



**MIDLANDS
ENGINE**

Observatory

**MIDLANDS ENGINE
ECONOMIC IMPACT OF COVID-19 ON BUSINESS**

JANUARY 2021

Executive Summary

Uncertainty and turbulence is at an all time high for businesses, providing the setting for a perfect storm in 2021, one of which will significantly affect many Midlands Engine businesses and could re-structure our whole economy. While there are good news stories and signs of some confidence in the region, the effect of the crisis on businesses across sectors, places and sizes is clear to see in the data, literature and intelligence from businesses themselves.

Given the Midlands Engine's industrial structure and socio-demographic profile, the effect of these economic shocks could have a long-term impact on the opportunities and successes of local communities. The area's business base is, however, diverse, dynamic and optimistic looking ahead to mass vaccine roll-out this year. Many firms have been hit badly: forced to close, unable to operate as normal and desperate for support - which many of them have found through various government packages. According to the [latest wave of the Business Impact of Coronavirus Survey \(BICS\)](#), **23.1% of West Midlands businesses and 22.0% of East Midlands businesses have received government-backed loans** or finance agreement during the pandemic, amounting to almost **100,000 businesses across the region**.

The following 3 pages provide a contextual analysis on the Midlands Engine business base before the impacts of the current economy – COVID-19 but also UK-EU transition – on businesses are addressed. The key findings from this are:

- The latest wave of [BICS](#) showed that **43.7% of trading businesses in the West Midlands and 39.8% of East Midlands businesses reported their turnover had decreased by at least 20%** amid the pandemic.
- BICS also suggests that almost **one quarter of firms** in the Midlands only have **cash reserves that would last up to 3 months**, with 2.8% of West Midlands businesses and 4.2% of East Midlands businesses having no cash reserves.
- Based on a sector methodology, it is estimated that around **70,000 Midlands Engine businesses are temporarily closed** due to new lockdown restrictions. An estimated 33,600 businesses in the East Midlands are mandated to close, with almost 40,000 in the West Midlands.
- Around **25,000 of closures across the Midlands are non-essential shops**, the most common business activity affected. Following this, the area's almost 15,000 restaurants, over 6,000 pubs and bars and 10,000 personal care service facilities (including hairdressers and nail salons) have been forced to close. The data suggests that **18.3%** of all businesses in the Midlands Engine will now be temporarily closed by the latest restrictions.
- Findings from the [Enterprise Research Centre \(ERC\)](#) suggest that in almost all regions the self-employed were more affected by loss of work in the crisis than employees, including in both the West Midlands and East Midlands. More than 40% of those who were self-employed in January/February 2020 experienced a **100% drop in demand** of their services and products in the first month of the lockdown.
- Millions of early-stage or part-time entrepreneurs, freelancers and limited company directors continue to be **excluded from government support packages** such as the Self Employment Income Support Scheme (SEISS).
- According to [FSB](#), 34% of all small business owners have increased their levels of debt during the pandemic.
- ERC recently released its '[State of Small Business 2020](#)' publication, reviewing trends affecting SMEs. In a year dominated by economic downturn, a balance of SMEs have seen a **deterioration in both employment and turnover**.
- **Over one-third of businesses** in the Midlands Engine area have either a **low or moderate confidence in their survival in the next three months**, or are 'not sure'.
- In November 2020 Deputy Director of the ERC Professor Mark Hart reported that almost a quarter of UK firms had no cash or were expected to run out by the end of 2020. His prediction was that this **could put as many as 340,000 firms and 4.9million jobs nationally at risk across the private sector in early 2021**.
- Reporting of obstacles to business success in the survey was dominated by COVID-19, though 41% of businesses saw Brexit uncertainty as a barrier to business success (surveyed pre UK-EU trade deal).
- The Midlands may be particularly vulnerable given its **economic reliance on many sectors that are expected to decline** in the near future due to COVID-19 and Brexit. The competitiveness and stability of some of the Midlands largest businesses, some of which are EU-owned, is central to this uncertainty.
- When compared with the previous year, Quarter 3 (July to Sept) 2020 **business investment fell by 19.2%** in the UK
- The re-prioritisation of investment towards survival is **affecting flows into productivity-enhancing activity** such as digital, innovation and achieving net-zero. If large firms lead on the scaling back of these investments, it will ripple throughout supply chains and the wider economy.

Business Demography - Context

In November 2020, ONS released a publication relating to [Business Demography for 2019](#). This is prior to any impacts from COVID-19 but allows us to see the overall structure of the Midlands Engine's business base and pre-pandemic trends.

Enterprise Births

In 2019, there were 55,585 enterprise births in the Midlands Engine. This is an increase of 12.7% (+6,275 enterprise births) since 2018, compared to a UK growth rate of 5.4%.

There were 54 enterprise births per 10,000 population in the Midlands Engine area in 2019, compared to 58 per 10,000 population for the UK.

For the Midlands Engine area to reach the UK average of 58 enterprise births per 10,000 population requires an additional 4,872 enterprise births.

Enterprise Stock

The number of active enterprises continues to increase and in 2019 there were 404,670 in the Midlands Engine area. This has increased by 1.8% (+7,280 enterprises) compared to 2.5% growth for the UK since 2018.

There were 391 enterprises per 10,000 population in the Midlands Engine area in 2019, compared to 448 per 10,000 population for the UK.

For the Midlands Engine area to reach the UK average of 448 enterprise per 10,000 population requires an additional 58,607 enterprises.

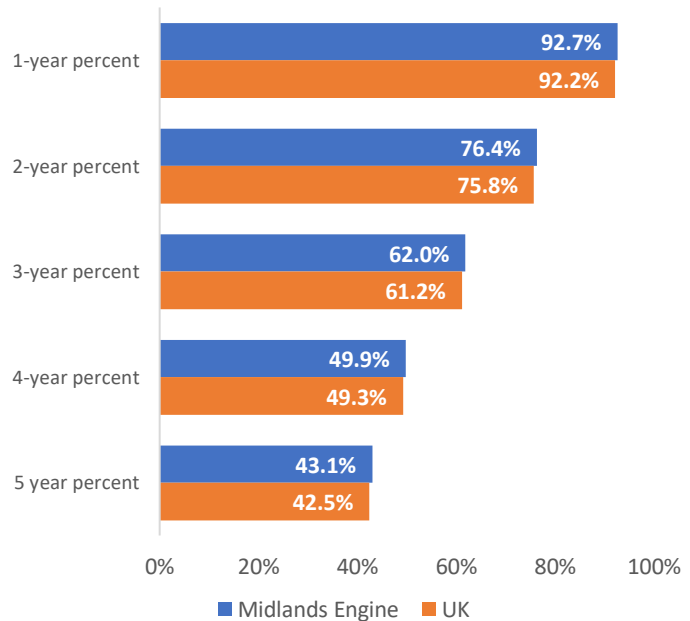
Survival Rates

Of the 49,310 enterprise births in 2018 in the Midlands Engine area, 90.4% (44,570) were still active after 1 year. This is above the UK 1-year survival rate of 89.1%.

