<u>Annex F: Local Authority Grants to Business</u>

1. Through the Covid-19 pandemic, starting from March 2020 and in broadly three waves of activity, the government introduced a range of grant schemes. These grants were administered by Local Authorities ("**LAs**") to support businesses in England impacted by the restrictions put in place to protect public health. In this annex, a chronology and relevant evidence is provided to set out these schemes across three phases ("**Cohorts**") of work, including relevant advice that was sent to the Chancellor and his decisions. I was not directly involved in the design or delivery of the grant schemes.

2. The policy objective was to provide cashflow support to small and medium sized businesses (**"SMEs**") adversely affected by the outbreak of the pandemic. Due to the unprecedented economic situation, the government's concern was that a significant number of businesses could fail without immediate support.

3. The initial focus of LA grants was to support businesses that would not benefit from a more generous system of business rates support as they already received Small Rates Business Relief ("**SBBR**"). In most cases this already provided 100% relief from any tax burden. It was therefore necessary for HM Treasury to consider alternative forms of support. The first grant, announced at Spring Budget on 11 March 2020, specifically targeted those small businesses to cover unavoidable ongoing costs linked to property which had to close, or which faced severe limitations on operation, as a result of Covid-19 restrictions.

4. The pandemic rapidly evolved and Non-Pharmaceutical Interventions ("**NPIs**") became more restrictive, with a national lockdown announced on 23 March 2020. There were concerns that the other principal economic assistance routes were likely to miss a large number of SMEs that would be catastrophically impacted by the NPIs put in place during the pandemic. This was a particularly significant risk for small businesses with limited cashflow, and SMEs reliant on social contact such as the retail, hospitality and leisure industry. If financial support was not available to these SMEs, this would have had long term consequences in terms of growth and economic capability and could have made other policy goals - such as rapid reopening post-pandemic or supporting employees through furlough - more difficult. Loan schemes such as the Coronavirus Business Interruption Loan Scheme ("**CBILS**") were not considered appropriate for SMEs who were likely to have no, or very reduced, ability to pay back the costs in the short to

medium term. Loan schemes were likely to increase the debt of an SME substantially and risked previously economically viable businesses failing.

5. In response to those concerns, on 17 March 2020 the government announced more generous and greater financial support for businesses including a 100% business rates relief for retail, hospitality and leisure (regardless of their Rateable Value ("**RV**") and the introduction of a further LA grant for retail, hospitality and leisure to support with the ongoing costs of premises despite a requirement to close.

6. Further grants were introduced over the course of the pandemic to respond to the various government interventions and national and regional lockdowns.

7. HM Treasury faced five considerable challenges in working on these grant schemes:

   a) These schemes were based on providing direct grants to private businesses on a previously unheard-of scale. This inevitably gave rise to concerns about how the funds could be targeted fairly and robustly, particularly as the information held by central government on business size and sector was limited and imperfect. It was felt that the alternative of loan schemes would delay the flow of assistance and were unlikely to be taken up given the size of the businesses.
   b) Design of these schemes was based on often imperfect information about the future course of the NPIs and how businesses would likely respond. For example, HM Treasury initially offered support to all retailers, but some businesses (such as supermarkets) operated well throughout the pandemic. At times some of the restrictions – such as the tiers in Cohort Two – created unpredictable edge cases such as a garden centre offering catering that was partly indoors and partly outdoors. This goes some way to explain why so many schemes were put in place to deal with gaps in provision and why there was such a level of discussion about interpretations and "hard cases".
   c) Central government did not have a data system to identify or pay businesses targeted support based on size or sector. The closest option was the business rates ("**BR**")[1] data held by local government. This meant opening up an unusual relationship with LAs where they were asked to rapidly distribute large sums and led to many questions about how to manage risk. It also meant that in addition to

[1] Business Rates are charged on non-domestic properties including shops, offices, pubs, warehouses, factories and holiday rental homes. The rates are based on the property's 'rateable value' which is an estimate by the Valuation Office Agency of how much it would cost to rent the property for a year.

HM Treasury, three other central government departments played a role in this work – the Ministry for Housing, Communities and Local Government ("**MHCLG**"), the Department for Business Energy and Industrial Strategy ("**BEIS**") and the Department for Health and Social Care ("**DHSC**") – which created added complexity at times.

d) The need for speed in decision making meant little time to undertake full value for money ("**VfM**") or impact assessments. Several of these schemes were developed within a number of days. Engagement was challenging both because of time and market sensitivity of the announcements.

e) Fraud and error were considered throughout but there were debates about how much risk to take, and the trade-offs with the speed of response.

Working with other government departments and local authorities

8. The Chancellor was responsible for making many of the policy decisions on the design and funding of the schemes, with the agreement of the BEIS Secretary of State ("**BEIS SoS**"). As central government did not hold data on businesses by size or sector that would have enabled targeted support relevant to the NPIs, LA BR systems were used to inform policy design, with LAs exercising local discretion on how funds were distributed. This discretion became necessary as a result of the complexity of the restrictions, particularly under the tier-based approach introduced in October 2020, explained in detail below. LAs had legal authority to provide funds to businesses, and previous experience administering grants of a similar nature e.g. the business rates relief scheme 2017 which included a £300 million fund for LAs to distribute over 4 years to help hard-pressed businesses facing higher business rates bills.

9. HM Treasury led the design of LA administered business grant schemes, setting high-level eligibility criteria and funding allocations. BEIS led operational delivery, building on previous experience delivering grants through LA including the Business Recovery Grant which was introduced to provide support for SMEs impacted by flooding in November 2019. Although this prior experience was beneficial, before the pandemic grants had been on a much smaller scale, and HM Treasury officials noted from the outset their concerns about delivery and likely delays in funding [**BR/F/001 – INQ000609214**].

10. The design and delivery therefore involved significant cross-Whitehall working, as well as strong partnerships between central and local government. HM Treasury set the budget for each grant scheme and worked with BEIS on delivery to ensure that funding reached LAs as quickly as possible. BEIS conducted the modelling for the schemes based on the criteria HM Treasury set and the BEIS Permanent Secretary acted as the Accounting Officer. The BEIS SoS was the accountable minister.

11. As the funding from the grants flowed through LAs, MHCLG also played a significant role with their existing knowledge and relationships with LAs supporting policy development and implementation. The Accounting Officer for MHCLG was responsible for assessing whether LAs could exceed their set budgets in order to deliver the grants quickly, in particular for the 2019-20 financial year.

12. Prior to the pandemic HM Treasury regularly collaborated with BEIS and MHCLG on local growth and industrial strategy. During the pandemic regular meetings were held throughout the life of the schemes, including twice weekly meetings with BEIS to address operational issues relating to the grant schemes. Within all three departments (HM Treasury, MHCLG and BEIS) work was quickly reprioritised to enable staff to focus on the set up of these schemes. There was a need to act as quickly as possible to get funding to businesses at risk of insolvency.

13. The LAs were responsible for identifying eligible businesses in their areas and administering the grants. Guidance materials for each grant were developed by BEIS, in conjunction with HM Treasury, and published for use by the LAs. MHCLG held regular meetings with a small LA working group and a wider group that included all LAs to receive feedback and respond to any delivery issues.

14. The LA grants applied in England only. Applying the Barnett formula (which is explained in further detail in Part 5 of this statement), funding was provided to the Devolved Administrations ("DAs") some of which was used to administer their own comparable grant schemes. The UK government was not involved in the design or delivery of LA grants by DAs.

