

# **The impact of the COVID-19 pandemic on UK SMES and their response**

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# **The impact of the COVID-19 pandemic on UK SMES and their response**

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## EXECUTIVE SUMMARY

- The findings from ERC's survey of over 1000 small- and medium-sized businesses on the effects of the COVID-19 pandemic echo trends seen in official data sources. The clearest effects of the COVID-19 pandemic have been on turnover and employment in SMEs. Over two-fifths of businesses have seen sales decrease in the past 12 months and just under a third have cut jobs. This contrasts sharply with previous expectations of growth.
- The hit to sales has been more visible amongst firms in the service sector with that sectors such as recreation and hospitality have been particularly hard hit. This compares with modest signs of turnover growth in construction and wholesales and retail sectors.
- Businesses report the direct negative effects of the pandemic, such as the fall in demand and the need to pause business operations, being the main drag on activity. In addition, indirect impacts such as supply chain disruption and the cost of complying with COVID-19 restrictions presented further challenges for many SMEs. However, a minority of businesses noted the pandemic had created opportunities and others had taken away positives, such as a smooth transition to new working arrangements.
- The majority of SMEs had adjusted their business strategy in response to the pandemic. The most common change was to increase focus on cost reduction – a common tactic across businesses in most sectors. However, SMEs also reprioritised the introduction of new products and processes and the adoption of new digital technologies. These new strategies will have supported business efforts to find new ways of meeting customer demand and pivoting to new business models. Notably, SMEs that had experienced turnover declines during 2020 were more likely to increase their focus on new products, process and technologies.
- The survey probed changes to particular digital technologies through the pandemic. The most common shift was in the use of videoconferencing platforms. Increased used of online marketing was also a widely reported

response to the challenges presented by the pandemic. In addition, increased uptake of newer technologies such as the Internet of Things and augmented reality was also reported, as SMEs appear to have pushed forward their digitisation journey. This could see many reap future rewards in terms of increased sales and improved productivity.

- However, the digital dash we saw in 2020 is likely to slow with most SMEs not planning for further investment in new digital technologies in the short-term. Pressure on cash and the uncertain outlook will hold back future plans and small businesses are also up against the resources required to explore new technologies and the capacity in the business to introduce them.
- COVID-19 concerns are likely to persist in the short-term. Nearly three-quarters of SMEs in our survey pointed to economic uncertainty related to COVID-19 as an obstacle to running their business. However, this is not the only challenge weighing on businesses with Brexit-related challenges rising up the list of concerns.

## INTRODUCTION AND ABOUT THE SURVEY

We hardly need statistics to determine the impact of the COVID-19 pandemic on the UK's small business community. The effects of lockdowns, social distancing restrictions and supply chain disruptions can be seen on our high streets and on the evening news. Official statistics, however, show the unprecedented hit to GDP and the challenge of sustaining any real recovery this year. The now numerous measures introduced by the government to support jobs and cashflow, though not as comprehensive as some businesses have required, are further evidence of the enormous hit to activity that many businesses have faced in the past 12 months.

As part of a significant new research project this year, ERC set out to understand the experiences of small businesses over the past 12 months and their future outlook. A survey of over 1,000 small- and medium-sized business across the UK collected insights on how employment and turnover in the UK's SMEs has been shaped by the pandemic and, importantly, the principle actions that have been implemented by business owners in response.

In line with a range of other data sources, such as the ONS's regular Business Impact of Coronavirus Survey (BICS) the survey finds that a balance of SMEs has seen a deterioration in both employment and turnover over the past year. More businesses had experienced a decline in turnover than employment, likely a consequence of government support provided through the Coronavirus Job Retention Scheme.

In response to the changes in operating conditions and the decline in demand seen across many sectors, most SMEs have embarked on efforts to reduce costs in the past year. But this is far from the only strategy that businesses have undertaken to survive. From the introduction of new products, the search for new markets and the adoption of new technologies, SMEs have demonstrated their agility and resilience to minimise revenue falls and job cuts.

The outlook remains uncertain, however, and this is weighing on many businesses. The roll out of vaccines gives hope that the return to some form of normality is in prospect in the coming months. Continued support will, however, be necessary to

ensure that the UK's small businesses can not only survive but lay the foundations to thrive in future.

### **About the survey**

A CATI survey was conducted between September and November 2020. In total 1019 responses were achieved, of which 86 percent employed between 7 and 49 employees and 14 percent employed between 50 and 249 employees. The sample was representative of the main economic sectors

## 1. COVID-19 AND THE UK ECONOMY

All economies around the world have been battered by the effects of the COVID-19 pandemic and the International Monetary Fund (IMF)<sup>1</sup> estimated a 4.9% contraction in output in advanced economies last year. Data from the Office for National Statistics (ONS), shown in figure 1.1 illustrates the evolution of UK GDP as measures were introduced in response to the spread of the pandemic, eased and then subsequently reintroduced over the course of 2020.

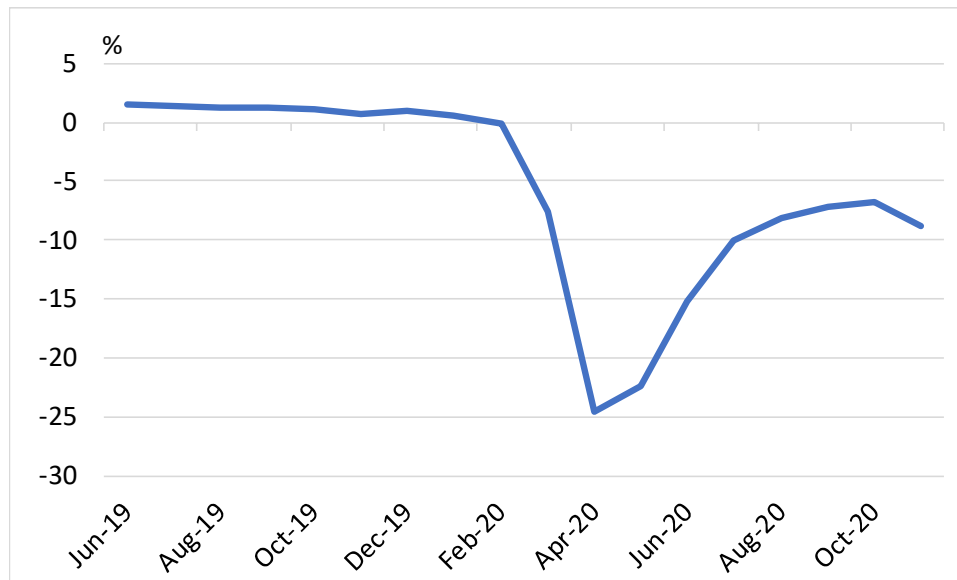
The first round of lockdown measures, introduced at the end of March 2020, led to an immediate and significant fall in activity across all sectors of the economy. As restrictions were tentatively lifted through the summer the economy began to mount a gradual recovery. But a resurgence in the spread of the virus in the autumn prompted further interventions to manage the health crisis and signs of recovery swung into reverse in November. The latest data from the ONS point to the UK economy being some 9 percent smaller in November compared with the start of 2020. Recent waves (20 and 21) of the ONS Business Impact of Coronavirus Survey (BICS) offer little hope that official data turned around at the end of last year, with over two-fifths (42 percent) of businesses reporting turnover below normal at the end of December. Moreover, the continuation of social distancing measures and the closure of businesses in a number of sectors will continue to exert downward pressure on economic activity at least in the first quarter of this year.

