EIC0907

**Written evidence submitted by the Institute of Directors**

**Inquiry: Economic Impact of Coronavirus (December)**

We appreciate the opportunity to participate in this inquiry. We are regularly receiving feedback from our members on the Coronavirus pandemic and the Government's policy response. As this is an evolving issue, please find below a snapshot of responses to some of your questions. We will continue to provide regular updates.

**About the IoD**

*The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 25,000 members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum, with 70% consisting of directors from small and medium-sized enterprises (SMEs).*

**To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?**

The CJRS has provided significant support for our members and has helped many businesses to retain staff. That said, inevitably, some firms have had to make redundancies, including for roles their organisations will need in the future. With many business leaders planning their cashflow months ahead, it is also likely that delays in announcing extensions to furlough scheme, at various junctures, also meant some firms had to make redundancies before they knew support would be available.

The risk of long-term unemployment rises the longer economic activity remain subdued. This means ongoing efforts to support businesses' cashflow, alongside fresh initiatives to drive-up investment and start-up activity, would be paramount in limiting the chance of long-term unemployment. As the economy picks-up, firms will look again to make vacancies and restaff.

Targeted employment initiatives can also provide support to at-risk groups. At this stage it is still relatively early to judge the effectiveness of the programmes in the Government's Plan for Jobs, though our members are broadly support of them. Indeed, one-third are likely to hire workers under the Kickstart Scheme, while around 30% are more likely to hire apprentices and almost 40% are more likely to hire a young trainee, given the incentive packages announced.

Over the longer-term the pandemic has accelerated many business trends which are likely to shift the demand for certain skillsets. This could have implications on the ability of the unemployed to find work, particularly those in sectors most impacted by lockdowns. Digital skills will be more in demand as firms have digitised their business models, and with greater impetus behind the 'green economy', workers with a knowledge of the sector will increasingly be sought. This means raising access to retraining tools is just as important for existing employees as it is for the young and currently unemployed.

**How effective is the Government support to businesses and individuals across different regions and sectors?**

The Government's commitment to extend grant and loan programmes in tune with the pandemic has been welcomed. Nonetheless, there continues to be a number of gaps in its support. HMT has missed key opportunities to widen access to its various schemes, particularly when it recently extended CJRS and SEISS over the winter.

The lack of income support for company owner directors continues to be a primary concern. The Government should continue to engage with business groups and tax experts on finding ways to compensate this group for their lost income. The IoD has made a number of suggestions, including one approach to include company dividends within the scope of the CJRS or SEISS[1]. (We are also supportive of recent calls to compensate this group based on their trading profit.)

If these proposals remain an administrative challenge, we continue to urge the Government to expand the discretionary grant funds available to local authorities to provide support for this group of businesses. This would be less complex and would enable eligible owner directors to apply for much-needed monetary support, in the form of one-off uniform grants, via their local authority.

It is worth noting that the devolved nations have made effective use of grant mechanisms for this cohort, in lieu of more elaborate solutions, for example Wales' Economic Resilience Fund and Northern Ireland's Micro Business Hardship Fund (and a forthcoming Northern Ireland fund specifically for company directors).

**What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?**

Further lockdowns come at a time when many businesses are still dealing with the legacy of the first set of restrictions. Over 1 in 2 of our members were reporting turnover below 25% of normal levels on the eve of the November-December lockdown. This means the Government ought to maintain support for businesses as further restrictions come into place. In particular, support will remain crucial for businesses that need to close down or have limited operations due to social distancing restrictions or closures in their supply chain, alongside those that have not been able to access any support so far.

The extension of CJRS and SEISS over the winter provides some support for firms in the event of further lockdowns. Nonetheless, extending various grant packages via local authorities will be crucial in providing additional buffers to businesses trying to balance operating costs with limited demand. Many businesses would also prefer to see any mass testing programmes targeted at areas with high infection rates and tighter restrictions, with the aim to decrease infections so restrictions can be reduced and businesses can reopen.