15. As the Inquiry will be aware, the UK left the European Union on 31 January 2020. However, under the Withdrawal Agreement, State Aid rules continued to apply during the transition period. Grants could be made under the existing rules as long as they did not exceed the *de minimis* threshold per business of €200,000. In addition, on 19 March

2020 the European Commission adopted a Temporary Framework that temporarily increased *de minimis* limits to make it easier for Member States and the UK to support their economies during the pandemic.[2]

Overview of the grants

16. Given HM Treasury's responsibility for economic and financial policy this statement focuses on the major policy developments and decision points and should be considered in parallel to BEIS and MHCLG's evidence on their areas of responsibility.

17. It is important to note from the outset that, as with all the economic interventions, the first LA grants were designed and implemented at unprecedented speed (in some cases over a weekend) and developed under conditions of great uncertainty. As the priority was to ensure support reached businesses that needed it as quickly as possible, the first grants were designed to be as simple for LAs to administer as possible, relying largely on an automated system to identify eligible businesses.

18. Further grants were introduced over the course of the pandemic to respond to the various government interventions and national and regional lockdowns. These grants became more targeted to respond to the impact on particular areas and sectors as different NPIs were introduced, and as the response from businesses became clearer. This is set out in further detail in respect of each grant. As such, the chronology is unavoidably complex. Between March 2020 and March 2022 there were eight separate schemes, grouped into the following three cohorts.

    a) ***Cohort One*** - Targeted businesses by size and sector, supporting (i) smaller businesses who would not benefit from changes to business rates support because they had little to no liability (i.e. 100% reduction under SBBR) and (ii) SMEs in the retail, hospitality and leisure sector who were particularly impacted by NPIs given their reliant on social contacts. These grants ran from March 2020 to August 2020, largely in response to the first national lockdown.
    b) ***Cohort Two*** - Targeted businesses initially on a geographical basis as the NPIs were more localised with measures applied in certain areas rather than nationally. Cohort Two involved a range of grants which were adapted to reflect the Tier-

[22] The Temporary Framework was amended 6 times and extend to 30 June 2022 when it expired.

based system and then were extended to operate nationwide in response to the second national lockdown. These grants ran from September 2020 to March 2022.

c) ***Cohort Three*** – Sector based, with the primary objective of supporting businesses to safely reopen and recover as NPIs were eased in line with the government roadmap for lifting the lockdown. Cohort Three included a final, targeted grant to assist businesses impacted by the rise of the Omicron variant of Covid-19. These grants ran from April 2021 to March 2022.

19. The overall scope and spend of each cohort varied as required to address the issues of the relevant phase of the pandemic, with grants evolving to address changes in circumstances.

Cohort One

20. Cohort One grants were issued at speed during the early stages of the pandemic and were designed to be simple to allow for funds to be distributed as quickly as possible. They were predominately focused on small businesses and consisted of the following grants:

Grant Scheme	Application open and closing date	Eligibility and amount per business	Amount of support distributed [3]
Small Business Grant Fund Retail, Hospitality and Leisure Grant Fund	Small Business Grant Fund was announced on 11 March 2020. Retail, Hospitality and Leisure Grant Fund was announced on 17 March 2020.	Eligibility based on having a premises liable for business rates but which received Small Business Rate Relief. Up to £10,000 per business was available through the Small Business Grant Fund and £25,000 through the Retail, Hospitality and Leisure Grant Fund.	907,000 grants totalling £11.1 billion.

[3] Figures taken from Ipsos Evaluation, *Evaluation of the Local Authority COVID-19 Business Support Grant Schemes, Final Report*, Available at: Evaluation of the Local Authority COVID-19 Business Support Grant Schemes

Grant Scheme	Application open and closing date	Eligibility and amount per business	Amount of support distributed [3]
	Both had no application process but LAs provided grants based on information they held on local businesses. Both closed on 31 August 2020.	Eligibility was based on the rateable value of premises (up to £15,000 for Small Business Grant Fund and £51,000 for Retail, Hospitality and Leisure Grant Fund).	
Local Authority Discretionary Grant Fund	Announced on 1 May 2020. There was no application process but LAs provided grants based on information they held on local businesses. The scheme closed on 31 August 2020.	Grants were capped at £25,000 per business. LAs had discretion to set eligibility criteria however: • Firms had to be ineligible for the Small Business Grant Fund or Retail, Hospitality and Leisure Grant Fund. • It was aimed at businesses with ongoing fixed building-related costs and who had been adversely affected by Covid-19. • "Predominantly" aimed at businesses with an RV of under £51,000.	93,000 grants totalling £560 million.

Design of Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund schemes

21. On 7 March 2020, the Chancellor commissioned HM Treasury officials to investigate a possible grant package for small businesses with temporary cash flow problems to be announced as part of the Budget [**BR/F/002 – INQ000609213**]. The Chancellor requested analysis and advice on the number of firms, type of support, quantum of

support and the eligibility criteria. At this point there were no restrictions on activity, but it was likely that many businesses would be affected by a slowdown in economic activity as a result of the expected impacts of Covid-19.

22. HM Treasury officials discussed the options, working with MHCLG and BEIS officials, and sent advice to the Chancellor on 8 March 2020 on options to support small or "micro-businesses" where a grant would have the biggest impact [**BR/F/001 – INQ000609214**]. As the plans were being developed at pace HM Treasury were awaiting advice from BEIS on other possible payment mechanisms but LAs were identified as a viable delivery mechanism for the proposed grants. HM Treasury officials did however note substantial risks to that route including the time it would take for LAs to establish new systems and processes to administer grants, potential delays in decision making by LAs and a risk of underspends as LAs had not administered a scheme on that scale before. Previous and much smaller scale grants had been criticised for delays in the flow of funding to businesses.

23. Officials noted that LAs had a high level of experience in utilising the BR system and whilst this was a different type of scheme, it did mean existing infrastructure was in place for LAs to identify small businesses with physical premises. To build on this would be much quicker than implementing a new system from scratch. By using the existing BR register, LAs were able to identify all commercial properties within their local area and their use which would help identify properties that would likely be affected by Covid-19 restrictions (for example, cafes and customer facing shops). In addition, businesses that paid BR would generally face fixed property costs, unlike businesses without properties.

24. The advice indicated that, at this stage, business and sector-level monitoring had not yet revealed a significant impact of Covid-19 on small firms, with impacts largely limited to firms exposed to Chinese supply chains. At that time, a lockdown had not been imposed, and most people had continued their daily routines with only slight behavioural changes.

25. The advice on 8 March 2020 recommended holding back on a grant scheme for small businesses until the impacts of Covid-19 became clearer. Officials noted they would continue to work up options to mitigate the risks of delivering a grant scheme, and set out the early design proposals on support for small businesses (including micro-businesses and self-employed individuals) as follows:

a) £1 billion to support 400,000 businesses (average grant size of £2,500) – The pot would be split in two – one to be allocated upfront to all LAs to be administered as soon as possible with the second pot held back to provide additional finance to businesses most affected.
b) Upfront grant pot – BEIS to publish guidelines to inform LAs in developing local schemes, rather than establishing a detailed national scheme. This would provide LAs with flexibility to limit the scope of the scheme to avoid overly diluting the available funding.
c) Reserve pot – Hold back a pot of funding to increase support to businesses on a localised basis as the spread and impact of Covid-19 materialised.

26. From the outset, officials noted the equalities impact of the measure: "O*n the latest data (2018), 17% of SME employers are led by women; and 5% are BAME-led. These figures are likely to vary substantially between sectors, and may change when looking at the small businesses (under 50 employees) only. As such we do not currently have a view on whether the policies outlined above would have significantly differential impacts on individuals with protected characteristics, but will return to this when advising on specific scheme design options following Budget."*

27. Private Office provided a readout the same day confirming the Chancellor wanted to pursue the LA grants as he regarded this as the only credible option to support microbusinesses and self-employed individuals at that time [**BR/F/003 – INQ000609216**]. The Chancellor had spoken to the SoS for MHCLG who was going to encourage MHLCG officials to move quickly in order to support LAs in delivering the grants. HM Treasury officials were instructed to work up the design at pace, with initial steers to target firms with less than 10 employees, to avoid burdensome criteria that might slow down the pace of getting funding to businesses.