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<sup>1</sup> International Monetary Fund: World Economic Outlook Update January 2021



**Figure 1.1 UK hit hard by COVID-19** percentage year on year change in GDP

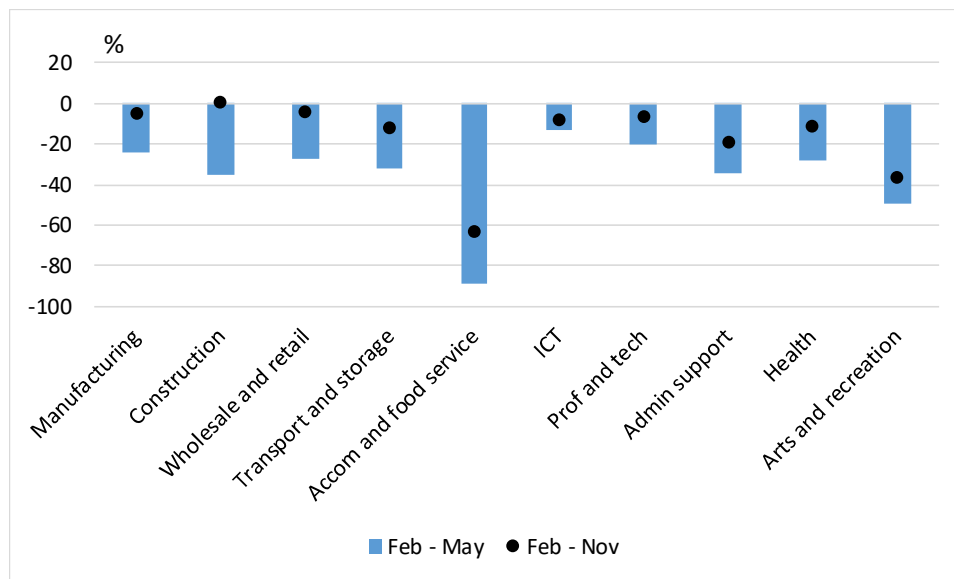


Source: ONS

This is not, however, a 'one size fits all' story across all sectors of the economy. Figure 1.2 shows the effect of the pandemic response across key sectors of the economy. Between February and May 2020, when the first wave of measures were introduced, all sectors recorded a sharp contraction in output, with consumer facing sectors such as accommodation & food service and arts & recreation hardest hit as retail, tourism and leisure related activities were effectively closed.

These sectors have also been most affected by measures to contain social interactions and limit the spread of the virus, and the brief and sporadic re-opening of hospitality had only a modest positive impact on what has been record recession for these parts of the economy. In contrast, in other industries, where greater levels of remote-working has been possible, some of the ground lost between February and May was recouped in the second half of last year. And in construction and manufacturing, where sites have been rather less affected by the latest lockdowns, output is close to or higher than in February 2020.

**Figure 1.2 Some sectors saw recovery with lifting of restrictions** percentage change in output by sector



Source: ONS

Despite, what is likely to be the worst economic performance in the UK since records began, the direst predictions about the consequences for the labour market are yet to materialise in the official data. The unemployment rate rose to 5 percent in the most recent period (September to November 2020) and there are indications that job losses accelerated in the last quarter, nevertheless the Coronavirus Job Retention Scheme has helped to keep job cuts at a lower level, thus far, than feared at the outset of the crisis.

## 2. HOW HAVE SMES FARED?

The whole economy picture for 2020 is one of depressed activity, albeit with some limited sector exceptions. Any initial signs of recovery were snuffed out as policy makers responded to developments in the spread of the virus in the latter part of last year. Our research is, however, concerned primarily with small- and medium-sized businesses (SMEs), so how does the performance of this important population of businesses compare with that of the wider economy?

A CATI survey of over 1,000 SMEs, conducted between September and November 2020 sought to answer this question. Businesses across a representative sample

of industry sectors, employing more than seven people, were questioned on the developments of key metrics within their businesses in the preceding 12 months, their perspectives on the obstacles to success and their strategic business priorities, particularly in light of the COVID-19 pandemic.

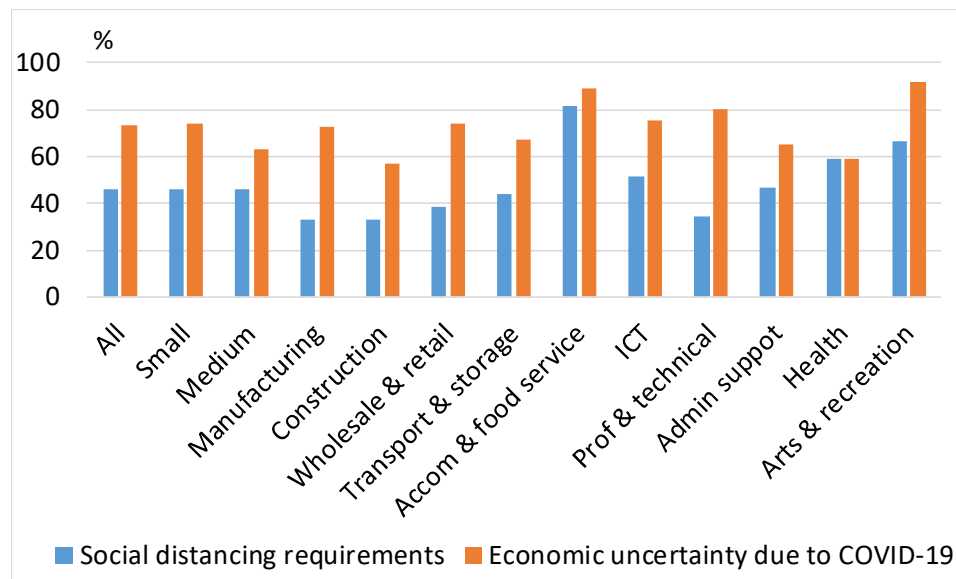
## **2.1 Obstacles to business success**