Of the 55,785 enterprise births in 2016 in the WMCA (3 LEP) area, 92.5% (51,610) were still active after 1 year compared to 91.5% for the UK. 70.7% (39,430) of enterprises were active after 2 years, compared to 68.3% for the UK. Although, after 3 years 49.9% of enterprises were still active in the Midlands Engine compared to 52.0% for the UK.

Five-year survival rates from 2014 enterprise births for the Midlands Engine shows each year the survival rates remained above the UK average. Of the 44,460 2014 births in the Midlands Engine, 43.1% (19,145) were still active after 5 years compared to 42.5% for the UK.

The following chart shows the five-year survival rate for enterprises born in 2014 for the Midlands Engine area and the UK:



High Growth Companies

There were 1,690 high growth companies in the Midlands Engine area in 2019. Reflecting UK trends this has decreased by 7.9% (-145 companies) with the UK declining by 9.8%.

Please note, Charnwood, Bolsover, Birmingham and Bromsgrove have been highlighted within this dataset for having more than 500 businesses at a single postcode within it. The potential impact of multiple registrations includes, large increases in business births, large increases in business deaths, poor one-year survival rates and large year-on-year fluctuations. Further information is located here - [Multiple business registrations at a single postcode](#)

High growth in this dataset measures businesses, who had at least 10 employees in 2016, that had an average growth in employment of greater than 20% per year between 2016 to 2019. The high growth rates are calculated by showing these businesses as a share of the 2019 active businesses with 10 or more employees. (Businesses born in 2016 are not included).

Source: ONS, Business Demography – 2019, Released November 2020

Business Demography – Context (by Size)

The [UK Business: activity, size and location dataset](#) released on in September 2020 provides a snapshot of the Business Demography dataset from March 2020, providing a breakdown of businesses by 2-digit SIC codes, employment size band and turnover bands. Again, the impacts from Coronavirus are not captured in this release (as it reflects March 2019-March 2020 data), but it provides the context for assessing the impact of the pandemic on the Midlands Engine.

Enterprise Stock

The snapshot from March 2020 (pre COVID-19) shows there were 379,035 enterprises in the Midlands Engine area, an increase of 2.7% (+9,830 enterprises) compared to the March 2019 snapshot, while the UK increased by 1.2%. This is a lower enterprise figure than reported in the full November data release (404,670, as per previous page), but the snapshot data allows analysis of sectors and size.

Enterprises by Employment Size Band

In the Midlands Engine area, 89.1% (337,740) of enterprises are micro businesses, employing between 0-9 employees, slightly below the UK average of 89.6%. The percentage of Midlands Engine enterprises that are small (employing 10-49 people) is just above the UK average (8.9% vs 8.5%).

Across the Midlands Engine area, 1.6% of enterprises are medium-sized – employing between 50 and 249 people. In the UK overall the proportion is 1.5%. The proportion that employ over 250 people match the UK average of 0.4%.

The following table shows the 2020 snapshot of employment by size band for the Midlands Engine and the UK:

	Midlands Engine	UK
Total	379,035	2,749,700
Micro (0 to 9)	337,740	2,462,410
% Micro	89.1%	89.6%
Small (10 to 49)	33,610	234,175
% Small	8.9%	8.5%
Medium-sized (50 to 249)	6,110	42,395
% Medium-sized	1.6%	1.5%
Large (250+)	1,575	10,720
% Large	0.4%	0.4%

Enterprises by Turnover Size Band

For the Midlands Engine area, 37.5% of enterprises have turnover between £0-£99,999, slightly below the UK average of 37.6%. These were the highest percentages for the Midlands Engine area and the UK out of the five turnover bands.

The Midlands Engine area has a slightly higher proportion of enterprises with turnover between £1m - £4.99m at 7.3% of enterprises, while the UK average was 7.0%. and also enterprises with turnover between £250,000 - £999,999 with 21.5% of the Midlands Engine total, while the UK stood at 20.2%. The Midlands Engine area had the same proportion of enterprises with turnover over £5m as the UK average at 2.4%.

The following table shows the number of enterprises in Midlands Engine and UK by turnover band from the 2020 snapshot:

	Midlands Engine	Midlands Engine %	UK	UK %
£0 - £99,999	141,965	37.5%	1,034,490	37.6%
£100,000 - £249,999	118,955	31.4%	901,405	32.8%
£250,000 - £999,999	81,445	21.5%	554,600	20.2%
£1m - £4.99m	27,685	7.3%	192,945	7.0%
£5m+	8,970	2.4%	66,260	2.4%
Total	379,035	100.0%	2,749,700	100%

At a glance, the overall business structure of the Midlands Engine area differs little from that of the UK average when it comes to size. In fact, comparing with the UK average, the Midlands Engine area generally has a slightly higher proportion of small and medium sized enterprises and a similar proportion of large enterprises within the economy.

The Midlands Engine area does have a smaller proportion of micro enterprises, when measured both by employment and turnover, than the UK average. This could reflect a lower level of start-ups, spin-outs and high growth firms than other parts of the country, or a different industrial structure which lends itself more to SMEs and large companies.

Source: ONS: UK Business; activity, size and location, released 2020

Business Demography – Context (by Sector)

Based on the same snapshot data, the sector with the highest proportion of enterprises in the Midlands Engine is business, professional and financial services, accounting for 31.6% of the business base, compared to a UK average of 33.8%. This sector includes a range of service sectors, from financial services and accountancy to recruitment. Compared to the 2019 snapshot, the number of business professional and financial services businesses across the Midlands increased by 4.6% (+5,270), considerably above the UK average increase of 0.6%.