28. On 9 March 2020, HM Treasury officials provided further advice to the Chancellor on small business grants [**BR/F/004 – INQ000609221**]. Officials noted that BEIS were best placed to administer this funding and ahead of implementation it would likely require an Accounting Officer Assessment (which BEIS was best placed to provide).

29. Within the advice of 9 March 2020, officials recommended against providing grants to businesses based on the number of employees and instead recommended basing the scheme on providing support to all business in receipt of SBRR (approximately 725,000 businesses) and potentially Rural Rates Relief ("**RRR**") (approximately 3,000

businesses). SBRR was, and remains, available to businesses only occupying one property (with a small grace period if a business expands and occupies two properties) with a RV of less than £15,000. RRR is available to businesses with premises in an eligible rural area with a population below 3,000 and that is either, the only village general store, food shop or post office, with a RV of up to £8,500, or the only public house or petrol station, with a RV of up to £12,500. Basing grants on these criteria would ensure funding was provided to businesses with premises, in all sectors of the economy, below a certain size. However, it would likely exclude more businesses in city and town centres whose premises were more likely to be above the RV threshold.

30. Using the SBRR also meant the scheme could target small businesses but exclude certain businesses that were not in active use, for example second homes, holiday lets, beach huts or car parks. This ensured that the scheme targeted and protected small businesses most at risk.

31. HM Treasury officials reiterated the recommendation to wait until the impact of Covid-19 became clearer until announcing grants for small businesses. The advice noted that there would need to be an Accounting Officer assessment which may be challenging, highlighting that there was a high fraud risk as the ability of LAs to monitor payments was likely to be mixed and in many cases quite poor.

32. On 10 March 2020, a further submission was sent to the Chancellor seeking final decisions including those relating to business grants [**BR/F/005 – INQ000585067**]. The submission proposed an LA administered flat grant with eligibility based upon receipt of SBRR (or RRR). It was proposed that LAs could send eligible businesses a form to complete with information on the business, for example bank account and confirmation that they were operating a business from that property. Officials did not recommend the amount of grant be linked to the rent paid by businesses and instead recommended a flat rate grant. Officials noted that the RV was the hypothetical market rent assessed by the Valuation Office Agency ("**VOA**") and therefore not directly linked to the rent a business actually paid, as officials did not have this information. Officials considered the presentational rationale for the grant to be based around a link to average rental costs. However, this was not recommended due to the expectation that there would be a high number of cases where the amount of actual rent paid was higher than a grant. Therefore, a flat grant posed fewer presentational risks.

33. Private Office confirmed the Chancellor agreed to the proposed grant design later on the same day [**BR/F/006 – INQ000609071**].

34. On 11 March 2020, the Chancellor announced the first Covid-19 grants to small businesses as part of the Spring Budget, confirming that any business eligible for the SBRR or RRR would be entitled to a £3,000 cash grant. HM Treasury continued to work with the relevant departments to develop the design and parameters of the grant.

35. On 17 March 2020, the Chancellor asked HM Treasury to investigate further support for businesses in light of the ongoing disruption [**BR/F/007 – INQ000609077**]. The Chancellor wanted to explore options to support businesses facing particularly acute challenges, in some large corporates, and sectors such as retail, leisure and hospitality. These were predominantly face-to-face businesses where customers closely interact with others and staff.

36. On the same day, officials provided a table to the Chancellor setting out potential policy options. In terms of support for businesses, grants were considered alongside further Business Rates Relief ("**BRR**") and various other measures. [**BR/F/008 – INQ000609236**] The Chancellor requested further advice on options for addressing business cash flow issues [**BR/F/009 – INQ000609237**].

37. At the time, officials were also designing the furlough scheme (known as "**CJRS**"). The key difference between that and the business grant schemes was how the funds were distributed. Under the furlough scheme, financial assistance was given to employers to cover wages to ensure they could continue to pay their employees. Whilst funds were paid via employers, the requirement was for the funds to be passed directly on to the employee. Whereas business grant schemes provided direct financial help to businesses themselves, helping them with expenses such as rent demands and loss of revenue with the aim of preventing business closures.

38. A note was sent to the Chancellor on 17 March 2020, in advance of a meeting with officials, to prepare for the announcement later that day of a package of BRR and additional grant measures [**BR/F/010 – INQ000609238**]. The recommendations related to the following three proposals, which formed part of the package to be announced that day:

a) 12 months full BRR for retail, hospitality and leisure businesses (covered in more detail in Annex E).
b) Increasing the grant for businesses eligible for SBRR from £3,000 to £10,000.
c) Implementing a new grant of £10,000 for retail, hospitality and leisure businesses with RVs below £51,000 not receiving SBRR.

39. Following this meeting, Private Office provided a readout [**BR/F/011 – INQ000609239**]. This noted the Chancellor wanted to:

a) Proceed with extending BRR for all retail, hospitality and leisure businesses.
b) Proceed with the small business grant from £3,000 to £10,000.
c) Proceed with a £25,000 grant for retail, hospitality and leisure businesses with RVs below £51,000, noting that further advice was being developed on this option.

40. The Chancellor announced the measures later that day as part of a wider package of economic support, confirming businesses in the retail, hospitality and leisure sectors would be provided with an additional cash grant of up to £25,000 per business and a further £10,000 grant for the 700,000 smallest businesses [**BR/F/012 – INQ000585858**]. The Chancellor explained that LAs in England would be fully compensated for the cost of paying out the grants to business and the DAs would receive at least £3.5 billion to provide support in Scotland, Wales and Northern Ireland.

Implementation and Delivery of Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund

41. On 23 March 2020, the first national lockdown began and all businesses selling non-essential goods were required to close.

42. Following the announcements at the Budget and the Chancellor's speech on 17 March 2020, HM Treasury worked closely with MHCLG and BEIS to finalise the delivery aspects of the grants. MHCLG provided a note on the practicalities of delivering the grant [**BR/F/013 – INQ000609841] [BR/F/014 – INQ000609261]**. The intention was for the grants to be paid automatically and quickly to eligible businesses, rather than those businesses having to apply.

43. On 23 March 2020, the SoS for BEIS wrote to LAs on the two grant schemes that they were asking LAs to administer and attached the guidance for the grants [**BR/F/015 – INQ000064765**]. The letter provided a summary of the grants that had been announced and explained that the attached initial guidance had been developed by HM Treasury, MHCLG and other government departments in order to provide LAs with the confidence to administer the scheme. This letter requested that LAs contact eligible businesses that week to notify them that it was expected that grant payments would be made as soon as possible after 1 April 2020. BEIS published the guidance for LAs in relation to these two schemes on 24 March 2020.

44. The BEIS Permanent Secretary (at that time, Alex Chisholm) acted as the Accounting Officer for the LA grants and undertook a VfM assessment. On 23 March 2020, he wrote to the SoS for BEIS (The Rt Hon Alok Sharma), setting out the risks to VfM that he had identified [**BR/F/016 – INQ000543109**]. They included:

a) It was not possible to confidently estimate the extent to which the funding would help small businesses successfully navigate the impacts of Covid-19.
b) Some funding would be provided to companies that would have carried on trading regardless, without any palpable net growth stimulation effect, or in the alternative, could go to businesses that would eventually fail anyway.
c) Doubts about the full feasibility of the scheme, given it was being implemented at pace and the operational difficulties LAs would experience in trying to administer a new scheme efficiently and error-free during a pandemic.

