

To: Secretary of State
Cc: Junior Ministers

**From: COVID-19 Economic
Response Directorate**
Approving DD: Chris Heaton
Date: Friday 27 March

Update on HMG economic support schemes

Issue

1. This note summarises initial reactions from DCMS's stakeholders to HMG's economic support packages for self employed workers and provides further analysis on potential issues for our sectors, building on the note you received yesterday (at **Annex A**). It also provides an update on furloughed workers.

Recommendation

3. That you note:
 - the broadly positive initial reaction from DCMS stakeholders;
 - potential issues for our sectors that we are working with HMT to understand and resolve, where possible; and
 - HMRC's additional guidance on the Coronavirus Job Retention Scheme and outstanding issues.

Initial reaction from DCMS stakeholders

4. The initial response to the announcement among DCMS stakeholders has been broadly positive, although many have raised questions/ potential issues (see following section).
5. The **Creative Industries sector**, of which approximately one third are self employed, has been the most vocal in its support for the package. The Creative Industries Federation declared the announcement as a "victory for the creative industries", and welcomed the government standing by the majority of the UK's self-employed and freelance workers. That said, industry bodies including UK Music and BPI have publicly requested rapid implementation of the measures, and asked about the possibility for interim financial help for the self-employed.
6. In the **Tourism sector**, the overall ambition of the scheme has been welcomed, alongside requests for clarification on eligibility, and concerns around the timing of payment in June. The Chief Executive of UK Hospitality was vocal on twitter, referring to the scheme as "a safety net for many". Similar sentiments were publicly expressed by the CEO of the UK Inbound trade association, saying the scheme provided "Solid support for self-employed".
7. While there has been little detailed reaction from the **Sports sector** so far, some bodies have cautiously welcomed the announcement, including the Chartered

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Institute for the Management of Sport and Physical Activity, UK Active and Community Leisure UK, though underlined that in-depth analysis is needed to fully assess its impact. The Sport and Recreation Alliance have announced that the new measures will support 100,000 individuals in the sport sector. Given the seasonal peaks in many sports services, it is likely that the announcement will generally be received favourably by the sector, in part due to the option to average their profits.

8. With the **culture sector** being almost 50% self-employed, the impact of the Treasury's announcement will be substantial, and it has been cautiously welcomed. The Royal Society of Art's Chief Executive, Matthew Taylor, welcomed the "well-funded" and "crucial step forward" but said the "problem still remains: people are going to be waiting for help, likely until June as the bureaucracy to deal with this system is put in place"
9. Officials will continue to engage with our sectors on the package (as well as the broader suite of economic support) and keep you updated on the ongoing reaction.

Potential issues

10. In both their public statements and early conversations with sector teams, stakeholders have raised a number of potential issues. Most of these will apply across the economy, although may cause particularly acute problems for our sectors. We are working with HMT to better understand and address these, where possible.
 - **Salary threshold** - In some sectors within the DCMS remit, the average income for the self-employed is higher than the national average, and therefore a higher proportion of people are likely to miss out because of the £50K profit cap. We do not expect this to be a significant issue, except potentially in the digital sector where there are likely to be a significant number of people above the cap (although it's worth noting that the majority of these people will be earning over £200K a year). We are conducting further analysis to understand the scale of this issue.
 - **New businesses** - businesses that have been established within the last year and have not yet generated a tax return are not covered. HMT have been clear that the risk of fraud is too great to include them in the scheme. Again this may disproportionately impact the digital sector, due to the high number of start-ups.
 - **Owner-managers** - the scheme does not cover people who are owner-managers of their companies, paying themselves mostly through dividends. They will not be eligible as Treasury officials deem it impossible to know whether the dividends came from their work or from passive investments. Many of these will be high earners for whom the scheme is not targeted, and there is also a likelihood that many will have set up such arrangements to avoid higher taxation. We do not know the extent to which this will impact on DCMS sectors, however HMT has advised that people who

have employed themselves through their companies could furlough and apply for the government's job retention scheme for employees.

- **Timing** - The grant will not be dispersed until June. Feedback from nearly all sectors has indicated concern about the ability of individuals to cover their costs in the next couple of months, before the grant is disbursed. This is something we have raised with HMT, however there are no clear options for addressing this issue.

