we're giving Bounce Back Loan borrowers breathing space to get back on their feet, through greater flexibility and time to repay their loans on their terms."

Business calls for more COVID support

The CBI has urged the Chancellor to provide extra financial assistance to businesses affected by the pandemic.

Mr Sunak is scheduled to deliver his Budget on 3 March, but the CBI has asked for further support measures to be introduced before the annual fiscal event. Specifically, it has called for an extension of the Job Retention Scheme, a lengthening of repayment periods for existing VAT deferrals until June and an extension of the business rates holiday for at least another three months.

IFS: Tax system in need of reform

A new report from the Institute for Fiscal Studies (IFS) suggests the UK tax system discourages employment, investment and corporate risk-taking and needs to be reformed.

One of the main concerns raised by the IFS relates to employees' salaries, which attract thousands of pounds more in tax than incomes of the self-employed and those working through their own company, largely because the former are subject to employers' National Insurance Contributions.

Additionally, the think tank argues that preferential tax rates on capital gains, dividends and self-employment income are not well targeted at encouraging entrepreneurial risk-taking and investment. The IFS is advocating a number of reforms which it believes would create a fairer, more equitable system.

All details are correct at the time of writing (8 February 2021)

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