45. As a result of those concerns, the BEIS Permanent Secretary requested a Ministerial Direction to proceed with the scheme. The BEIS SoS responded the same day formally directing the Permanent Secretary to work closely with HM Treasury and MHCLG to take forward the grants with immediate effect, managing the identified risks as best they could [**BR/F/017 – INQ000609850**].

46. On 24 March 2020, to ensure the rapid delivery of the grants from LAs, BEIS made an application for a contingencies fund advance of £6 billion which would then be passed on to LAs. HM Treasury officials agreed to this request to ensure LAs could start delivering the funding to businesses by 1 April 2020 [**BR/F/018 – INQ000609275**].

47. On 26 March 2020, BEIS wrote to HM Treasury on the plan to manage fraud risks. They proposed the focus should be on post-payment checks with LAs, which could be

assisted by the use of the Spotlight application, an online due-diligence tool available to help public sector bodies and government departments identify fraud. Instructions on how to use Spotlight were also provided [**BR/F/019 – INQ000609301**]. The email outlined that LAs had raised concerns that if pre-payment checks were required, this would delay payment by four to six weeks. BEIS then liaised with the Cabinet Office's fraud team to agree to amend the guidance and provide clarification to LAs outlining that checks could be made post-award.

48. On 13 April 2020, amid concerns about delays in payments to businesses, the Chancellor instructed officials to work with MHCLG to understand the issues and establish a system for distributing funds, tracking progress daily and setting a deadline for distributing 90% of the funds [**BR/F/020 – INQ000609330**]. The Chancellor emphasised the need for clear accountability in getting the payments out. Although LAs were expected to make payments by 1 April 2020, by 14 April 2020, only about £3 billion had been paid to over 250,000 business premises, roughly 25% of the estimated total.

49. On 14 April 2020, HM Treasury sent a submission to the Chancellor on further options to accelerate delivery [**BR/F/021 – INQ000609332**]. The advice noted that the SoS's for BEIS and MHCLG were putting pressure on responsible teams to speed up delivery. The submission outlined that the delays in providing funding were due to problems in individual LAs and reasons for this included:

a) Concerns over fraud and LAs later responsibility for clawing back wrongly made payments. The first iteration of BEIS guidance suggested that LAs needed to collect core data from businesses before making payment, whilst (as set out above) further guidance clarified that it was not necessary. Some LAs had instituted an 'application process' to collect data before payments were made.
b) LAs did not have the bank accounts or contact details of businesses.
c) Issues with payment software not being able to make a large number of payments in a short period.

50. The advice recommended HM Treasury set weekly targets for payments, request frequent updates from LAs on their distribution of grants and that the Chancellor ask the BEIS Minister for Small Business, Consumers and Labour Markets (Paul Scully MP) to call the Chief Executives of LAs that were behind on delivery. HM Treasury officials did not recommend removing the requirement for LAs to clawback any payments made in error as this would contravene Managing Public Money principles. The advice did not

recommend setting a public target for a certain percentage of grants to be paid by a specified date, noting the reputational risks if the target was not met. The proposal was to set a non-public target to be agreed with LAs, and to publicly support those LAs who had made 90% of payments by the end of the month. The following day the Chancellor's Private Office provided a readout confirming he agreed with the advice in part but wanted to set a target for 90% of all funds sent out by the end of the month and was open to BEIS making that expectation public to emphasise the need for LAs to deliver as a priority [**BR/F/022 – INQ000609334**]. The Chancellor specifically did not want to remove the clawback requirement.

Design of the Local Authority Discretionary Grant Fund

51. On 14 April 2020, the Chancellor had a discussion with the German Federal Minister of Finance on their grant scheme for businesses with less than 10 employees. Given the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund were limited to companies with a property, the Chancellor commissioned advice on what the costs would be if the Small Business Grant Fund was extended to companies with one to nine employees regardless of whether they had a property or not [**BR/F/023 – INQ000609329**]. HM Treasury officials responded on 15 April 2020, advising against extending the scheme in this way as it would not be targeted or have a clear strategic case [**BR/F/024 – INQ000609335**]. The main concern raised was fairness. It was noted that the two current schemes being administered by LAs were not available for small businesses without property, those outside the retail, hospitality, and leisure sector or small businesses in shared offices. Whilst creating a new grants scheme for businesses with fewer than 10 employees would address these gaps for the smallest firms, it would create a hard cut off so a business with 10 employees or more were likely to feel unfairly left out. It was also very difficult to estimate the number of businesses that would be eligible for the scheme and the likely cost.

52. On 20 April 2020, the Chancellor requested further advice on expanding the Small Business Grant Scheme and specifically an analysis of how small retailers could be identified, who did not qualify for the two existing grants due to being within a larger shared building [**BR/F/025 – INQ000609091**]. This issue had attracted significant stakeholder criticism due to the perceived unfairness of similar businesses being treated differently.

53. On 21 April 2020, HM Treasury officials advised against expanding the two grant schemes to cover 'hard cases,' such as small businesses not receiving Small Business Rate Relief and suppliers to retail, hospitality and leisure sectors [**BR/F/026 – INQ000609354**]. The advice noted challenges in delivery and capturing all 'hard cases.' A proposed alternative was to give LAs a discretionary funding pot, but this had drawbacks including slow delivery, exclusion of some cases, potential fraud and the need for eligibility checks.

54. The Chancellor met with officials the following day to discuss the advice and his Private Office confirmed that he was minded to proceed with the 'discretionary pot' option, with broad principles that placed the onus on LAs to identify and support 'hard cases' [**BR/F/027 – INQ000609092**].

55. On 24 April 2020, officials sent more detailed advice to the Chancellor on how the new discretionary grant pot for LAs in England could be designed [**BR/F/028 – INQ000609364**]. The submission noted the trade-off between providing a high degree of specificity at a national level and the flexibility to deal with individual circumstances. As a result, officials recommended introducing national guidance on how businesses could meet the eligibility threshold.

56. The proposal was to set the discretionary pot at 5% of the total value of LA's existing Covid-19 business grant allocations to cover the vast majority of shared space cases, as well as other difficult cases (setting at 10% could lead to LAs struggling to spend the money in a targeted way which would inevitably lead to criticism of slow delivery and poor VfM). LAs were also to be advised to use existing underspends on grant funding to deliver this discretionary scheme, and once that has been utilised, to request additional funding where required.

57. On 28 April 2020, the Chancellor responded to the advice and agreed with a 5% top-up, using underspends first, and suggested small changes to the eligibility criteria [**BR/F/029 – INQ000609093**].

58. The Chancellor wanted it emphasised that this scheme had been designed specifically to help businesses that should have been included in initial grants schemes but had not been able to access these for specific reasons (for example, not paying rates, qualifying via a different relief or a quirk of the billing system). The Chancellor wanted the LAs to

have some discretion to deploy the grants where needed, noting the challenges and risks that had been outlined.

59. On 29 April 2020, HM Treasury officials provided a submission to the Chancellor, seeking his formal sign off for the criteria and proposed the approach to communications [**BR/F/030 – INQ000609368**].

60. On 30 April 2020, the Chancellor agreed with the recommendations, criteria and advice with the exception that he did not wish to exclude short-term letting businesses from accessing the scheme [**BR/F/031 – INQ000609094**]. The main issue with short terms lets was the ability to determine if the property was predominantly used as a second home or as a business. Instead, individual LAs would be able to provide grants to these properties if appropriate.

61. The Chancellor formally confirmed the following criteria must be met for any grants paid out from the new discretionary fund [**BR/F/032 – INQ000609374**]:

    a) Grants were to be aimed at businesses with ongoing fixed building-related costs.
    b) Businesses must have demonstrated that they had seen a significant drop of income due to measures put in place to prevent the spread of Covid-19.
    c) Grants were to go to small businesses (under 50 employees) and businesses with no employees.
    d) Businesses must have demonstrated that they were trading on or before 11 March 2020.
    e) Businesses eligible for the existing grants schemes or Self-Employment Income Support Scheme ("**SEISS**") were ineligible.
    f) Grants were capped at £25,000, with the next 'tier' of grants being £10,000. LAs had discretion to make payments of any amount under £10,000.

