



# Reawakening the economy

A quarterly survey of owner managed  
businesses from Kreston Reeves and the  
Association of Practicing Accountants

**June 2021**

# Introduction

Businesses are facing change at a rate not seen in generations. The need to pivot, adapt, flex, and in some instances rethink has never been greater. Time to think, to plan and to prepare for post-COVID and Brexit growth is paramount. They face a huge challenge but also a great opportunity in the coming months.

What is clear from the findings is that underneath the headline growth figures many businesses that have been on life support are now in the early stages of recovery.

There is no 'one picture' of the impact of the pandemic on these businesses. For every restaurant that has closed there is a facilities management company that has thrived. For every high street that has been impacted there are cloud-based retail start-ups that have gone from strength to strength.

The UK faces an unprecedented challenge to get the economy going again in the wake of a global pandemic. Owner managed businesses are vital to this recovery.

Government and policy makers have a limited number of levers at their disposal to help these businesses get back up and running – which is why it is vital they take an evidenced based approach over the coming months targeting help where it is most needed.

This research report, conducted among the clients of firms comprising the Association of Practising Accountants (APA), including Kreston Reeves, is an assessment of the challenges owner managed businesses now face. It captures a representative sample of the aspirations and concerns of these entities as they move from crisis to recovery.

## **The Association of Practising Accountants (APA)**

The APA is a network of leading business advisory firms meeting the needs of owner managed businesses and the real economy. APA members collectively advise and support well over 14,000 businesses across the UK.

This brief report summarises the views of 435 owner managed businesses across the UK.



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# The survey

## Who Kreston Reeves and the Association of Practicing Accountants surveyed

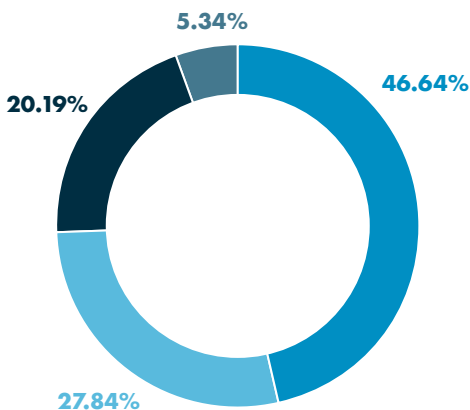
In April and May 2021, APA member firms dispatched the survey to their clients.



Number of businesses surveyed



Size of businesses surveyed



- Between 1 and 9 employees
- Between 10 and 49 employees
- Between 50 and 249 employees
- Over 250 employees