Nearly three-quarters (73 percent) of those surveyed said that economic uncertainty as a result of COVID-19 was an obstacle to running their business (figure 2.1), with a majority of respondents in all sectors agreeing. However, concern about COVID-19 related uncertainty was more common in consumer-facing accommodation & food services and arts & recreation businesses (90 percent and 92 percent citing as obstacle respectively).

The smallest businesses (with between 7 and 49 employees) were more likely to regard this as a business obstacle compared with their medium-sized counterparts (between 50 and 249 employees).

The practicalities of managing social distancing requirements were seen as problematic, although less so overall than the direct economic impact. Overall 46 percent of businesses reported this as an obstacle, with no difference between small and medium-sized respondents, but again greater variation between production-related industries and retail-focused industries.

**Figure 2.1 COVID-19 dominates business concerns** percentage of businesses citing as obstacle to running their business

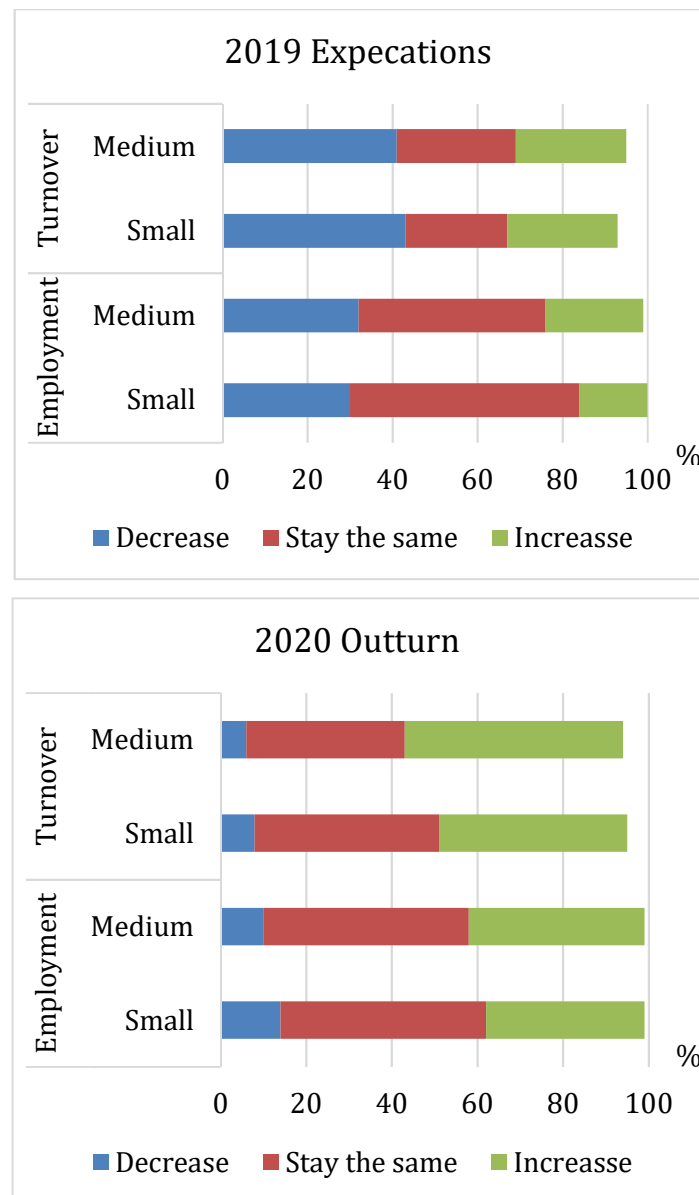


Source: ERC Business Futures Survey 2020

## 2.2 Trends in SME turnover and employment

Our survey also sought to understand how employment and turnover in SMEs evolved through the crisis. In line with the data shown in section 1 and the ONS BICS, our survey finds that a balance of SMEs has seen a deterioration in both employment and turnover over the past year. This is in contrast to the growth expectations expressed by SMEs in the 2019 Longitudinal Small Business Survey (LSBS 2019). Figure 2.2 shows that a clear majority of SMEs has been planning for their turnover to increase or remain stable, with a similar picture on employment. However, the advent of COVID-19 has led to a considerably more negative outturn for SMEs. Across all businesses in the survey more than four in ten (42 percent) saw turnover fall in the past 12 months, with a slightly higher proportion of small businesses (43 percent of businesses with up to 49 employees) seeing a decline compared with medium ones (41 percent of businesses with 50 to 249 employees). Employment, in the past year, fell in 30 percent of small businesses and 32 percent of medium ones. That more businesses have experienced a decline in turnover than employment is likely a consequence of government support provided through the Coronavirus Job Retention Scheme.

**Figure 2.2 Growth falls short of expectations** percentage of businesses reporting change in employment and turnover compared with expectations



Source: 2019 Logitudinal Small Business Survey and ERC Business Futures Survey 2020

However, while it is clear from figure 2.2 that the net effect of events in 2020 have been negative for SME employment and turnover, some businesses have achieved growth, either as their sectors remained somewhat untouched by the effects of the pandemic or new opportunities emerged.