62. On the same day the SoS for BEIS also confirmed his agreement to the Local Authority Discretionary Grant Fund [**BR/F/033 – INQ000609373**].

Implementation and Delivery of the Local Authority Discretionary Grant Fund

63. On 1 May 2020, the interim Permanent Secretary and Accounting Officer of BEIS, (Sam Beckett), wrote to the SoS for BEIS on the Local Authority Discretionary Grant Fund [**BR/F/034 – INQ000543191**]. As with the previous grant schemes, due to the lack of

evidence, it was not possible to determine VfM. She proceeded to advise the SoS of the following risks and requested a Ministerial Direction to proceed:

a) Risks related to the extent that funding would go to businesses that did not need it, either because they were still able to trade successfully or because they had access to other government support schemes available. In addition, the risk that for some businesses, the funding they received would not ultimately prevent the closure of the business.
b) Risks related to the full feasibility of this scheme, given the operational difficulties that LAs would experience in trying to administer funding for a new scheme efficiently and error-free during a pandemic and at the pace. Feasibility risks were exacerbated by the need for LAs to establish rules for application of their discretion.
c) The risks in relation to regularity and propriety were dependent upon the eventual level of fraud, error and non-compliance with the State aid rules, which could not be reliably estimated in advance. Should there be material levels of fraud, error and State Aid non-compliance it was likely to be deemed irregular in terms of spending authority.

64. That same day, the SoS for BEIS responded to the Accounting Officer formally directing her to take the fund forward with immediate effect [**BR/F/035 – INQ000543192**]. He also commented that the Chancellor, via his officials, had given approval to proceed and the SoS was prepared to provide support for the introduction of the scheme as soon as practicable.

65. Later that day, the Local Authority Discretionary Grant Fund was announced to support businesses that were not covered by the Small Business Grant Fund or Retail, Hospitality and Leisure Grant Fund.

66. On 1 May 2020, the SoS for BEIS also announced the government was making an additional 5% uplift to the £12.33 billion previously provided for the grants administered by LAs and on 6 May 2020, the SoSs for BEIS and MHCLG sent a joint letter to the Leaders of Councils and LA Chief Executives confirming this [**BR/F/036 – INQ000609384**]. LAs were asked to exercise their local knowledge and discretion in allocating the grants, recognising that economic need varied across the country. The government was setting some national criteria but would allow LAs to determine which

cases to support within these criteria. LAs were asked to prioritise the following types of business (this was a non-exhaustive list):

a) Small businesses in shared offices or other flexible workspaces.
b) Regular market traders who did not have their own BR assessment.
c) Bed & Breakfasts which paid Council Tax instead of BR.
d) Charity properties that were in receipt of charitable BRR which would otherwise have been eligible for SBRR or RRR.

67. On 11 May 2020, HM Treasury officials identified some outstanding policy decisions for the Chancellor to consider, including proposed hard criteria for the scheme, before finalising the formal guidance with BEIS and MCHLG [**BR/F/037 – INQ000609098**]. The recommendation was that only businesses trading on 11 March 2020 would be eligible, the grant would strictly exclude businesses who had received cash grants under existing schemes and businesses with a RV of above £51,000 would be ineligible. The Chancellor agreed to the recommendations, noting he wanted the guidance for the scheme to confirm that the grants were "*primarily and predominantly*" aimed at businesses with an RV of under £51,000 rather than a strict exclusion.

68. HM Treasury and BEIS officials continued to work together to finalise the details of the scheme, formal guidance and communications for LAs. On 12 May 2020, the Chancellor's Private Office wrote to the SoS for BEIS's Private Office setting out the Chancellor's position on the eligibility criteria and the 'hard' and 'soft' criteria he wanted referenced in the guidance [**BR/F/038 – INQ000609099**]. He stressed the urgency for guidance to be published, aiming for it to be finalised and issued the following day.

69. The Local Authority Discretionary Grant Fund guidance was published on 13 May 2020 and set out details on how funding would be provided to businesses, levels of funding and who would be eligible. In brief:

a) LAs had the authority to disburse grants up to the value of £25,000, £10,000 or any amount under £10,000. The value of the payment to be made to a business was at the discretion of the LA.
b) Grants under the Local Authority Discretionary Grant Fund were capped at £25,000.
c) Businesses that had received cash grants from any other central government Covid-related scheme were ineligible for funding from the Local Authority

Discretionary Grant Fund. As this criterion applied to cash grants only, it did not include CJRS funding.

70. The guidance also included measures on managing the risk of fraud, post-event assurance and monitoring and reporting requirements. The guidance noted that any business caught falsifying their records to gain additional grant money would face prosecution and any funding issues would be subject to claw back, as might any grants paid in error. It was also noted that the digital assurance tool, Spotlight, would be available to LAs and would offer support in using the tool and interpreting results. Alongside other checks conducted by LAs, the tool could help with pre-payment and post payment assurance.

71. The guidance was later amended in response to feedback from key stakeholders. For example, on 21 May 2020, the Chancellor authorised the removal of the bar on SEISS recipients from also receiving grants and suggested guidance was updated to reflect the changes as soon as possible [**BR/F/039 – INQ000609104**]. This was in response to confusion between businesses and LAs regarding the eligibility of SEISS (or potential SEISS) recipients for the Local Authority Discretionary Grant Fund. Guidance was updated and published on 23 May 2020. The guidance was amended again on 7 August 2020 to clarify eligibility for town and parish councils [**BR/F/040 – INQ000597678**].

Early summer discussions on cessation of Cohort One support

72. On 2 June 2020, the SoS for BEIS wrote to the Chancellor with an update on the progress on the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund [**BR/F/041 – INQ000543242**]. He proposed the Chancellor reclaim the underspends from LAs and consider redistributing the returned funding for a second round of the Local Authority Discretionary Grant Fund, utilising the discretionary fund underspends to provide to those businesses most in need.

73. On 5 June 2020, HM Treasury provided advice to the Chancellor as to when the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund should be closed and whether LAs should be asked to return their underspends [**BR/F/042 – INQ000609415**]. The advice confirmed that most LAs had distributed over 80% of their grants, but eligible businesses were not coming forward despite ongoing efforts and as a result it was expected there would be a £170 million underspend from the initial £12.33

billion allocation. The recommendation was that the underspend was returned to the Exchequer instead of launching another round of Local Authority Discretionary Grant Fund (as suggested by the SoS for BEIS), which was deemed poor VfM. However, if the Chancellor wished to offer more grants, he could use the existing formula or ask LAs to estimate demand and reallocate funds accordingly.

74. The Chancellor responded to the advice on 15 June 2020 outlining his preference for the closing date to be the end of August to mitigate the communication risks and for the underspends to be returned to Exchequer [**BR/F/043 – INQ000609116**].

75. HM Treasury wrote to BEIS on 16 June 2020, requesting that BEIS and LAs return the underspends associated with the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and Local Authority Discretionary Grant Fund [**BR/F/044 – INQ000609421**]. The Chancellor's preference was for scheme closure dates to be at the end of August 2020 which would give the government and LAs adequate time to communicate the closing date and to contact remaining eligible businesses who had not claimed a grant. The Chancellor asked if BEIS could inform LAs as soon as possible, so they could prepare for the end of the scheme.

76. On 23 June 2020, BEIS and HM Treasury officials discussed the projected underspends and the following day BEIS confirmed that the total underspend was closer to £1 billion and queried whether that would change the Chancellor's preference on scheme end dates [**BR/F/045 – INQ000609425**].