2. Guidance on the Job Retention Scheme

11. Yesterday, HMRC published guidance on the Coronavirus Job Retention Scheme for employed workers, building on the Chancellor's announcement last week. The new guidance includes for the first time details on:

- **Eligibility for the scheme:**
 - i. any UK employer with a UK bank account can claim on behalf of an employee who was on their PAYE payroll on 28 February;
 - ii. public sector employees will only be eligible in a minority of circumstances;
 - iii. employees who were made redundant in response to Covid-19 can be rehired and furloughed by their employer; and
 - iv. workers can be furloughed by more than one employer (the £2,500 cap applies to each job);
- **The calculation of monthly earnings for workers without a regular salary,** including temporary/zero hours workers (80% of their monthly rate); and
- **Restrictions on activities that can be carried out by furloughed workers** who are prohibited from:
 - i. making money for their employer; or
 - ii. providing services to their employer.

12. DCMS is yet to receive direct representations from stakeholders in response to this additional detail. However, there are the following specific issues that we know remain unresolved:

- Provisions for zero hours workers who are not on PAYE payroll; and
- Arrangements for employers which are not able to cease trading or close down their services, but which are operating with reduced revenues and cash flow. Key examples are:
 - i. tourism companies which are reducing the hours of their workers (but not furloughing them completely) and will therefore not be eligible.
 - ii. charities which are delivering the same (or additional) level of services as they would be in normal circumstances, but with significantly reduced income from individual giving and grants.

Clearance

13. Chris Heaton, Deputy Director C-19 Economic Response

Copy list

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Annex A - Previous note on HMG's economic support packages for self employed workers

To: Secretary of State
Response

From: NR C19 Rapid

Approved: Nick Russell

Date: 26 March 2020

HMT Financial Aid for Self-employed

Summary of new measures

- The Treasury has announced a package of support for self-employed workers facing financial difficulties as a result of coronavirus. The Chancellor has targeted the emergency help at self-employed low and middle earners. The full announcement is available in Annex A.
- The self employed income support scheme will pay self-employed people a taxable grant based on their previous earnings over the last three years, worth up to 80% of earnings, and capped at £2,500 a month.
- The scheme will be open to anyone who earns the majority of their income from self employment and has trading profits up to £50k. The £50,000 cut off excludes just 5% of self-employed whose average income is approximately £200,000. Individuals will be able to apply directly to HMRC for the grant through an online form.
- The scheme will initially be open for three months and available 'no later' than June. It will be delivered through a lump sum payment to individual bank accounts, covering all three months.
- To avoid fraud, it will only be open to people who are already self-employed and have a tax return from 2019. Anyone who missed the January tax return will now be able to submit in the next 4 weeks. The grant will be calculated using average monthly profits over the last three financial years if available, or the past year/two years if not.
- Those who have recently become self employed within the last financial year, will not be eligible for the scheme.

Measures previously announced

- Self-employed workers do not have access to statutory sick pay. However, the Government has promised that if you are sick or if you have been advised to self-isolate, you will be able to claim Employment and Support Allowance (ESA) from day one instead of day eight. The weekly payment for ESA is typically £73.10 or £57.90 for people under the age of 25.
- Payments for Universal Credit have been increased, so that the self-employed receive the same amount as someone on statutory sick pay, or £94.25 a week.

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- The Chancellor also announced a delay to the next set of self-assessment tax payments (due in July), allowing self-employed people more time to pay their tax bill. Anyone due to pay a second instalment by 31 July will not have to do so until January 2021.

Potential impact on DCMS Sectors

- 16.1% of UK workers are self employed. Across DCMS sectors, this figure rises to 22.4%.
- In particular, the Cultural Sector (48.9%) and the Creative Industries (33.3%) rely on self-employed workers.
- Sport (22.2%) and the Digital Sector (17.8%) are slightly below the DCMS average, though both are above the overall UK average.
- Civil Society (6.0%) and Telecoms (5.6%) are not reliant on self-employed workers.

Likely Stakeholder Reaction

- The overall package is wide ranging, and we anticipate it will be of relief to many of the self-employed workers in our sectors.
- Discussions with stakeholders before the Chancellor's announcement highlighted potential concerns with regard to; eligibility, VAT-registration requirements and requirements to be set up as a limited company, calculation of payments, earnings caps (now made clear in the announcement), interactions with universal credit (and other payments eg access to work and PIP), backdating and clawbacks.
- Eligibility will be based on the existence of 2019 tax returns. This will create issues for anyone who can't file a 2019 tax return. The level of payout will be based on an average income over the last three years, which may create issues for those with employment gaps or dips in income over this period.
- Clarity will be required around access to this support, including whether it can be accessed whilst working part time and whether there will be a cut off point for applications.
- It is also unclear whether, or how businesses will be asked to provide evidence that Coronavirus has affected their income. Some sectors, for example digital, are unlikely to have been as badly hit as others .

Next Steps

A more detailed update, including key stakeholder reaction and analysis of the detailed package due to be published later tonight, will be provided on Friday 27 March.