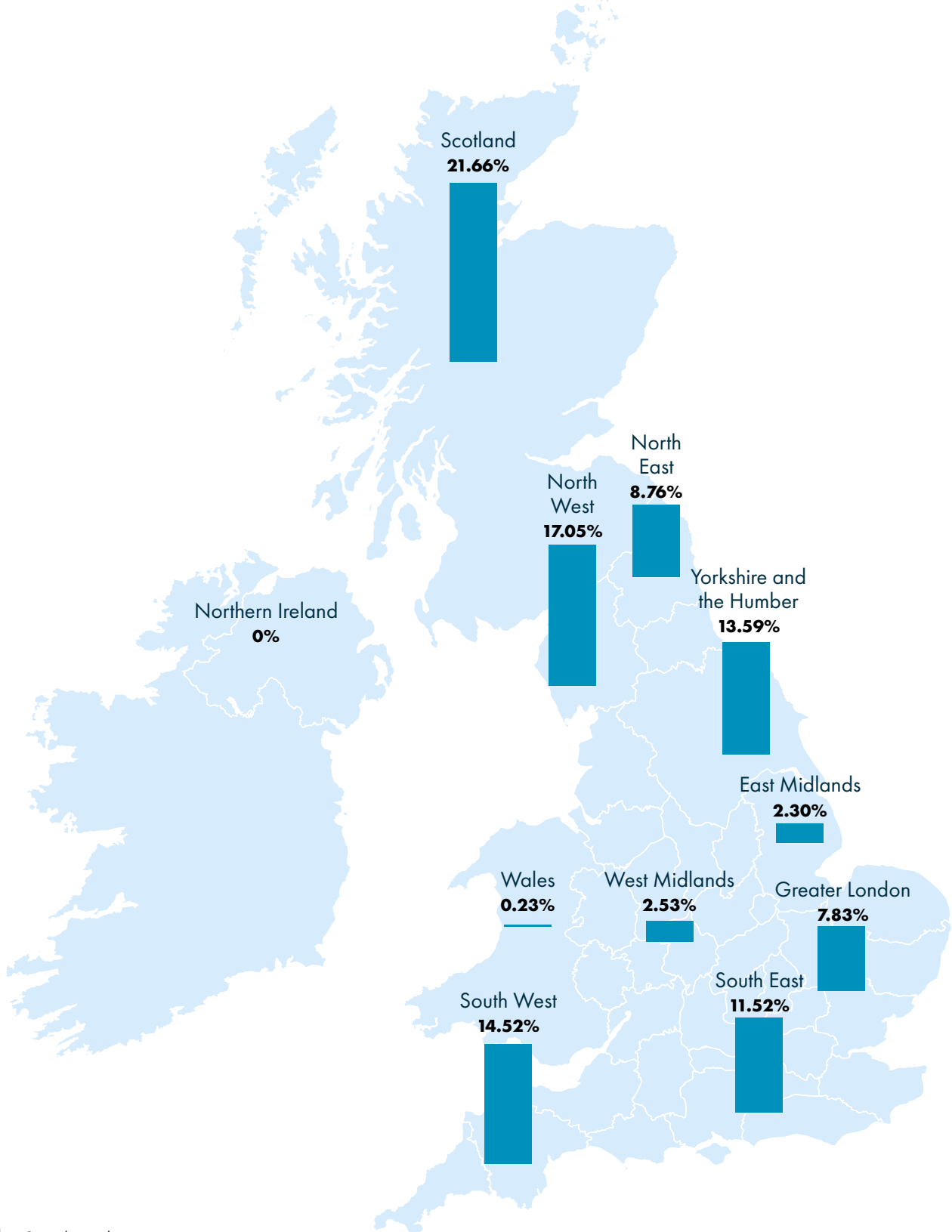


"Funding to scale our business is always a challenge. There is almost a herd mentality as to where investment goes regardless of merit or opportunity."



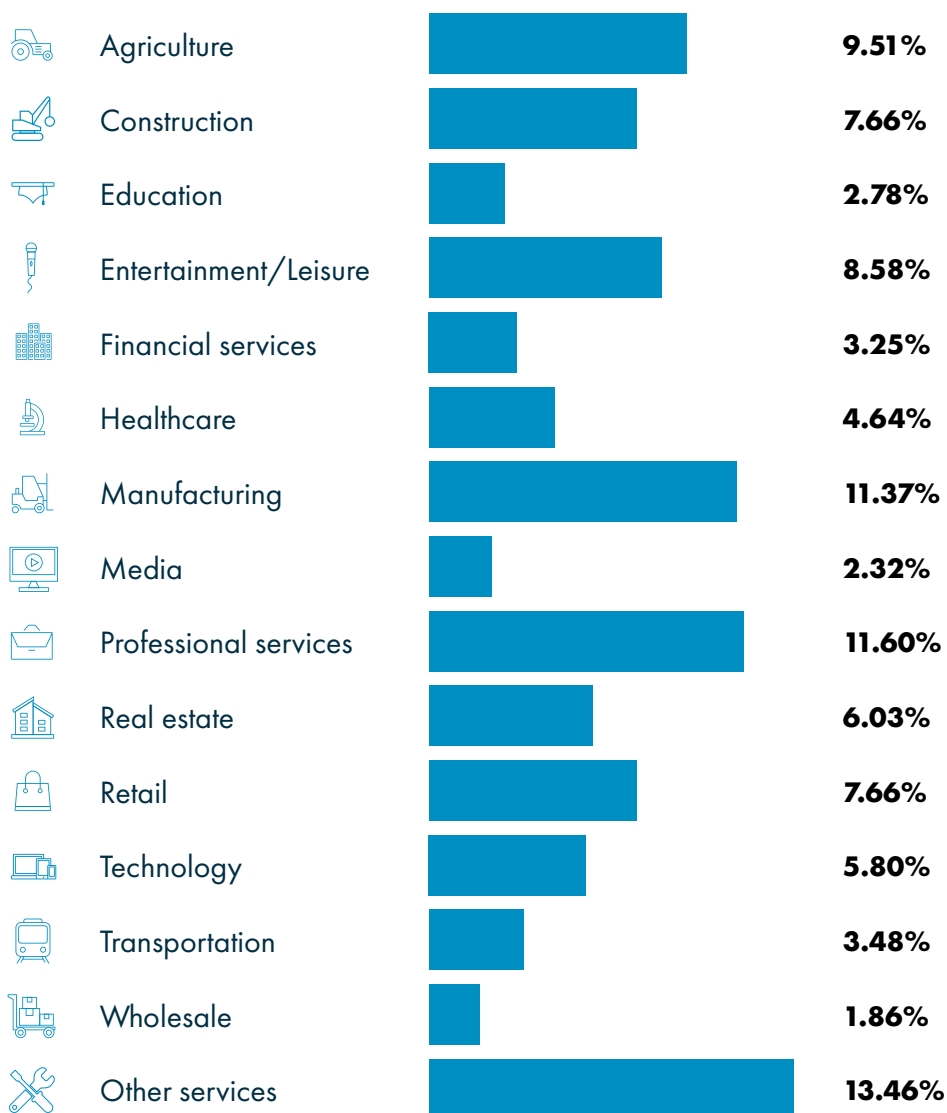
Location of  
businesses surveyed

“The Government needs to totally reform the business rates system and reduce Stamp Duty on property in line with other investments.”