Retail accounts for 15.6% of the Midlands Engine business base, above the UK average of 14.1%. This is followed by construction at 13.9%, below the UK average of 14.4%. Some sectors are more widely represented by businesses in the Midlands Engine compared to the UK. For example, 6.7% of enterprises in the Midlands Engine area are in the Advanced Manufacturing & Engineering sector, compared to 5% nationally. Additionally, 6.5% of enterprises are in the logistics & transport technologies sector, compared to a proportion of 4.5% in the UK overall.

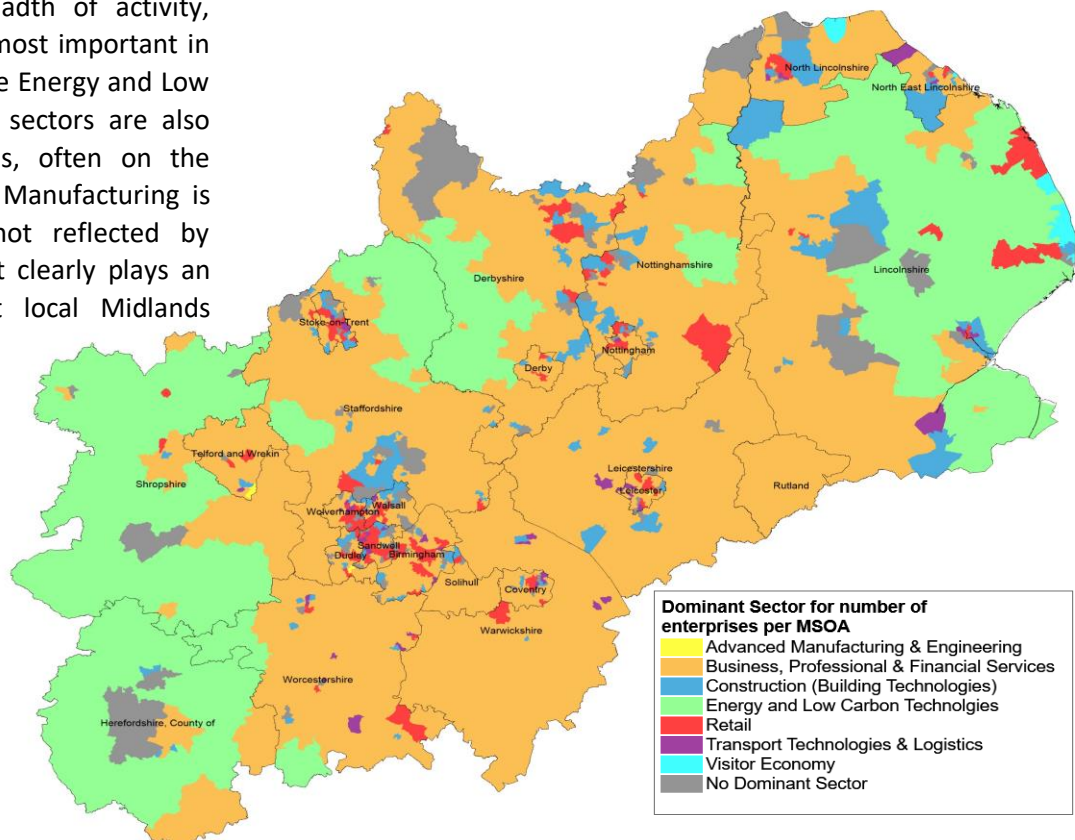
Sectoral strengths differ greatly across the Midlands Engine geography. This is demonstrated in the below diagram, demonstrating the ‘dominant sector’ across different parts of the area. Business, professional and financial services is dominant in many places, largely due to its wide definition and breadth of activity, whereas retail is clearly most important in town and city centres. The Energy and Low Carbon and construction sectors are also dominant in many areas, often on the outskirts of key centres. Manufacturing is somewhat surprisingly not reflected by industry ‘dominance’, but clearly plays an important role in most local Midlands economies.

Number of Enterprises by Sector

	Midlands Engine	Midlands Engine % of Total	UK	UK % of Total
Advanced Manufacturing & Engineering	25,270	6.7%	137,710	5.0%
Construction	52,710	13.9%	395,875	14.4%
Business, Professional & Financial Services	119,910	31.6%	930,205	33.8%
Digital & Creative	20,810	5.5%	225,750	8.2%
Life Sciences & Healthcare	15,150	4.0%	103,260	3.8%
Logistics & Transport Technologies	24,485	6.5%	123,075	4.5%
Low Carbon & Environmental Technologies	24,355	6.4%	163,810	6.0%
Public Sector Inc. Education	7,845	2.1%	52,665	1.9%
Retail	59,050	15.6%	387,035	14.1%
Visitor Economy	29,120	7.7%	230,295	8.4%
Total	379,035	100%	2,749,700	100%

Source: ONS: UK Business; activity, size and location: 2020

Dominant sectors across the Midlands Engine



ONS - Business Impact of the Coronavirus

Final results from [Wave 20 of the Business Impact of Coronavirus Survey \(BICS\)](#).

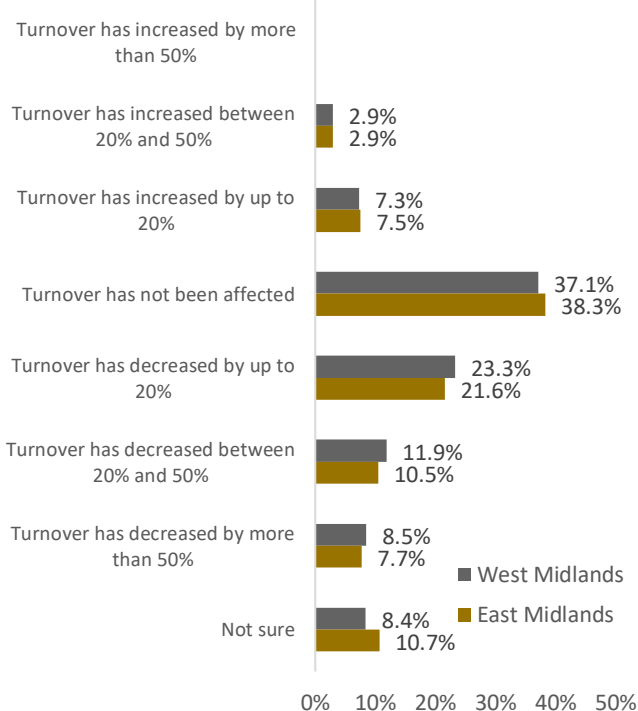
In the West Midlands there was a response rate of 25.2% and in the East Midlands a response rate of 26.5% where businesses have a presence in the region. There was a response rate of 23.9% (WM) and 26.3% (EM) where businesses are headquartered in the region. The following data is based on the period between 14th to 23rd December 2020. Please note the data used is unweighted and should be treated with caution when evaluating the impact of COVID-19. Due to weighted data being available for the UK a comparison has not been included.