77. On 25 June 2020, BEIS provided the latest estimates of the underspend figures for the three grant schemes which suggested that the total underspend across all three grant schemes could range from £697 million to £1.28 billion [**BR/F/046 – INQ000609117**].

78. On 29 June 2020, the Chancellor confirmed to BEIS that his position remained unchanged, and the underspends should be returned to the Exchequer [**BR/F/047 – INQ000609426**].

Support related to Local Restrictions in Summer 2020 – Leicester scheme

79. On 29 June 2020, the SoS for Health and Social Care (Rt Hon Matt Hancock), set out in the House of Commons the local action being taken in Leicester following a surge in Covid-19 cases in the area [**BR/F/048 – INQ000609908**] [**BR/F/049 – INQ000086717**].

On 4 July 2020, a regional lockdown was announced in Leicester and parts of Leicestershire.

80. On 9 July 2020, BEIS were asked to provide an update on the return of the LA grant underspends [**BR/F/050 – INQ000609436**]. On 14 July 2020, BEIS advised that they had not yet issued notifications to the LAs as the SoS was considering advice on the use of the underspend on local lockdown support following representations from Parliamentary colleagues [**BR/F/051 – INQ000609437**]. BEIS confirmed that they were aware that HM Treasury consent would be required and the SoS would write to the Chancellor setting out their proposal. In response, the Chancellor's Private Office reiterated the position of the Chancellor and that the underspends were not available for use for local lockdown support [**BR/F/052 – INQ000609440**].

81. On 15 July 2020, HM Treasury officials wrote to the Chancellor's office regarding the closure date of the business grant schemes and updating on the underspends and progress on closure of the schemes [**BR/F/053 - INQ000609444**]. This noted that, as above, BEIS had not confirmed the decision to close the schemes or informed LAs of the closure date. The SoS for BEIS was expected to propose funding plans to the Chancellor soon. HM Treasury officials planned to continue urging BEIS to have LAs close the schemes in August 2020 and return any underspends.

82. The Chancellor's Private Office responded on 16 July 2020 with a steer that, following engagement with some Members of Parliament, the Chancellor wanted to see costings for recycling some of the underspend into targeted support for Leicester, noting he may not ultimately pursue this option [**BR/F/054 – INQ000609445**].

83. On the same day, HM Treasury officials provided costings and options for support schemes in Leicester, recommending that if it went ahead, it be presented as a new scheme for local lockdowns, despite using underspends as the funding source [**BR/F/055 – INQ000609446**]. This was because it otherwise could have set a precedent for other areas, but variations in underspend levels among LAs would have ultimately led to unequal support capabilities. Using underspends might have pressured some LAs to fully utilise their funds, whereas a new, targeted scheme would help control costs and provide more focused support.

84. Following a request for more information, HM Treasury officials prepared a detailed submission to the Chancellor on 17 July 2020 on proposals for grants to small

businesses in Leicester affected by the local lockdown [**BR/F/056 – INQ000609714**]. In a readout on 20 July 2020, the Chancellor's Private Office confirmed the Chancellor was sympathetic to the case for support for small businesses in Leicester but concerned about precedent risk, affordability and the ability of LAs to respond at local level to ensure the money reached those who needed it [**BR/F/057 – INQ000609122**]. As such, the Chancellor wanted a pot of funding (set at £3 million to ensure it was affordable) which Leicester could administer, rather than a new scheme for new lockdowns that would apply in any affected area with restrictions. The detail was to be worked through with DHSC and BEIS but should be distributed fairly across the two impacted councils (Leicester and Oadby & Wigston).

85. On 21 July 2020, HM Treasury wrote to BEIS to advise the following [**BR/F/058 – INQ000609448**]:

   a) The Chancellor agreed to an additional £3 million funding for both councils in Leicester, enabling those LAs to support businesses in need.
   b) The funding would come from DHSC's existing budgets, not the £100 million allocated for the test and trace programme.
   c) BEIS and DHSC would collaborate on the fair and objective division of the £3 million pot.
   d) The two LAs had discretion in granting funds.
   e) As of 13 July 2020, Leicester City and Oadby & Wigston had underspends from the previous grants exceeding £3 million but were only allowed to use underspends up to the amount specified by BEIS and DHSC, not exceeding £3 million in total.

86. On 22 July 2020, the SoS for BEIS Private Office wrote to HM Treasury to confirm the SoS strongly supported the principle of providing support to businesses affected by local lockdowns but was concerned the £3 million proposed for the 4,605 SMEs in the Leicester area [**BR/F/058 – INQ000609448**]. This would equate to approximately £740 per business over the three and a half weeks the lockdown had lasted to date, which was not commensurate to the loss of trade. As such, he proposed an alternative policy to provide grants to businesses in those areas of £1,000 per week for up to five weeks, capping the maximum payment to a business at £5,000 overall. BEIS officials could send further details and engage with the LAs if the Chancellor agreed.

87. On 22 July 2020, the Chancellor's Private Office responded to confirm the Chancellor had considered those type of options but did not wish to pursue them [**BR/F/059 – INQ000609449**]. The Chancellor's view was this was a specific issue that needed to be solved, and the government needed to get £3 million of support to businesses as soon as possible. Responsibility was to fall to LAs to make choices and use the funding at their discretion. The funding would be provided by DHSC.

88. HM Treasury, BEIS and DHSC officials discussed the proposals at pace, and final Accounting Officer advice was sent to BEIS ministers on 23 July 2020. Later that day, the SoS for BEIS's Private Office wrote to BEIS, DHSC and HM Treasury officials to confirm the SoS had reviewed the advice. As it was a one-off payment to two LAs and not a UK wide policy (which would be more complex), it was ultimately not a scheme that necessitated BEIS involvement.

89. HM Treasury wrote to DHSC to confirm whether they were content to run the scheme. On 24 July 2020, DHSC confirmed that although their SoS and Accounting Officer agreed the scheme should properly be led by BEIS, they would step in on an exceptional basis. HM Treasury officials confirmed that DHSC could directly make section 31 grants (which are monetary grants that the SoS proposes to pay to certain LAs in England) to the two affected LAs to provide the funds for the business grants [**BR/F/060 – INQ000609450**]. In addition, and DHSC would be required to conduct their own Accounting Officer assessment and proceed in making new payments to LAs (without the use of underspends from previous grant schemes).

Closure of Cohort One schemes

90. On 31 July 2020, BEIS confirmed they had written to all LA Chief Executives informing them that the three business grant programmes (Small Business Grant Fund; Retail, Hospitality and Leisure Grant Fund; and Local Authority Discretionary Grant Fund) were to close on 28 August 2020 [**BR/F/061 – INQ000609453**]. BEIS had received correspondence from some LAs advising that they were waiting for decisions from the VOA who were responsible for setting the RV for properties. As a result, they proposed that LAs be given up until 30 September 2020 to make payments and LAs were to make every effort to resolve outstanding issues with the VOA.

91. On 31 August 2020, the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and Local Authority Discretionary Grant Fund schemes closed for new grant payments.

92. On 4 December 2020, the Chancellor's office contacted BEIS in relation to excess funds which had been given to the LAs when administering the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and Local Authority Discretionary Grant Fund (over £1 billion was to be reclaimed however, at that point, no money had been reclaimed) [**BR/F/062 – INQ000609559**]. The Chancellor noted that letters were due to be sent to LAs requesting the return of approximately £200 million and expressed disappointment at the slow rate of progress, given that the last payments for schemes were due at the end of September 2020. The Chancellor requested weekly updates from BEIS going forward.

93. At the date of closure, the number of grant payments made under the Retail, Hospitality and Leisure Grant Fund and Small Business Grant Fund was 906,689. This equated to a value of £11.1168 billion. The number of grant payments for Local Authority Discretionary Grant Fund was 93,000, equating to a value of £562.9 million [**BR/F/063 – INQ000585832**].