## Industry sector



“Having been severely affected by the downturn in 2009 following the banking crisis, it has been refreshing that the banks can support businesses and this will hopefully speed up the economic recovery.”



# Reawakening the economy

Owner-managed businesses are the backbone of the UK economy. They employ three-fifths of the UK workforce and contribute 50% of the turnover of the private sector. How these businesses perform, their hopes and fears for the future, and a business environment that supports and nurtures these businesses is essential.

Our survey looked at current trading conditions, the impact of Brexit, views on the recent Budget including policy measures that were now needed to help support owner managed businesses and the ongoing impact of existing Government support schemes, and what would happen when these come to an end.

**“Overall, Government policies need to remain as flexible as is realistically possible.”**

## ▼ What is clear is that many businesses are still struggling:

- 11%** reported that it is likely they will have to make redundancies in the next 3-6 months putting a potential 1.85 million jobs at risk across the UK.
- 24%** reported a negative or very negative impact on their business since the UK left the EU.
- 53%** of respondents identified uncertain trading conditions as their biggest single challenge.
- 15%** cited Brexit supply chain issues as their single biggest challenge.

## ▼ Nonetheless:

- 84%** of respondents reported that they were either confident or somewhat confident that they would be able to access the finance that they needed over the next 6 months with anecdotal evidence suggesting that the major banks were continuing to lend.
- 54%** more positive  
Longer term 54% were more positive about their economic prospects outside the EU while 46% were less positive.
- 46%** less positive



# Current trading conditions

Our survey suggests that the impact of the COVID pandemic has yet to be fully felt. However, the early stages of recovery are here. Businesses that for much of the past year have been on 'life support' are stirring, evolving and looking for opportunities to grow. The UK faces an unprecedented challenge in reawakening the economy in a way that helps businesses grow.

45% of the businesses we surveyed reported a drop in turnover by a third since the January 2021 lockdown, against a fifth (21%) reporting an increase in their turnover.

The single biggest challenge facing 53% of businesses surveyed is the uncertain trading conditions. The Government's extension of the end of restrictions, alongside questions following the emergence of new strains of the virus will continue this uncertainty. Businesses will be preparing for localised restrictions.

Just 15% of businesses consider Brexit and supply chain issues a concern, with perhaps the challenges of Brexit temporarily overshadowed by the COVID pandemic. Just 9% of businesses see new hybrid ways of working and an additional 9% a lack of capacity to rebuild a concern.

As the UK emerges from the latest rounds of lockdowns and the efficacy of the Government's vaccine programme is felt, business confidence grows. A priority for almost half (45%) of all business surveyed is to capitalise on the opportunities a post-lockdown economy presents.

For a small number of businesses (15%) survival remains the priority. If in a worst-case scenario, 15% of owner-managed businesses were to collapse, 1.85m people would face the prospect of losing their job.

## ▼ Funding opportunities in a post-COVID environment

Many business owners are confident that they can continue to access the funding they need. The backdrop of record investable funds held by private equity firms and high net worth individuals encourages that view. However, these investors are being highly selective and seeking strong returns on their investment so business owners may still turn to traditional sources for funding.

Post-COVID is a great opportunity to reflect upon changes in the shape of the core business, its supply chain and consider immediate and future funding requirements. Progressive business owners will be exploring whether there is a better way to fund future cashflow needs and challenge whether the traditional loan is still appropriate. They will reflect upon the assets within their business and the flexibility asset, and/or invoice finance, could bring to utilise these assets in the most efficient and cost-effective way.

In addition, business owners will be considering accessing the new government backed Recovery Loan Scheme (RLS). Whilst it has seen a slow start since launch in early April 2021, RLS application volumes are expected to rise as both the business owner and the lender seek to benefit from the 80% government guarantee before the scheme is due to end in December 2021.

Whilst for many it has been an arduous task to apply, local and national grants specifically targeted at sectors effected by COVID have, and continue to, provide valuable funding to UK SME's.