Trading and Financial Performance

For the East Midlands and West Midlands figures show that fewer than 1% of businesses have temporarily closed or temporarily paused trading, while 96.0% of West Midlands businesses and 95.7% of East Midlands businesses have continued to trade. 3.7% of West Midlands businesses and 3.9% of East Midlands businesses have permanently ceased trading.

43.7% of trading businesses in the West Midlands and 39.8% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in the West Midlands and East Midlands:



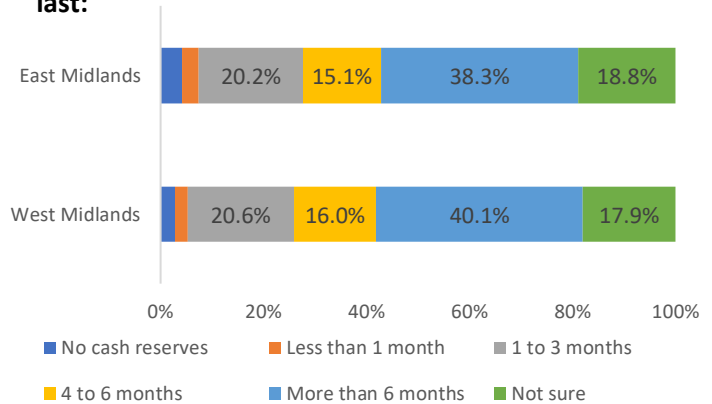
Profits

Businesses were asked in the last weeks if the Coronavirus had affected profits when compared with normal expectations for the time of year. 41.2% of businesses in the West Midlands and 38.2% of East Midlands businesses reported profits had decreased by at least 20%.

Cash Flow

2.8% of West Midlands businesses and 4.2% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East Midlands businesses how long their cash reserves would last:



International Trading

Fewer than 1% of West Midlands and East Midlands businesses continuing to export found that within the last two weeks they had not been able to export. While 1.2% of business in the West Midlands and less than 1.0% of East Midlands businesses had not been able to import within the last two weeks.

31.0% of exporting businesses in the West Midlands, and 29.3% for the East Midlands reported their businesses were still exporting but less than normal. Of those businesses who continued to trade and import, 25.9% in the West Midlands and 25.3% in the East Midlands were importing less than normal.

55.0% of West Midlands businesses and 57.3% of East Midlands businesses who were exporting reported that they had not been affected and 54.5% of West Midlands importers and 54.2% of East Midlands importers said that importing had not been affected.

3.0% of businesses in the West Midlands and 4.8% for the East Midlands are exporting more than normal. The figures for importing more than usual are 8.4% for the West Midlands and 7.7% for the East Midlands.

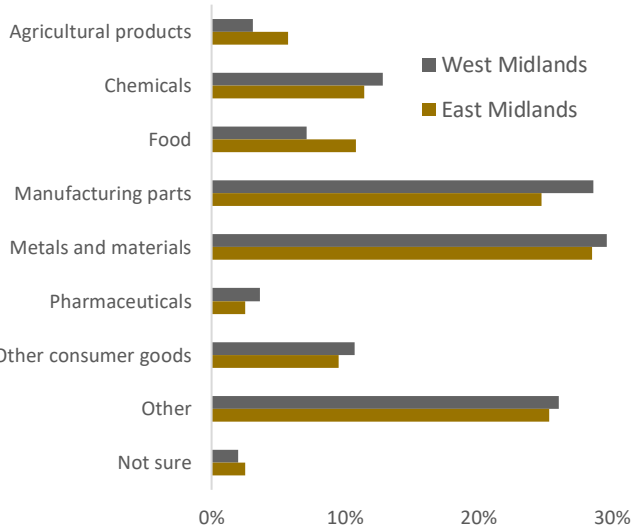
ONS - Business Impact of the Coronavirus

Stockpiling

6.1% of responding West Midlands businesses and 5.5% of East Midlands businesses reported they were stockpiling goods or material from UK suppliers. 11.0% (WM) and 9.7% (EM) were stockpiling from EU Suppliers. 3.0% (WM & EM) were stockpiling from non-EU suppliers. 73.8% of West Midlands businesses and 73.9% of East Midlands businesses reported not stockpiling any goods or materials.

Where businesses reported they were stockpiling goods or material the highest percentage were in metals and materials at 29.6% in the West Midlands and 28.5% for the East Midlands.

The following chart shows what goods or materials West Midlands and East Midlands businesses were stockpiling:



EU Transition

8.0% of West Midlands businesses and 9.3% of East Midlands businesses reported that they were intending to make changes to supply chains in preparation for the end of the EU transition period

Businesses that responded they intended to make changes in preparation for the end of the EU transition period, 31.7% (WM) and 37.2% (EM) were going to use more UK suppliers. 10.9% (WM) and 9.5% (EM) were going to use more EU suppliers. 5.0% (WM) and 9.5% (EM) were going to use more non-EU suppliers. 15.8% (WM) and 16.2% (EM) were going to move the supply chain away from the short straits crossing. 39.6% (WM) and 30.5% (EM) were going to increase the diversity in suppliers and 13.9% (WM) and 17.1% (EM) were going to expand to different modes of freight.

Expected Site Closures in the Next Three Months

4.0% of West Midlands businesses and 3.0% of East Midlands businesses reported they were intending to permanently close business sites in the next three months, with a further 14.6% of West Midlands businesses and 16.0% of East Midlands businesses unsure.

71.2% of West Midlands businesses and 60.0% of East Midlands businesses reported that they expect closing the sites will cause permanent redundancies. 26.9% of West Midlands businesses and 22.9% of East Midlands businesses reported the workforce will relocate.

Expected Redundancies

14.0% of responding West Midlands businesses and 10.8% of East Midlands businesses expect redundancies to happen within the next two weeks. 21.1% of West Midlands businesses and 21.7% of East Midlands businesses expect redundancies to occur between two weeks and one month. 62.3% of West Midlands businesses and 62.7% of East Midlands businesses expect between one and three months. 7.9% of West Midlands businesses and 10.8% of East Midlands businesses were unsure when redundancies would occur.