Cohort Two

94. The Cohort Two business grant schemes were developed over summer 2020 and were in place from autumn 2020. At this point, lockdown restrictions had eased and the Cohort One business grant schemes (the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and Local Authority Discretionary Grant Fund scheme) had closed.

95. Initially, Cohort Two grant funding was used to support businesses that were impacted by local Covid-19 restrictions. However, as the NPIs progressed over autumn from local restrictions to tiers covering different areas of the country, and then to national lockdown, the grants had to evolve to respond to the changes in circumstances.

96. As with Cohort One grants, the new schemes aimed to provide relief to businesses affected by restrictions (either because they were required to close or were significantly impacted by the social distancing requirements). However, the Cohort Two schemes were designed to be more targeted than the broad sectoral closures pursued in the first Cohort. This was a result of the nature of the restrictions during this period, which until

5 November 2020, fell short of the national lockdown that had been in place at the beginning of the pandemic. The government's approach was to introduce NPIs on a localised basis to target areas where the levels of infection were particularly high, and then to move into a three-tiered system of restrictions on 14 October 2020. As the NPIs being utilised became more complex, their economic impact was uncertain and could also lead to the creation of new hard cases (for example pubs which lacked outdoor space, garden centres with cafes or places not serving "substantial" meals). This meant that a more nimble approach was required to respond to feedback, provide LAs with more discretion and ensure that the Cohort Two grants responded to ensure any potential gaps in support were identified.

97. Cohort Two also built on the lessons that had been learnt from the Cohort One scheme, particularly the evidence gathered by LAs and businesses indicating that earlier schemes were not sufficiently targeted to particular sectors. This resulted in some businesses that did not require the same level of financial support (i.e. shops selling food who were in a comparably strong position throughout the pandemic), also being eligible for support.

98. To ensure the funding reached the right businesses, drawing on the aspects of the Cohort One grants which worked well, LAs were again given discretion in how the Cohort Two grants were allocated, allowing them to use their local knowledge to target the support further. The guidance published for the schemes set out principles to consider and made it clear there was an expectation that the funding would be directed at those sectors most affected by the restrictions.

99. A summary of the main schemes in this Cohort are shown in the table below. The grants developed over time to meet the needs of business as the course of the pandemic progressed. In brief:

a) The Local Restriction Support Grant (Closed) was introduced on 9 September 2020 - this initial scheme targeted businesses forced to close, who were considered to be most in need as they would continue to face fixed property-related costs whilst remaining closed. Businesses that remained open would of course still be impacted, but they could benefit from other measures including Covid-19 business loan schemes, the Job Support Scheme ("**JSS**") and SEISS.

b) The Local Restriction Support Grant (Open) was subsequently introduced on 1 November 2020 – as set out in further detail below, by this stage the epidemiological picture had changed and the UK was subject to a three-Tier system of restrictions. Although not a full lockdown with all businesses forced to close, areas in Tier 2 and 3 faced significant restrictions on social interactions and leisure activities. Recognising further support was needed, HM Treasury therefore extended the grant support schemes to businesses which were open but significantly impacted.

c) The Local Restriction Support Grant (Sector), also announced on 1 November, was a bespoke support package for businesses that had been forced to close on a national basis since the first national lockdown on 23 March 2020. Those businesses had not benefited from the brief period during the summer 2020 when the vast majority of businesses had opened. As such, they were provided with additional funding to compensate for the extended impact on their business. This grant was limited to nightclubs, dance halls, discotheques, sexual entertainment venues and hostess bars.

d) The Additional Restrictions Grant ("**ARG**") was introduced shortly after Local Restriction Support Grant (Open) and (Sector) to supplement the wider schemes with some additional funding that LAs could use at their discretion. This gave them the flexibility to support particularly hard cases in their areas, using local knowledge and data to target the funding.

e) The Christmas Support Payment ("**CSP**") was introduced on 1 December 2020 to provide bespoke support to pubs, recognising that they would be severely impacted during the Christmas period – usually a particularly profitable time for the hospitality industry.

f) Finally, the Business Support Package for January 2021 Lockdown, in response to a further period of national lockdown provided further funding to support businesses required to close. This provided a one-off top up payment to all businesses who were in receipt of any of the Local Restrictions Support Grants.

100. The Ipsos evaluation reported that the number and value of grants provided for the combined Cohort Two schemes was 3 million grants totalling £7.4 billion **[BR/F/063 – INQ000585832]**.

101. The schemes in this Cohort were:

Grant Scheme	Application open and closing date	Eligibility and amounts
Local Restrictions Support Grant (Closed)	Applications opened on 9 September 2020 and closed on 31 March 2021.	Provided to businesses that were required to close due to local restrictions. Grant size differed by RV of the business premises and paid for every 2/3 weeks of closure. Amount of grant increased further in early October 2020.
Local Restrictions Support Grant (Tier 2) Later renamed Local Restrictions Support Grant (Open)	Applications opened on 1 November 2020 and closed on 31 March 2021. Funding provided retrospectively for businesses affected by restrictions from August – November 2020.	Provided to business based in England; in an area subject to Tier 2 or Tier 3 local restrictions since 1 August 2020 and severely impacted because of the local restrictions; established before the introduction of Tier 2 or Tier 3 restrictions; and not required to close but impacted by local restrictions. Grant size differed by RV of the business premises and paid for every 2/3 weeks of restrictions.
Local Restrictions Support Grant (Sector)	Applications opened on 1 November 2020 and closed on 31 March 2021.	Businesses that were required to close due to national restrictions imposed on 23 March 2020 and were not able to re-open.

Grant Scheme	Application open and closing date	Eligibility and amounts
Additional Restrictions Grants	5 November 2020 until 31 March 2022	LAs had the discretion to determine eligibility but were encouraged to support: In the first payment - businesses from all sectors that may have been severely impacted by restrictions but were not eligible for Local Restriction Support Grant or CBLP grant schemes. In the second payment - businesses from all sectors that may have been severely impacted by restrictions but were not eligible for the Restart grant scheme. In the third payment – businesses severely impacted by the Omicron variant. Grant size differed by RV of the business premises and paid for on a monthly basis.
Christmas Support Payment	1 December 2020 until 29 December 2020	Provided to 'wet-led' pubs where Tier 2 or Tier 3 restrictions were imposed following the scheduled Tier review dates of 2 December 2020.

Grant Scheme	Application open and closing date	Eligibility and amounts
Business Support Package for January 2021 Lockdown	5 January 2021 until 8 March 2021	This included the Local Restrictions Support Grant (Closed) Addendum (an extension of the Local Restrictions Support Grant) (Closed) which was adapted due to the national lockdown), the Closed Businesses Lockdown Payment (CBLP), and a top up to the Additional Restrictions Grant.

Policy development and announcement of the Local Restrictions Support Grant for local lockdowns

102. By summer 2020, the UK was no longer in a national lockdown, with a significant relaxation of all social restrictions announced on 23 June 2020. In July 2020, restrictions had eased in England with the reopening of pubs, restaurants and hairdressers. However, as cases began to rise again in certain areas of the country, the decision was taken in central government to impose localised restrictions in areas with the highest number of infections. The government's strategy at this stage was to manage outbreaks on a local basis rather than a national lockdown and (as set out above) the first local lockdown came into force on 4 July 2020 in Leicester and parts of Leicestershire.