**Figure 2.3 COVID-19 impact uneven across sectors** percentage net balance of companies reporting change in employment and turnover by sector



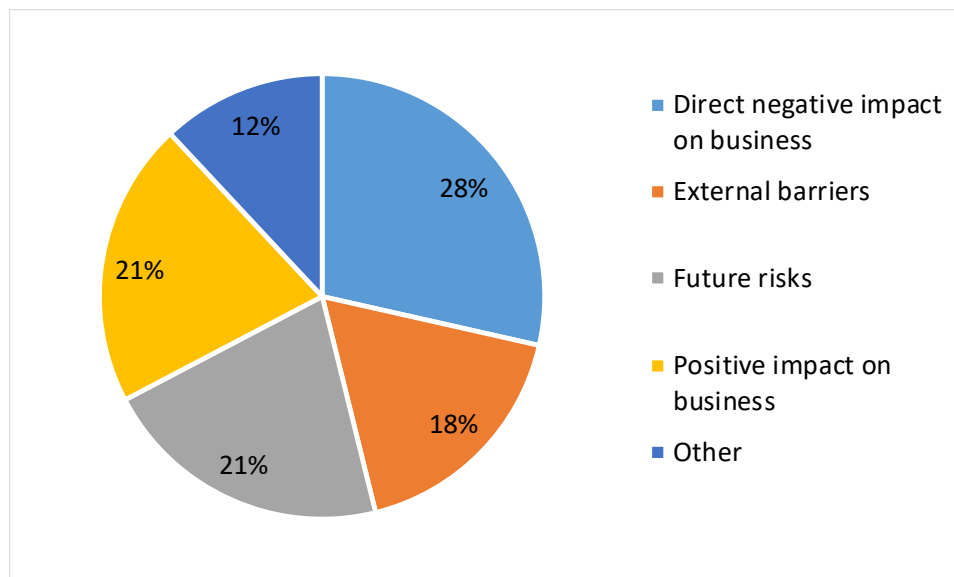
Source: ERC Business Futures Survey 2020

The survey reveals relatively small differences in the change in business metrics by size, but figure 2.3 (which illustrates the net balance of change in employment and turnover by sector) confirms the trends noted in official data in section 1 of a somewhat larger impact on service sectors. For example, just 8 percent of accommodation & food service businesses reported increased turnover compared with 71 percent seeing a decline. This contrast with 37 percent and 24 percent of construction businesses reporting an increase and decrease, respectively.

## 2.3 Perceptions of the Covid-19 crisis

Data on the changes to business performance tell us a lot about how businesses have fared over the past year, but business owner's perspectives on how they have been affected start to provide a more complete picture of the state of SMEs through the pandemic so far. Our survey asked respondents to reflect on how they have been affected by the pandemic and their expectations for the future. Figure 2.4 summarises those views, grouping responses into concerns primarily centred around the direct negative or positive impact on individual businesses, external challenges that have arisen, and concerns about the future viability of businesses.

**Figure 2.4 Business reflections on Covid-19 impact** percentage of businesses reporting impact



Source: ERC Business Futures Survey 2020

Figure 2.4 illustrates the varied nature of responses from SMEs. The most common reflection, representing 28 percent of responses, was the direct negative consequences on business activity from the pandemic. For example,

*“It’s collapsed. At the beginning we lost 90% of our work in the first week of the lockdown and then it got down to 60% in the lifting of the restrictions. Now it’s gone quiet again.”*

*“Business has decreased slightly due to Covid-19. Initially after lockdown sales went up but has since then fallen. Christmas is where sales are normally high, however, there is a lot of uncertainty about the holiday period.”*

However, it is also clear from comments from businesses, that it is not just the direct impact of a loss of sales and temporary closures that are affecting business owners. Almost a fifth of responses focus on external barriers to operating normally, this might include access to finance, problems emerging in supply chains and requirements to invest in business premises to make them COVID-secure. For example:

*“There have been costs in making the place COVID-secure - we have also minimised the number of people coming into store because of COVID-19.”*

*“It had a massive effect on our supply chain. It has been hit hard. We are still getting the sales but the supply chain is our issue.”*

As we noted earlier, depending on the nature of the crisis, some sectors are better positioned to weather the downturn than others. Crises can also provide opportunities for businesses that are nimble and can pivot to take advantage of them. Just over a fifth of responses had something positive to take away from their experience of 2020.

*“The business has grown and we’ve seen a massive increase in demand for products. It’s essential products. With lockdown, we had to adapt and go into a couple of markets that we didn’t usually. Since then things have changed. It gave us an opportunity.”*

There is, nevertheless, a strong message of uncertainty about the future from a further fifth of responses.

*“We were shut down for four months and we’ve got no idea of how it will be impacted, we have completely no idea, and we been hit by local lockdown which impacts the continuity of business as you get started and then some customers can’t travel out to you.”*

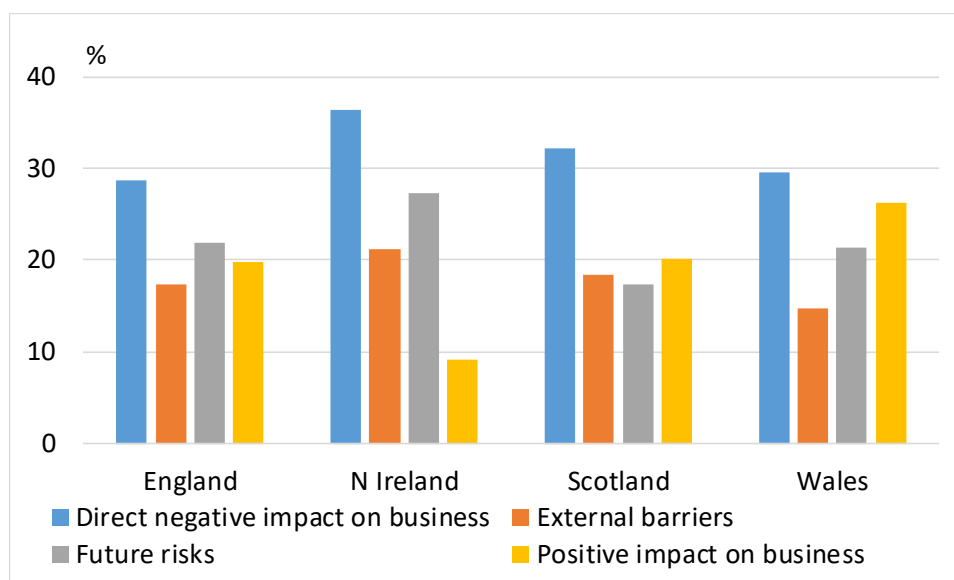
*“We haven’t had to close the business, but we have seen waves as we deal with Europe, a lot of activity has stopped so shipping has reduced. Demand has increased now but we don’t know what will happen in the future.”*

One of the features of the public policy response to the pandemic has been the devolved nature of decision-making. Inevitably, there has been coordination of public health measures across the four nations, including in areas such as transport and key elements of support for businesses and households. There have, however, been differences in the timing of restrictions introduced and their severity, depending on local circumstances. Our survey can explore the extent to which different approaches across the devolved nations may have affected businesses’ perception of the crisis.