Expected Recruitment and the Immigration System

Businesses were asked if they expected to recruit new workers from countries in the EU or EEA in the next 12 months.

6.7% of responding West Midlands businesses and 7.1% of East Midlands businesses reported there were expecting to recruit from EU or EEA countries within the next 12 months. 43.4% of West Midlands businesses and 41.2% of East Midlands businesses reported they were not expecting to. 2.4% of West Midlands businesses and 3.2% of East Midlands businesses preferred not to say. 47.5% of West Midlands businesses and 48.4% of East Midlands businesses were unsure.

Businesses were asked to what extent did they agree or disagree with the following statement: "We understand what the new immigration system for recruiting EU or EEA citizens means for our business"

43.0% of West Midlands businesses and 44.3% of East Midlands businesses either agreed or strongly agreed that they understood the new immigration system for recruiting EU or EEA citizens.

Lockdown Temporary Closures

England entered a third national lockdown in the new year, announced by the Prime Minister on 4th January. Central to this is a “stay at home” message coupled with nationwide restrictions on certain businesses, including large parts of the hospitality sector and personal care facilities like hairdressers. Although some parts of the Midlands have had these restrictions on-and-off for some time through the tiered system, the restrictions are now uniform across the region and country again.

Using business stock data by sector, the number of businesses in the Midlands Engine that are currently forced to close (or unable to open as normal) has been estimated. The business activity categories have been developed via sector definitions through 5-digit Standard Industrial Classification ('SIC') codes, assessing the ability for businesses in each industrial classification to open as normal.

Based on this sector methodology, a total of 417,845 businesses currently have to temporarily close, or not open as usual, in England due to COVID-19 restrictions. This is slightly lower than widely reported estimates of 550,000 from Altus Group.

In the Midlands Engine area, it is estimated that around **70,000 businesses are temporarily closed due to restrictions**. This is an estimation, but the figure is very likely to be at least 60,000 and possibly above 80,000. An estimated 33,600 businesses in the East Midlands are mandated to close by the restrictions, with almost 40,000 in the West Midlands.

As shown in the table below, around 25,000 of closures across the Midlands are non-essential shops, the most common business activity affected. Following this, the area’s almost 15,000 restaurants, over 6,000 pubs and bars and 10,000 personal care service facilities (including hairdressers and nail salons) have been forced to close. The data suggests that 18.3% of all businesses in the Midlands Engine will now be temporarily closed by the latest restrictions. This is broadly in line with estimates at the national level, both from this analysis and wider reports.

Estimated Number of Temporary Closures by Business Activity

Estimated No. of Temporary Closures by Business Activity	Midlands Engine	East Midlands Region	West Midlands Region	England
Total businesses	379,020	184,015	221,910	2,390,970
Total businesses mandated to close/unable to operate as normal	69,315	33,600	39,465	417,845
Non-essential shops	24,365	11,835	14,010	137,545
Pubs & bars	6,285	3,165	3,360	31,600
Restaurants	14,240	6,800	8,140	88,855
Personal care (hairdressers etc)	10,045	4,620	5,900	58,750
Gyms & leisure facilities	2,340	1,205	1,285	14,385
Accommodation & tourism	2,110	1,025	1,180	16,900
Arts & entertainment	2,095	1,060	1,145	21,415
Education facilities (inc. schools)	7,835	3,890	4,445	48,395
Businesses closed as a % of all businesses	18.3%	18.3%	17.8%	17.5%

Methodology and Source

- In this analysis, "closure" is defined by the inability to open as normal; it is noted that many businesses in the business activity categories will operate - for example through online/click and collect.
- The business activity categories have been developed via sector definitions through 5-digit Standard Industrial Classification ('SIC') codes, assessing the ability for businesses in each industrial classification to open as normal. The resulting business activities are deemed to reasonably reflect all sectors that must close because of the restrictions, but do not reflect all individual businesses attached to the activities and SIC codes.
- While the majority of schools are not businesses, they are included within education facilities.
- ONS UK Business Counts data reflects The UK Business: activity, size and location dataset released in September 2020, providing a snapshot of the of the Inter-Departmental Business Register (IDBR) taken in March 2020. The dataset provides business count data by local authority and LEP across 5-digit SIC codes, allowing for sector analysis across geographies. Please note, the impacts from Coronavirus on business count data is not captured.

Lockdown Temporary Closures

LA-level analysis

While the analysis does not reflect live data of temporary closures, the data does support understanding of which areas are likely to be hardest hit in terms of temporary closures. The table below shows the 10 Midlands Engine LA areas with the highest estimated proportion of businesses temporarily closed compared with the area's total business base.

10 Midlands Engine LAs with highest % temporary closures:

LA Area	Businesses Mandated to Close	Businesses Closed as a % of all
Lincoln	685	26.7%
East Lindsey	1,345	24.6%
Stoke-on-Trent	1,515	24.2%
Chesterfield	765	22.8%
Mansfield	635	22.2%
North East Lincolnshire	1,010	21.8%
Newcastle-under-Lyme	765	21.8%
Ashfield	645	21.6%
Wolverhampton	1,585	21.3%
Worcester	680	21.2%

Lincoln has the highest estimated proportion of business having to close: **26.7%** of all businesses here are expectedly having to close currently due to lockdown restrictions. The area with the next highest temporary closure estimate is nearby **East Lindsey, where 24.6% of all businesses are expected to currently be closed.** This is largely driven by the accommodation and tourism sector, which is a key industry locally. 10% of all businesses in East Lindsey are in this industry, compared to the Midlands Engine average of 1%.

Outside of Lincolnshire, other at-risk areas include Stoke-on-Trent (24.2% of businesses estimated to be temporarily closed), Chesterfield (22.8%) and Mansfield (22.2%). These towns and cities have a higher-than-average proportion of closures due to the non-essential shops, restaurants and pubs that serve their populations.

LAs that appear to be less damaged by temporary closures due to lockdown are included in the following table. This shows the 10 LAs with the fewest proportion of businesses temporarily closed as a percentage of all local businesses.