Clear communication around infection rates, testing, and the vaccine rollout will also be crucial for businesses. If businesses have a reasonable idea of the future path of both the Government's health and economic policy, it would help anchor their expectations and make business plans for 2021. This means communicating plans, priorities, and timeframes for policy support and vaccines, can play an important part in supporting business leaders.

[1] https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Corporate%20Governance/IoD%20Proposal%20Outline%20for%20Director%20Dividends.pdf?ver=2020-05-04-125419-943

**What changes to the economy are now permanent?/How has the crisis impacted on innovation and technological development?**

The pandemic has led to many permanent changes in our members' business models. Around three-quarters intend to increase working from home arrangements beyond the pandemic, while over 40% intend to raise flexible working offerings (**Table A**)[2]. Digitisation, as a means to boost both performance and resilience, has also increased. With a step-change in online retail, as a result of restrictions, many firms are also likely to increasingly move products and services to digital platforms. (Some 90% of our members have already made adaptions to their business models in light of the pandemic).

The discovery and roll-out of vaccines is unlikely to hinder a long-term trend toward more flexible working and digitisation, mostly because profitability will continue to determine business decisions. Indeed, over 40% of our members who have made permanent adaptions to their business due to the pandemic say such changes have been net productivity-enhancing[3]. Likewise, a similar portion said their primarily reason to reduce office use beyond the pandemic was because working from home was proving to be more effective. (On the downside, productivity in 2021 will be limited by firms tending to damaged balance sheets and repaying debts.)

The Government ought to build on this technological moment by supporting more businesses to invest in productivity-enhancing technology in the next Budget. Likewise, ample support to build up digital skillsets will be essential as digitisation become a business norm.

**Table A**

Have you made any of the following changes to your (primary) organisation due to the pandemic that you intend to now keep in place? (September 2020)

| | |
|---|---|
| Increased working from home | 74% |
| Increased flexible working (e.g. flexitime/staggered hours/compressed hours) | 43% |
| Moved operations to digital platforms | 26% |
| Moved product/services to digital platforms | 21% |
| Created a new product/service | 21% |
| Other | 8% |
| Diversified supply chains | 7% |
| Onshored operations/supply chains | 2% |

**How large a problem is corporate indebtedness?**

Corporate indebtedness risks slowing down the UK's economic recovery. Around 50% of our members who have taken on debt over the course of the pandemic believe it would hinder their recovery prospects and investment plans in the year ahead.

The HMT's Winter Economy Plan went some way to alleviate these strains. Around 70% of our members who took out loan support from the BBLS or CBILS said the plans to extend the repayment period from 6 to 10 years would improve their ability to make repayments. Likewise, around 67% of our members on

[2] https://www.iod.com/news/news/articles/Home-working-here-to-stay-new-IoD-figures-suggest
[3] https://www.iod.com/news-campaigns/news/articles/IoD-members-innovating-in-response-to-Covid

the BBLS believe the intended ‘Pay As You Grow’ option would improve their ability to make repayments.

Despite these improvement in repayment terms, it is important for the Government to remain aware of the challenges indebted firms will nonetheless continue to face. Many businesses will also be attempting to pay back deferred tax payments in 2021, and with social distancing restrictions in place well into next year, limits to revenue will also impact their ability to make interest payments.

**What are the consequences of high national debt? What should the new fiscal rules be?**

Currently, the risks of a high national debt and deficit appear to be low. Interest rates are at a historic low, keeping borrowing costs down, and yield curves are also largely anchored downward in the long-run. Indeed, the UK Government has a critical window now to continue to support the economy with tax reliefs and spending. Following the pared back Spending Review, a Budget will be crucial in support businesses and the economy with tax measures.

Over 80% of our members believe the Government should, for the time being, prioritise stimulating economic growth over reducing the deficit/level of debt. Businesses will be a key driver for economic growth next year and beyond as they look to rescale, innovate, and take staff back on. Fiscal consolidation, particularly in the form of tax hikes on investment and entrepreneurial activity, risks choking off the UK’s recovery. Furthermore, by inducing weaker economic growth, and thus lower tax revenues, a move to raise taxation now could make deficits and debt more unsustainable in the long-run.

*December 2020*