Figure 2.5 breaks down the reported COVID-19 impact by each of the four nations and despite the different approaches taken, firm-level perceptions vary relatively little. In each nation of the UK, businesses are most likely to report the direct negative consequences on their activities. While the timing and stringency of health-related interventions may have varied across the UK, the mechanism by which sectors have been affected was fairly consistent. Indeed, the latest regional GDP data<sup>2</sup> (covering the period April to June 2020) confirms double-digit contractions in all four devolved nations.

**Figure 2.5 Some regional differences in perspectives of COVID-19 impact**  
percentage of businesses reporting impact by devolved nation



Source: ERC Business Futures Survey 2020

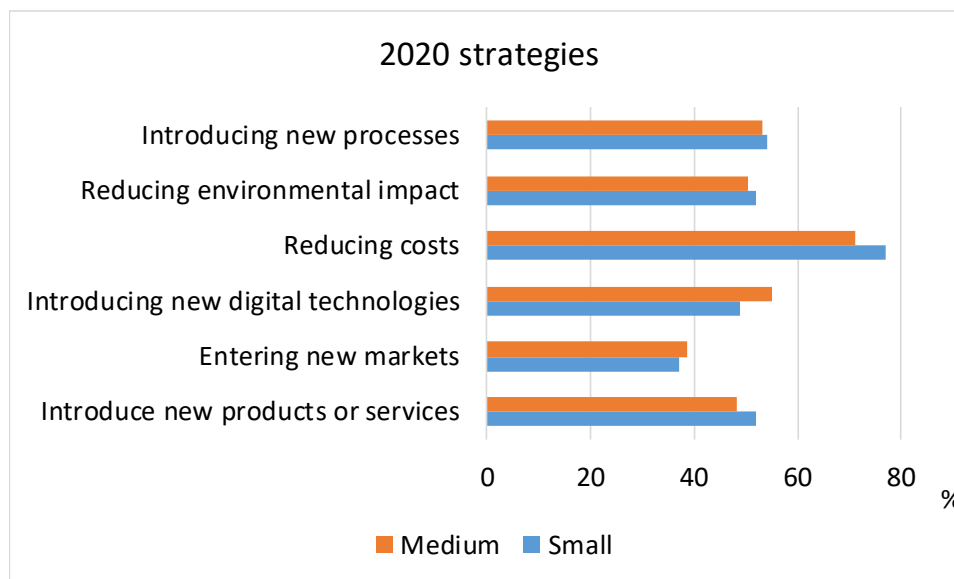
The main difference appear to be in the proportion of businesses in Wales that have something positive to takeaway is somewhat higher than in other nations, whereas Northern Ireland-bases businesses are more likely to express concerns about future risks and uncertainty and less like to state a positive business impact.

<sup>2</sup> ONS (Feb 2021) GDP, UK regions and countries: April to June 2020

## 2.3 Business priorities have been changed by Covid-19

The scale of disruption to business activities experienced by SMEs in the past year has led to a rethink about business strategies and priorities. The survey investigated the strategic priorities of SMEs in the previous 12 months. Figure 2.6 shows that for small- and medium-sized businesses the most frequently cited priority in the past year was cost reduction (77 percent of businesses with up to 49 employees and 71 percent of those with between 50 and 249 employees). For 64 percent of small businesses, the introduction of new processes was a business priority, with the introduction of new products and services and reducing environmental impact reported as a priority by just over half of small businesses (52 percent). The priorities of medium-sized businesses, beyond cost-cutting, were focused on the introduction of digital technologies and the development of new process (55 percent and 53 percent respectively).

**Figure 2.6 2020 Business priorities**, percentage of businesses identifying as business priority



Source: ERC Business Futures Survey 2020

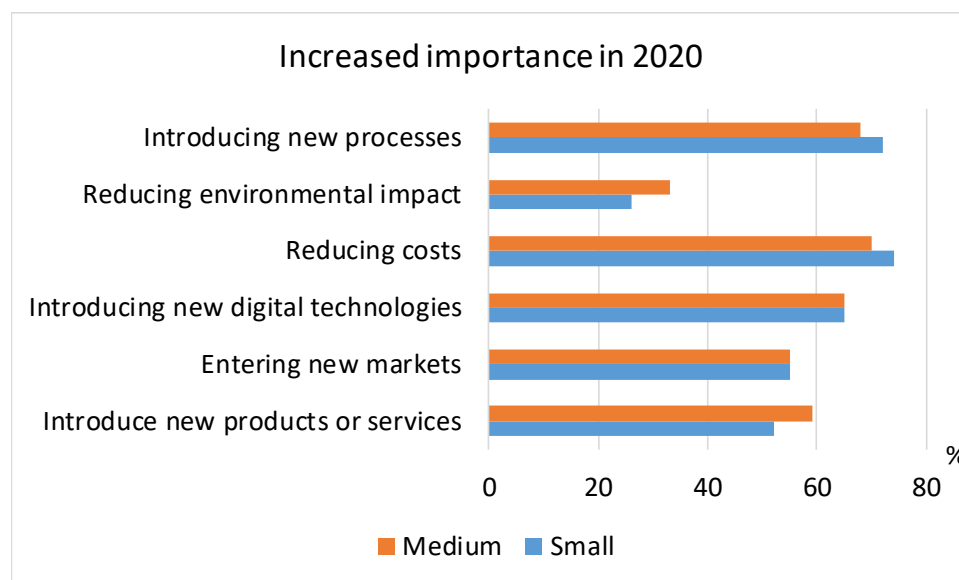
Unsurprisingly, the requirement to respond to the challenges and opportunities brought about by the pandemic led SMEs to reprioritise business plans. Figure 2.7 shows the relative shift in importance of these tactics by businesses as a consequence of the COVID-19 pandemic. For almost three-quarters of businesses aiming to reduce costs this year, this has become more important in light of the

pandemic due to the pressure it has brought on cashflow management and slightly more so for smaller businesses.