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# The impact of Brexit



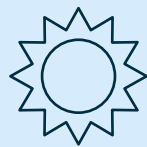
It is now six months since the UK left the transitional arrangements with the European Union. The Office for National Statistics reported in May a 23% fall in European trade for the first three months of the year, and it perhaps only following the easing of restrictions from the latest COVID lockdown that the challenges are becoming more apparent.

“The major issue is Scottish Independence which will necessitate higher taxes for companies and individuals. This will make Scotland a poor investment.”

Just under a quarter of businesses (23%) surveyed told us that Brexit has had a detrimental effect on their business following the UK's departure from the EU. Just 10% told us that leaving the EU has had a positive impact on their business.

The majority of businesses, 66%, told us that it is just too early to fully assess the impact of Brexit on their business. This underpins the importance of businesses to scenario plan every possible future outcome and make plans accordingly.

Our quarterly barometer will ask businesses whether they are optimistic about the long-term economic prospects of the country outside of Europe. The picture at the end of the first quarter of the year is almost as close as the referendum result itself in 2016.



54%

more optimistic



46%

less optimistic



# Government fiscal policy

The Government held its first post-Brexit Budget on 3 March. It was, understandably, a Budget focused on continued support to COVID-affected businesses rather than repositing the UK on the world's stage.

An overwhelming 81% of the businesses we surveyed told us that it was too early to assess the impact of that Budget. 14% told us they considered it a good Budget for their business, with just 6% saying it was bad.

Over a quarter (27%) of businesses surveyed told us that the Super Capital Allowances Scheme was singularly the most important measure introduced, with 19% pointing to the extension of the furlough scheme, and 12% highlighting the re-start grants.

Access to funding will be critical as businesses look to capitalise on post-COVID growth opportunities. It is encouraging, therefore, that 84% of businesses believe they will have no trouble accessing the funds needed. Anecdotal feedback also suggests bank lending is increasingly available.

It was also encouraging to see almost all businesses (89%) report that they are either unlikely or very unlikely to make staff redundancies within the next six months and that 84% of those businesses using the government furlough scheme are expecting to retain their staff.

**"The next 6 – 9 months are going to be critical. We need people to feel confident to be making buying decisions but at the same time there is a massive inflation in materials costs."**

## Super deduction capital allowances

▼ **Andy Wallis, Corporate and International Tax Partner, explains.**

In the 2021 Budget, Chancellor Rishi Sunak introduced a new super deduction on capital allowances of 130%. It is designed to encourage businesses to invest in new plant and machinery over the next two years and to give the post-Covid economy a boost.

The super deduction effectively allows businesses to off-set 130% of qualifying spend against taxable profits. This means that if, for example, a business was to spend £100,000 on new IT equipment or new vehicles, it would be able to claim a deduction of £130,000 against taxable profits.

The super deduction is only available to businesses that pay corporation tax and is not available to sole traders, partnerships or limited liability partnerships. The super deduction can only be claimed on new equipment and cannot be claimed if that equipment is to be leased.

The range of equipment that is likely to qualify is broad, including IT equipment, office furniture, solar panels, certain vehicles other than cars, refrigeration units and electric vehicle charging points.

To qualify, expenditure must happen between 1 April 2021 and 31 March 2023.



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# How Kreston Reeves can help

Our purpose is to guide our clients, our colleagues and our communities to a brighter future.

The world is forever evolving and we help all generations embrace change through trusted advice, support and guidance.

Our passion for continued improvement ensures that we work to understand your goals, we support and advise you on your journey, and we help you to realise your ambitions.

Kreston Reeves is advisers to some of London and the South East's most innovative businesses and they look for the same in their advisers. We help businesses, charities and individuals navigate the risks and opportunities faced today and tomorrow, providing guidance and information together with the specialist services and support required.

## ▼ We can help by:

- Giving the time needed to understand your business, charity or investment portfolio to help you move forward on a stronger and more resilient footing.
- Working alongside you, as your partner, to ensure your business succeeds and that business owners and directors are tax efficient and secure.
- Providing access to highly qualified professionals to support all businesses whether they are well established, in early stages or are facing difficulties.
- Providing the solid foundation of best practice to enable effective growth, expert advice, analysis and efficiency. Becoming part of your power team.
- Providing an outsourced digital finance team, saving costs with de-risked efficient compliance.
- Navigating the regulatory landscape to provide you confidence and expert information on all sources of finance, providing navigation and the information needed to help you to grow and exploit opportunities.
- Embracing opportunities, finding innovative solutions, protecting and maximising assets, both tangible and intangible.

**For more than accountancy,  
business and financial advice.**

Our offices are across London, Kent and Sussex.

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