10 Midlands Engine LAs with the lowest % temporary closures:

LA Area	Businesses Mandated to Close	Businesses Closed as a % of all
Bromsgrove	775	8.4%
South Holland	535	13.2%
Blaby	575	13.8%
Rushcliffe	760	14.1%
Rugby	730	14.1%
Melton	4,600	14.6%
Harborough	375	14.8%
Malvern Hills	825	14.9%
Solihull	650	15.0%
Redditch	1,245	15.0%

Bromsgrove is estimated to have the lowest proportion of temporary business closures at 8.4%, followed by South Holland (13.2%), Blaby (13.8%), Rushcliffe (14.1%) and Rugby (14.1%). The reason for estimated lower closure rates in these places varies by area. Bromsgrove's low proportion appears to be driven by a lower-than-average number of pubs, bars and shops in proportion to its overall business base. In contrast, South Holland, Blaby, Rushcliffe and Rugby all have a lower proportion of restaurants.

LEP-level analysis

According to the estimation, Black Country LEP has the highest proportion of businesses forced to close (or unable to open normally) due to the third lockdown restrictions. **20.5% of all businesses in the Black Country are estimated to be temporarily closed,** largely driven by the **greater than average proportion of non-essential shops located in the area.**

Almost a fifth of all businesses in D2N2 (19.6%), Stoke and Staffordshire (19.2%), and Greater Lincolnshire (19.4%) LEPs are also estimated to be closed due to lockdown rules. While the reason for this is likely to differ across geographies.

Despite the LA of Worcester reporting a relatively high proportion, the **LEP area as a whole has a considerably lower-than-average proportion of non-essential shops,** resulting in it being comparatively less damaged than other LEP areas in terms of business closure level. A similar trend is apparent within **The Marches – the LEP area with the second lowest proportion of closures,** while there is also a lower-than-average proportion of restaurants here. The other two LEP areas with a lower than regional and national average closure estimation are Greater Birmingham and Solihull LEP and Coventry & Warwickshire LEP.

Impact on the Self-Employed and Start-Ups

Self-Employment

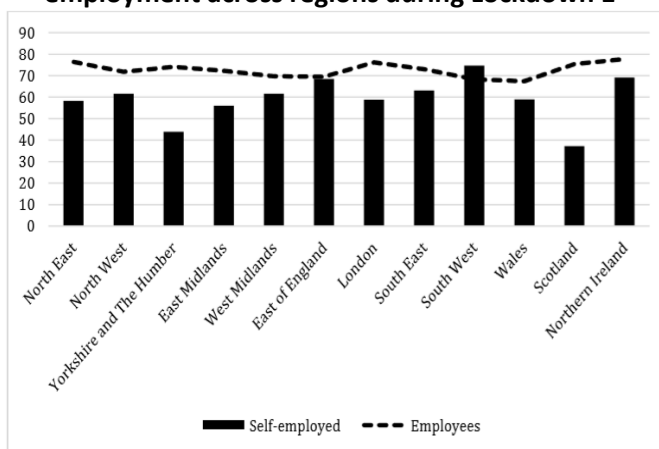
The self-employed accounted for 15% of the UK workforce in 2019 and many of these worked in sectors particularly at risk in this unprecedented crisis. The West Midlands (14%) and East Midlands (13.6%) self-employment rates were slightly below the UK.

The Enterprise Research Centre (ERC) published their first [findings on the impact of COVID-19 on self-employment](#) in the UK last year, reporting a dramatic effect on self-employed workers across sectors and regions. More than 40% of those who were self-employed in January/February 2020 experienced a 100% drop in demand of their services and products in the first month of the lockdown.

The graph across shows the **gap between self-employment and paid employment as proportion of the self-employed and employees in January/February 2020 who were still working at least one hour a week in May 2020**. In almost all regions the self-employed were more affected by the crisis than employees, including in both the West Midlands and East Midlands.

ERC's findings on sectors shows that where the self-employed were least likely to be still working were in 'other services' (personal services) and arts and entertainment combined as well as the production sector comprising manufacturing; electricity, construction, and transport. The latter set of sectors are particularly important sectors in the Midlands Engine.

Gap between self-employment and paid employment across regions during Lockdown 1



Source: ERC - Findings on the impact of COVID-19 on self-employment in the UK

Self Employment Income Support Scheme (SEISS)

A key funding support scheme for the self-employed is the Government's SEISS. Across the Midlands Engine area, there were 449,600 of the population eligible for SEISS 1 compared to 447,400 for SEISS 2. There were 344,700 claims made to the 31st October for SEISS1 which dropped to 307,100 claims for SEISS 2. The total value of SEISS 1 was just over £967m, with the total value of SEISS 2 at just over £748m. The take-up rate for SEISS 1 was 77% which has dropped to 69% for SEISS 2.

The industries with the highest take-up rates were transportation and storage at 79% (30,000 claims, 37,900 eligible), followed by other service activities at 78% (27,600 claims, 35,300 eligible) and then education at 76% (12,400 claims, 16,400 eligible).

Issues accessing support

Around three million early-stage or part-time entrepreneurs, freelancers and limited company directors continue to be excluded from the support packages on offer, as recently confirmed by the [National Audit Office](#), due to their recent existence or the fact that they are paid through dividends. This is problematic given that newly-formed businesses and the self-employed are particularly vulnerable to the pandemic for multiple reasons. They generally have less cash reserves, a less-established client base and are more at risk to economic shocks in general.

During COVID-19, this has led to micro and small businesses taking on debt, as pointed out by [FSB](#): 34% of all small business owners have increased their levels of debt, either increasing the debt they already had before the crisis or taking on debt for the first time. The table to the right displays the **proportion of small businesses carrying debt, as per FSB's Finance survey**.

Debt Immediately before COVID-19	Additional or new debt since the start of COVID-19	Current debt (before additional combined) &
56%	(34%)	69%

Impact on SMEs

The ERC recently published its 2020 [‘State of Small Business’](#) release, reviewing the trends affecting SMEs in the UK. The COVID-19 pandemic has of course dominated the agenda this year and has had huge implications for entrepreneurs and SMEs in 2020.