While a focus on cost reduction is a necessary, but short-term response to the crisis, new processes and technologies also became higher priorities in 2020, where these can support efficiency improvements, aid the development of new business models or support entry into new markets. The introduction of new products and services was cited as taking on greater importance for a slightly higher proportion of medium-sized businesses.

While we note that the survey finds many SMEs had a focus on their environmental impact in the past year, it appears that this is in spite of the pandemic. Indeed, we see that the uncertainty and financial challenges presented by the pandemic is a frequently reported constraint on more action in this area, which is likely to mean that some opportunities to make more progress on environmental and net-zero goals have been delayed as a result of COVID-19.

**Figure 2.7 Changing priorities as a result of the Covid-19 pandemic,** percentage reporting increased importance as a result of COVID-19

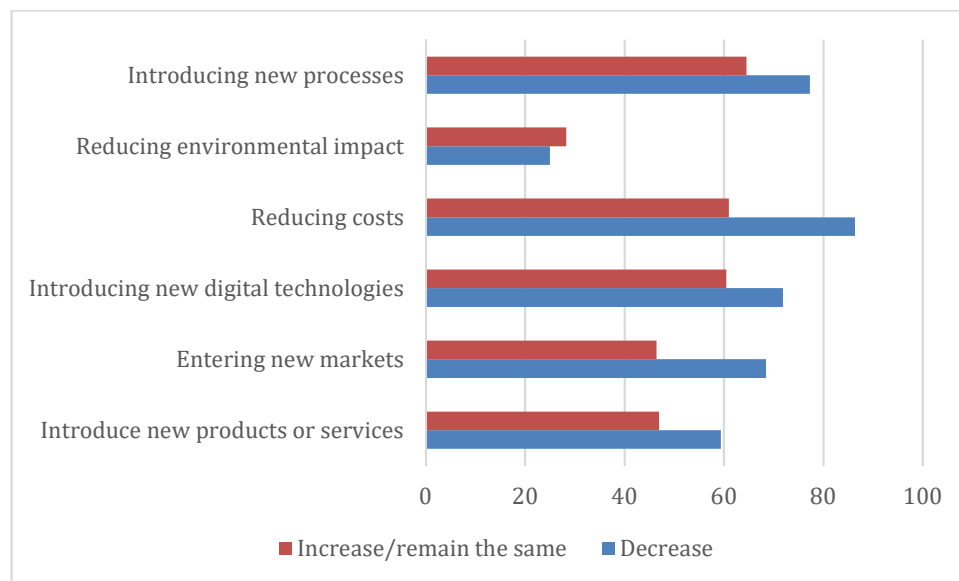


Source: ERC Business Futures Survey 2020

Figure 2.8 shows the extent of reprioritisation based on how businesses have been impacted by the pandemic. Those that experienced a decline in turnover in the preceding 12 months were more likely to attach greater importance to a broad

range of strategies in response to COVID-19 compared with businesses reporting increased or stable turnover. Unsurprisingly, nearly nine in ten businesses (86 percent) with lower turnover placed increased weight on cost-cutting. However, it is clear that SMEs did more than ‘batten down the hatches’, they looked a multiple actions that could boost the resilience and survival prospects of their businesses.

**Figure 2.8 Turnover decline drives strategy re-think** percentage of businesses reporting strategy more important as a result of COVID-19 by change in turnover



Source: ERC Business Futures Survey 2020

Table 2.1 shows the priorities that have become more important for businesses in key industry sectors. Cost reduction tops the priority list for many sectors industries, but this strategy has gained in importance for a higher proportion of service sector businesses, linked to the more widespread impact of the pandemic on employment and turnover noted earlier. More businesses in the service sector also reported that taking action on the introduction of new processes, products and services had become more important, as businesses have searched for alternative sources of revenue by meeting customer demand through different channels to market. In contrast, the introduction of new digital technologies has been put into sharper focus for businesses in construction. The use of new technologies to

model and manage on-site activity<sup>3</sup> is likely to have accelerated in response to the need to meet social distancing requirements.

**Table 2.1 Increased importance of business strategies** percentage of businesses reporting strategy more important as a result of COVID-19 by sector

	<b>1</b>	<b>2</b>	<b>3</b>
<b>Manufacturing</b>	Reducing costs (60%)	Introducing new processes (55%)	Introducing new digital technologies (50%)
<b>Construction</b>	Introducing new digital technologies (82%)	Entering new markets (77%)	Reducing costs (72%)
<b>Wholesale and retail</b>	Introducing new processes (72%)	Reducing costs (71%)	Introducing new digital technologies (55%)
<b>Transport and storage</b>	Reducing costs (70%)	Introducing new digital technologies (64%)	Introducing new processes (58%)
<b>Accommodation and food service</b>	Reducing costs (90%)	Introducing new processes (83%)	Entering new markets (74%)
<b>ICT</b>	Reducing costs (71%)	Introducing new processes (67%)	Introducing new digital technologies (66%)
<b>Professional and technical</b>	Reducing costs (70%)	Introducing new digital technologies (70%)	Introducing new processes (69%)
<b>Admin support</b>	Reducing costs (83%)	Introducing new processes (70%)	Introducing new products/services (63%)
<b>Health</b>	Introducing new digital technologies (84%)	Introducing new processes (80%)	Reducing costs (69%)
<b>Arts and recreation</b>	Reducing costs (100%)	Introducing new processes (100%)	Entering new markets (80%)

Source: ERC Business Futures Survey 2020

<sup>3</sup> CITB (2018) Unlocking Construction's Digital Future: A skills plan for industry