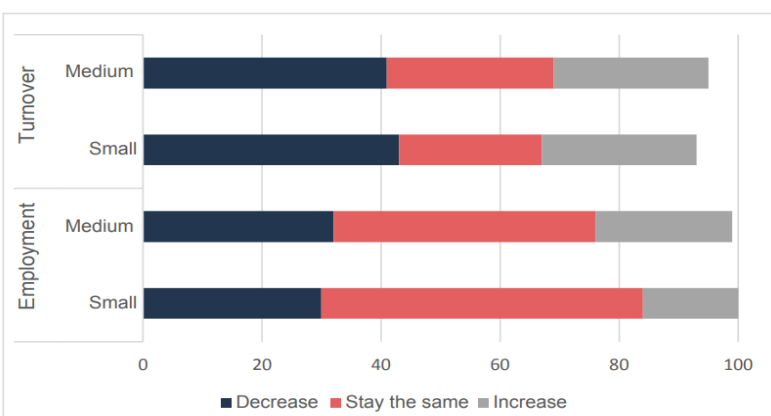
Pre-pandemic state of play

Even before the COVID-19 crisis hit the UK, the economy was in a state of change due to Brexit. Firm birth rates in 2019 were lower than during the recovery period after the last recession in 2008. Firm death rates had been steadily rising since 2016, but fell back slightly in 2019, and are much lower than historical levels. Additionally, in 2019 the UK recorded its highest rate of early stage entrepreneurship since the global annual survey began.

Effects of COVID-19 on Performance & Survival

A balance of SMEs have seen a deterioration in both employment and turnover over the past year. Across all SMEs surveyed within ERC’s Business Futures Survey, more than four in ten (42 per cent) saw turnover fall in the past 12 months. Employment has fallen in 30 per cent of small businesses and 32 per cent of medium businesses. Some businesses have clearly achieved growth, either as their sectors remained somewhat untouched by the pandemic or new opportunities emerged.

Change in SME turnover and employment in the past 12 months (% of businesses by size)



According to the latest BICS wave, over one-third of businesses in the Midlands Engine area have either a low or moderate confidence in their survival in the next three months, or are ‘not sure’. There is more confidence in the Midlands than the UK average, but the situation generally remains bleak. As shown in the diagram, there is notably less confidence in survival as the size of businesses gets smaller.



Depleted cash flow reserves, as reported in the BICS survey, is likely to influence firms’ confidence in survival. This is also more prevalent in small firms: 10% of the smallest firms (0-9 employees) have no cash reserves according to ERC research, and over 50% of these firms and firms with 10-49 employees have 6 months or less cash reserves.

Additionally, in November 2020 Deputy Director of the ERC Professor Mark Hart reported that almost a quarter of UK firms had no cash or were expected to run out by the end of 2020. His prediction was that this could put as many as 340,000 firms and 4.9million jobs nationally at risk across the private sector in early 2021. The impact could be especially hard on the nations and regions of the UK. In the West Midlands, for instance, this would equate to around 26,000 firms and 375,000 jobs. Alongside the East Midlands, these are regions where the number of firms scaling or achieving high growth episodes and whose levels of innovation and productivity have historically lagged behind. Such an order of mass insolvencies and business failure will take years to recover from.

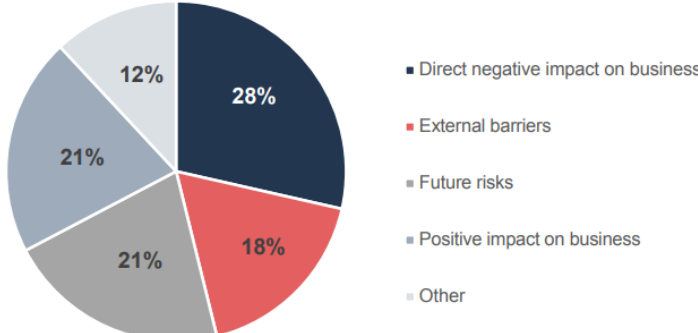
Impact on SMEs

Perceptions of the COVID-19 crisis amongst SME leaders

Data showing changes to business performance gives an idea how businesses have fared over the last 12 months, for a fuller picture it is also important to look at the perspectives from business owners.

The Business Futures Survey questioned business owners about their reflections on how they have been affected by the pandemic and their expectations for the future. The most common response at 28% was direct negative impact on the business.

The following chart shows business reflections on COVID-19 Impact:



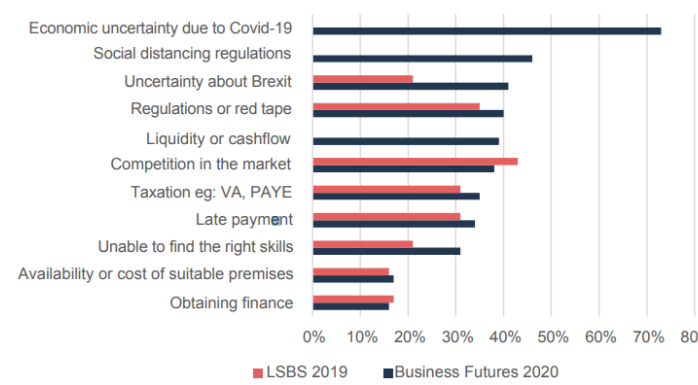
Source: ERC Business Futures Survey, 2020

Additional business challenges

Approximately 73% of businesses reported that the economic uncertainty stemming from the pandemic was regarded as an obstacle to running a successful business.

At the time of data collection trade agreements were not in place, a frequently reported obstacle (manufacturers specifically) was the UK's future trading relationship with the EU – overall 41% of businesses saw Brexit uncertainty as a barrier to business success.

The following chart shows the obstacles to business successes:



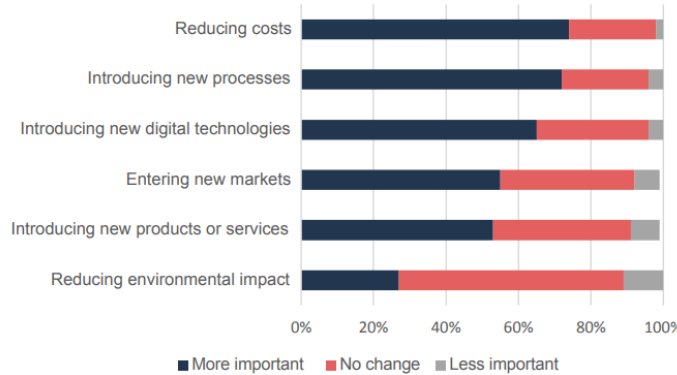
Source: ERC Business Futures Survey, 2020

Changing business priorities

The scale of disruption to business activities experienced by SMEs this year has led many to rethink business strategies and priorities. The most frequently cited priority initially at almost 75% was to reduce costs.