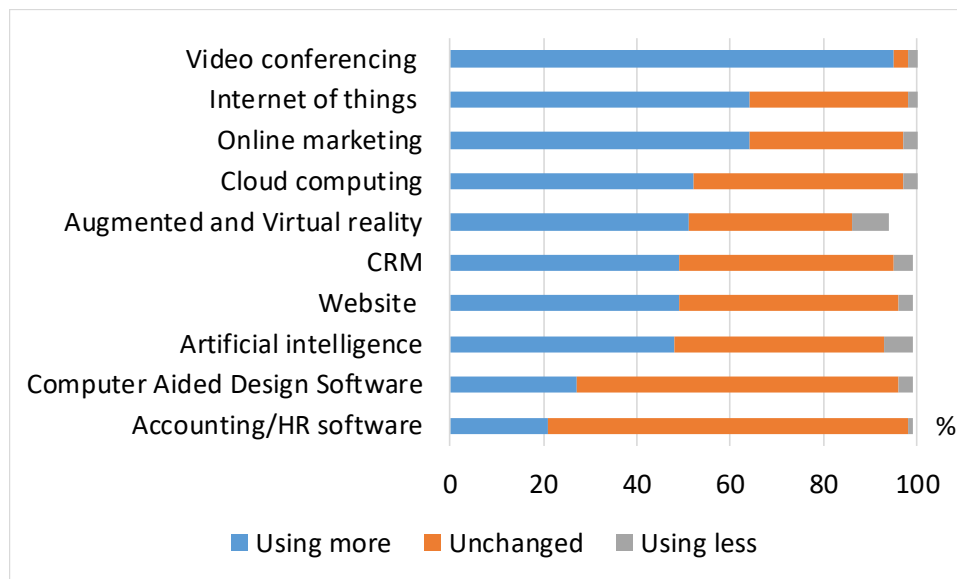
## 2.4 A focus on new digital technologies

For just over three-fifths of businesses in both the production and service sector, introducing new digital technologies had become a higher priority as a result of the pandemic. The survey sought to explore which specific digital technologies have seen an acceleration in adoption, this is illustrated in figure 2.9. The most commonly used digital technologies amongst SMEs currently are accountancy and HR software, social media and websites for sales and marketing – this pattern of adoption is fairly consistent across both production and services sectors. However, the reported growth in adoption spurred by businesses' responses to the pandemic were concentrated in technologies such as videoconferencing, the internet of things (IoT) and connected devices and online marketing and social media.

The growth in the use of videoconferencing, to support greater homeworking through the pandemic, will come as no surprise as people have been accustomed to using these platforms both professionally and socially. And indeed, the relatively smooth introduction of these technologies was one of the noted positive outcomes noted in section 2.2. Our survey notes little variation in the increased use of videoconferencing platforms by either business size or industry sector.

Similarly, as face-to-face business interactions have been limited through the pandemic, it is not surprising that half of businesses with a website to sell goods or services has made increasing use of this in response to COVID-19. The nature of the change to customer engagement again means this increased use is common across sectors, though slightly more common amongst smaller businesses (with less than 48 employees). Adoption on online marketing and social media is somewhat lower in production sectors, but manufacturing businesses are more likely to be using this as a means to engage customers in light of the pandemic.

**Figure 2.9 Increased use of digital technologies by SMEs, percentage of businesses using technology**



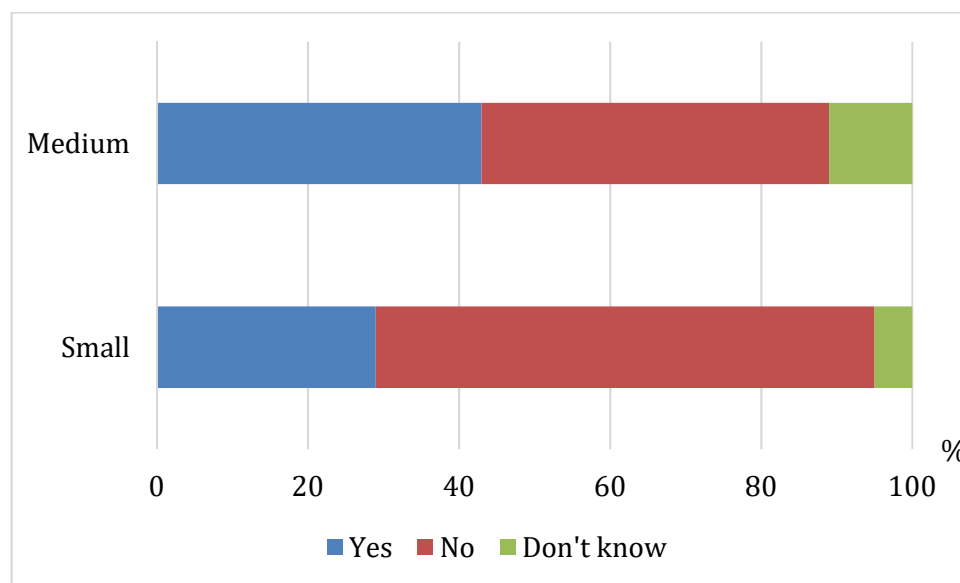
Source: ERC Business Futures Survey 2020

The uptake of IoT technologies, however, was slightly more important for firms in production sectors, as they have rapidly implemented changes to working practices. There are a range of motivations for introducing such devices, from maintaining business continuity and increasing operational efficiency to supporting remote collaboration and improving the efficiency of supply chains. The new working arrangements and business models introduced in response to the pandemic will have strengthened the business case for such investment in many SMEs.

As businesses have responded quickly to the challenges and opportunities caused by the COVID-19 crisis, digital technologies have played an important role in supporting new strategies. The question is whether businesses have the appetite or need for further investment in these technologies. The survey finds that for a majority of SMEs there are no further plans to introduce new digital technologies. Businesses, spurred to accelerate technology adoption plans in response to a crisis, are taking a pause. This is especially true of small businesses (figure 2.10), two-thirds of which have no further plans to introduce new technologies compared with 46 percent of medium-sized ones. There are likely a number of reasons underpinning this decision – the uncertain outlook already discussed, resources to

explore new technologies and the capacity in the business to introduce new digital solutions. Moreover, we see little variation in future plans around digital adoption across industry sub-sectors. Business services are slightly more likely to have plans for further investment in these technologies (35 percent of businesses) compared with production-related sectors (26 percent plan for further adoption).