After a focus on cost reduction, new priorities started to emerge as these can support efficiency improvements, aid the development of new business models or support entry into new markets. 64% of small businesses reported that the 'introduction of new processes' was a priority. The top priority for medium-sized businesses at 55% was the 'introduction of digital technologies'.

The following chart shows the changing priorities as a result of the COVID-19 pandemic:



Source: ERC Business Futures Survey, 2020

Digital responses to COVID-19 in SMEs

Prior to the COVID-19 pandemic, small businesses, because of their constrained resources were lagging behind their larger counterparts in the rates of adoption of digital technologies. COVID-19 has already had a significant impact on digital transformation of SMEs, with many businesses adopting digital technologies they have never used before or increasing the use of previously adopted technologies.

Adoption of digital technology can be seen as risky, disruptive and organisation change. However research from LSBS shows it could lead to higher productivity, exports, investment into R&D and innovation.

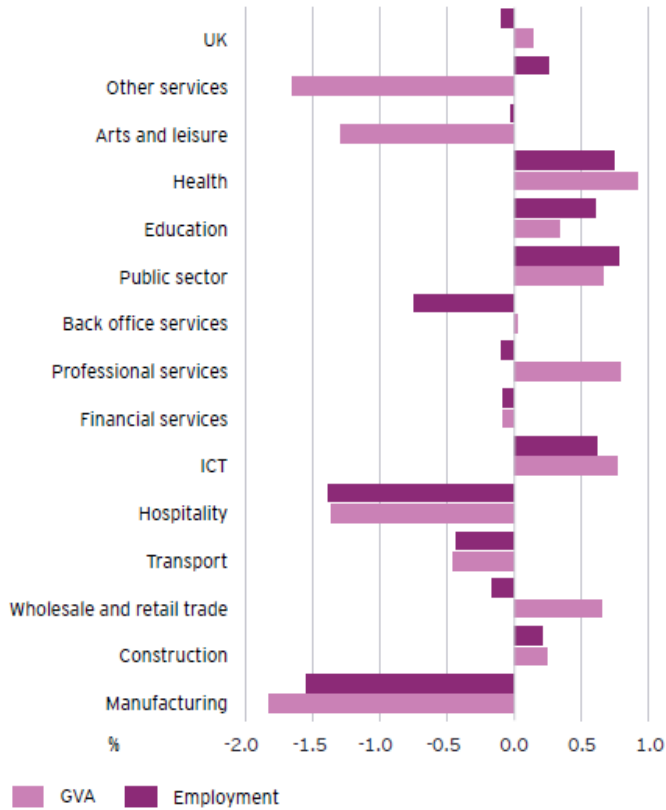
COVID-19, SMEs and net-zero

In 2019, the UK passed a net-zero emissions law to be attained by 2050. Emissions by SMEs vary widely depending on the industry in which they operate. The majority of SMEs in the UK are operating in non-carbon intensive industries. This explains partly why most SMEs do not seem to actively manage and report their emissions. SMEs will be called upon to comply with the net-zero policies and reduce their emissions.

Impact on Large Businesses

The impact of COVID-19 on large businesses in the region will be highly influenced by the sector they operate in. According to the previously reported on EY forecasts, just over half of the UK's major sectors will have grown in GVA terms between the end of 2019 and 2023. Those sectors most adversely impacted by the pandemic will be smaller than their starting position and a difficult period for manufacturing is also expected.

UK sectors: GVA and employment change 2019–23 (%)



Source: EY ITEM Club

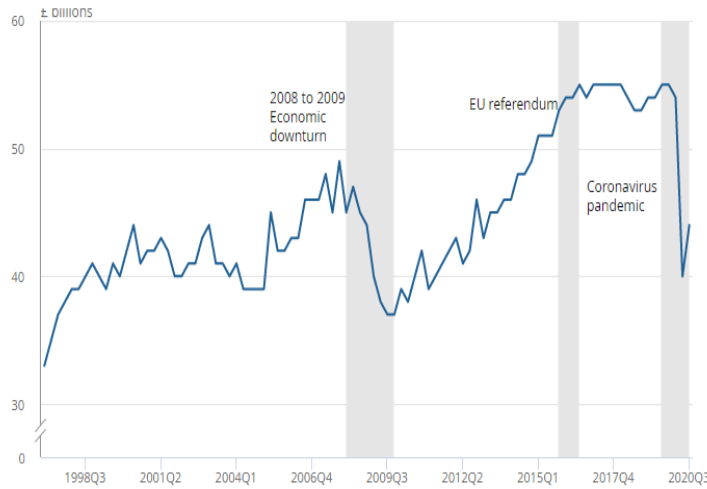
Large firms in sectors forecast to decline – manufacturing, other services, hospitality and transport – are likely to reduce investment and decrease their employment. This will also have a knock-on effect within the supply chains of these sectors.

The Midlands may be particularly vulnerable given its economic reliance on many of these sectors. Coupled with issues surfacing around the UK's new relationship with the EU, the region faces a challenging outlook. The competitiveness and stability of some of the Midlands' largest businesses, some of which are EU-owned, is central to this uncertainty. They are some of the Midlands' biggest employers and critical to the success of industry clusters locally.

Business Investment

A predictable decline in business investment in 2020 lays bare the economy-wide impact of coronavirus on businesses. When compared with the previous year, Quarter 3 (July to Sept) 2020 business investment fell by 19.2% in the UK. All types of asset saw significant declines in investment, with transport equipment investment falling by 37%, ICT equipment by 19%, other buildings and structures by 26% and IP products by 9.3%.

Business Investment in the UK



Source: ONS 2020

We also know from recent [ERC research](#) that as many as two-thirds of Innovate UK grant recipients have scaled back or completely cut their research and development (R&D) budgets in the wake of COVID-19.

Additionally, a [survey](#) of UK-based businesses from July 2020 found that 60% have either decreased their investment in sustainability initiatives as a result of COVID-19, or are planning to do so. This is concerning given that there's a strong connection between innovation – the development of new products, services and processes – growth (often through exporting) and productivity increases.

The massive scale of business investment decline, and high-profile media reports, suggest that large firms are in no way immune from being hugely damaged by the pandemic. While there will be differences across sectors, a cross-economy scramble to re-prioritise investment decisions to preserve cash flows has occurred. Midlands firms in the most vulnerable sectors will be most affected, with a potentially damaging long-term effect on output, jobs and productivity-enhancing investments, such as into innovation, digital and green technologies.

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