**Figure 2.10 Pace of new digital adoption likely to slow** percentage of businesses planning to introduce new digital technologies in light of COVID-19



Source: ERC Business Futures Survey 2020

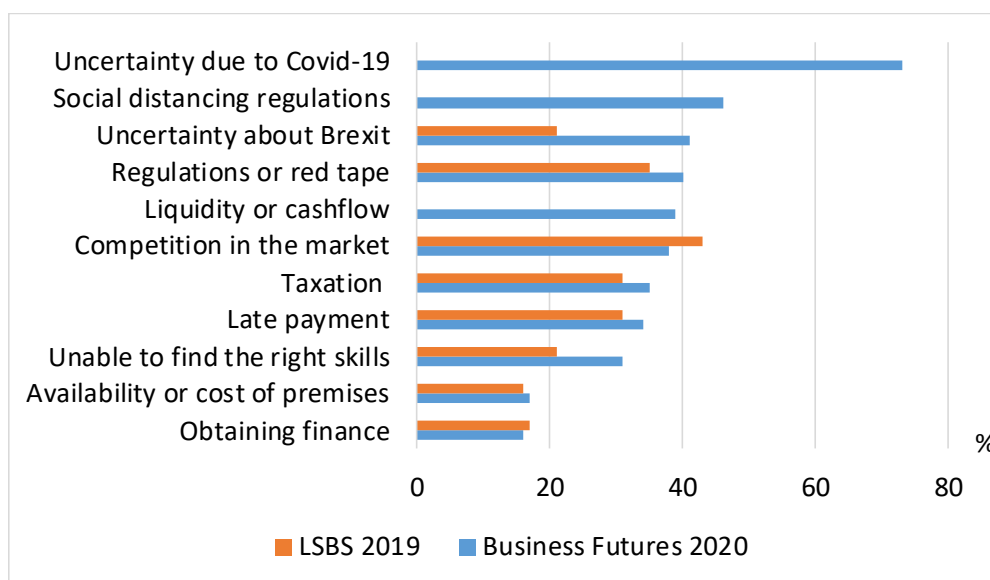
## 2.5 COVID-19 is the main challenge, but not the only one

As noted earlier, the impact of the COVID-19 pandemic is the dominant headwind for many businesses. However, uncertainty about the UK's future relations with the European Union was also weighing on more than two-fifths of businesses (41 percent). The survey was concluded before the final Trade and Cooperation Agreement (TCA) was agreed between the UK and the EU, but there was clearly a material increase in concern about trading arrangements beyond the end of the transition period compared with business views in 2019. More trade-exposed sectors, such as wholesale and retail and manufacturing were more likely to report this source of uncertainty as an obstacle to running the business (58 percent and 47 percent respectively).



Other business obstacles have shifted relatively little in our survey compared with perspectives reported in the LSBS 2019. Concerns around access to finance, late payment and the level of taxation, for example, continuing to be reported as problematic by a fairly stable minority of businesses. There has, however, been a jump in the proportion of businesses citing concerns around skills availability in the past year. Those reporting skills shortages as a business obstacle are more concentrated in manufacturing and construction (34 percent and 54 percent respectively) compared with services businesses (29 percent). This is likely a reflection of longstanding skills challenges experienced by these industries, but perhaps also a result of the move into more digitised operations, and the introduction of new products, services and processes.

**Figure 2.11 Obstacles to business success, percentage of businesses**



Notably, concern about the transition to new arrangements with the EU is magnified in Northern Ireland. Political wrangling around managing the UK's land border with the EU on the island of Ireland was inevitably seen as an added complication for Northern-Ireland based businesses. And unlike other parts of the UK, Brexit-related uncertainty take second spot in the list of concerns amongst businesses in Northern Ireland (table 2.2). Likely linked to this, are concerns around regulations and red tape, which we can now see are part of the UK-EU TCA. Nevertheless, uncertainty about the future relationship with the EU makes the top five concerns across businesses in all parts of the UK.

**Table 2.2 Obstacles to running the business** percentage of businesses by devolved nation

	<b>England</b>	<b>Northern Ireland</b>	<b>Scotland</b>	<b>Wales</b>
1	Economic uncertainty due to Coronavirus pandemic (73%)	Economic uncertainty due to Coronavirus pandemic (72%)	Economic uncertainty due to Coronavirus pandemic (76%)	Economic uncertainty due to Coronavirus pandemic (71%)
2	Social distancing regulations (44%)	Uncertainty about the UK's relationship with the EU (54%)	Social distancing regulations (58%)	Social distancing regulations (58%)
3	Uncertainty about the UK's relationship with the EU (40%)	Regulations or red tape (54%)	Taxation, VAT, PAYE, NICs, business rates (52%)	Regulations or red tape (53%)
4	Regulations or red tape (39%)	Social distancing regulations (46%)	Uncertainty about the UK's relationship with the EU (49%)	Uncertainty about the UK's relationship with the EU (52%)
5	Liquidity or cashflow (39%)	Taxation, VAT, PAYE, NICs, business rates (42%)	Regulations or red tape (48%)	Unable to find the right skills (52%)

### 3. THE FUTURE OUTLOOK

Overall, the survey of SME actions and reactions to the COVID-19 pandemic confirm the enormous challenges faced by the UK's diverse small and medium-sized business community. And for a great many the future remains far from certain with the virus and the necessary public health response presenting obstacle to business success, perhaps well into this year. The UK economy is expected to register growth this year with the IMF forecasting an expansion of 4.5 percent with some modest acceleration into 2022. There are clearly a lot of dependencies around this forecast. The (so far) successful roll out of the vaccine will need to be maintained in order for the gradual reopening of the economy to get underway.

However, the emergence of new strains of the virus means there is likely to be necessary caution around this.

In addition, for some sectors the UK's new relationship with the European Union has not got off to the smoothest of starts with businesses adjusting to new paperwork requirements and some initial challenges at the border. Minimising trade disruptions, particularly for SMEs, will be critical in maintaining functioning supply chains.

While these uncertainties remain, the predictability of government support will be vital. SMEs need good visibility on both plans to reopening the economy and the level of support to sustain employment, in order to plan effectively. Our survey points to SMEs adapting with new strategies to the challenges of COVID-19, but nevertheless almost a year into this crisis we see from the ONS BICS that around a quarter of businesses have low confidence or are uncertain about their future survival. SMEs' actions to try and underpin their resilience should continue to be matched by responsive government action. Further tailoring of support to hard hit sectors and the smallest companies is likely to be appropriate.

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