103. In response to these local lockdowns, No.10 commissioned HM Treasury to work with DHSC to discuss the case more generally for financial support for localised lockdowns delivered through LAs. On 3 August 2020, a submission was sent to the Chancellor on the options for supporting local areas that may be required to introduce restrictions [**BR/F/064 – INQ000088098**]. Officials noted that whilst there was a case for acting early to avoid a resurgence in the virus, actions should be evidence driven and properly targeted. There was political pressure for additional support for business and individuals and this was likely to increase as more areas were forced to impose restrictions. LAs

were therefore calling for additional support via an extension of the Local Authority Discretionary Grant Fund scheme for closed or significantly impacted businesses (alongside other economic support). HM Treasury officials were talking to BEIS officials throughout this time to understand proposals for how support could be targeted in response to new restrictions.

104. HM Treasury officials advised there was merit in exploring options for funding LAs to provide grants for businesses required to close under nationally imposed NPIs, consistent with the precedent set in Leicester (i.e. a one-off payment per business, paid after four weeks). The advice suggested that a defined criteria should be established, with some flexibility for local discretion. This had been tested with MHCLG officials and LA Chief Executives who thought they could deliver the scheme, and officials recommended commissioning MHCLG and DHSC to rapidly design and operationalise the proposal.

105. These discussions all fed into a note to the Prime Minister on 5 August 2020 setting out the initial proposals for support which covered a suite of suggested support measures wider than just grants **[BR/F/065 – INQ000232097]**. The note was clear that the Chancellor had concerns about the proposed approach for a number of reasons including:

a) The government had already announced a generous package of over £280 billion of support for people and businesses which would last until the end of that year and was available to areas in local lockdown (including BR holidays, access to loan schemes and business grants - £10,000 for small business and up to £25,000 for the retail, hospitality and leisure sectors).
b) Internationally the UK would be an outlier if a new financial support scheme was introduced to support individuals to self-isolate.
c) In reality most employees had already received more than Statutory Sick Pay.
d) There was limited evidence that financial incentives would drive dramatic improvements in isolation compliance.
e) Recent evidence pointed towards prioritising NPIs which target social activity ahead of economic activity, thus minimising the need for further business closures in the first place. Whilst the local outbreaks were context specific, evidence had shown it was largely driven by social contact and household transmission rather than the workplace.

f) There were risks in creating further support including that, in the short term, there would be different approaches in different regions and in the long term, another benefit may undermine the incentive to work.

106. In light of the above, the Chancellor advised that there was not a strong case for further financial support; however, if the Prime Minister wanted to proceed, the Chancellor proposed support that was targeted and avoided the risk of becoming an unaffordable national programme. This included a proposal for a discretionary business grant scheme – up to £500 per business with a RV of less than £51,000 that was forced to close for more than four weeks. Given the expense of providing financial support for all local lockdowns, officials advised the design of a programme should be based on local factors, characteristics and subject to adherence with strict conditions and criteria.

107. Alongside the proposals for immediate support for local lockdowns, on 14 August 2020, HM Treasury officials provided the Chancellor with advice for financial support packages in the event of a second wave of Covid-19 [**BR/F/066** – **INQ000609458**]. This advice outlined that policy decisions come against a 'significantly worsened economic and fiscal context since March'. HM Treasury officials recommended pursuing business grant schemes which were flexible and could be designed to target specific locations or sectors, in line with the current approach to NPIs, noting that LAs now had experience in delivering business grants at pace. Officials noted the expense of pursuing a grant scheme and the risks of incentivising LAs to want to lockdown. Officials noted that grant schemes did not specifically protect employment therefore, in the absence of other schemes, risked a large increase in unemployment. At the same time, considerations were being made to extend and better target the CJRS and SEISS schemes (covered in separate annexes to this statement).

108. On 17 August 2020, the Prime Minister's office confirmed he had considered the advice and wanted to roll out a programme of financial support along the lines outlined in the note of 5 August 2020 [**BR/F/067** – **INQ000609460**]. HM Treasury was commissioned to work with other government departments including BEIS to take the proposal forward at pace, with the intention of signalling to LAs that week that support would be coming.

109. That same day the Chancellor asked officials to work up the proposals and engage with selected LAs, as well as other government departments to get their input into policy design. At this stage – and as advised by MHCLG - it was considered impracticable to get input from all 300+ authorities so MHCLG suggested a small number who HM

Treasury could speak to in a more informal way during the policy development. Those selected had previously been vocal on grants issues. (As set out later in this statement, HM Treasury and MHCLG did engage with all LAs to communicate on the scheme once it had been designed (e.g. through frequent information and Q&A sessions) and their feedback was used to refine later versions of the grant schemes) [**BR/F/068 - INQ000609459**].

110. On 2 September 2020, the Chancellor agreed with the recommendations in the advice of 14 August 2020 on future grant schemes being targeted at businesses in particular areas or sectors and requested further advice on options [**BR/F/069 – INQ000609471**].

111. On 7 September 2020, the Chancellor requested further advice on local lockdown business grants and a wider update on local lockdown support [**BR/F/070 - INQ000609126**]. The Chancellor was also keen to view what support Scotland and Wales had put in place. This advice was provided to the Chancellor later that day, seeking his final steers before a potential announcement that week [**BR/F/071 - INQ000609466**].

112. Within the advice, it was noted that BEIS officials had developed a proposal for a business grant scheme triggered by local lockdowns, with payments made at an average of £500 per closed business for each three-week period that they were closed and further applicable eligibility criteria to be determined by the LA. This proposed rate was in line with previous steers. HM Treasury officials noted the proposal as acceptable but that the Chancellor may wish to increase the rate of support to match the level of support being offered to that in Scotland. These recommendations were approved by the Chancellor on 8 September 2020, including for the higher level of grant [**BR/F/070 – INQ000609126**].

113. On 9 September 2020, the government announced this new support for businesses required to close due to local lockdowns or targeted restrictions. The Local Restrictions Support Grant (as it became known) was announced with the following key criteria:

a) Businesses in England required to close due to local lockdowns or targeted restrictions were able to receive grants worth up to £1,500 every three weeks.
b) To be eligible for the grant, a business must have been required to close due to local Covid-19 restrictions.

c) Businesses with an RV of over £51,000 would receive £1,500 every three weeks they were required to close. Businesses with an RV of £51,000 or lower would receive £1,000.
d) Payments were triggered by a national decision to close businesses in a high incidence area. Each payment would be made for a three-week lockdown period. Each new three-week lockdown period would trigger an additional payment.

114. The same day, following an announcement of a local lockdown in Bolton, HM Treasury officials sought an urgent decision from the Chancellor as to whether businesses in Bolton would be eligible for local lockdown grants [**BR/F/072 – INQ000609127**]. The recommendation was that businesses in Bolton would not qualify for local lockdown grants at that time, as businesses there were due to be closed for two weeks and the eligibility for local lockdown grants required a business to be closed for three weeks. However, if restrictions were to be extended beyond three weeks, they would then be eligible for a grant. The Chancellor responded the same day in agreement with the advice.

Increase in generosity of Local Restrictions Support Grant payments for closed businesses – September 2020

115. On 11 September 2020, HM Treasury officials provided another note on proposals for grants during a possible second Covid-19 wave, as requested on 2 September 2020 [**BR/F/073 – INQ000610832**]. Officials noted the fiscal situation at that time was extremely stretched due to previous support packages and recommended consideration be given to business grant options alongside consideration of either extending or reforming other support schemes to ensure that the future package of economic support was focused towards supporting the economy and was fiscally sustainable. This advice referenced the three grants developed within Cohort One (outlined above) and the advantages and disadvantages of adopting a similar approach during a second wave of Covid-19. It was recommended that any further business grants be restricted to businesses with property who were forced to close due to Covid-19 restrictions and that the amount of grant could be tiered by the RV of the property.

116. On 30 September 2020, the Chancellor requested further data to help consider additional policy interventions, alongside work on the JSS and support already available under the Local Restrictions Support Grant [**BR/F/074 – INQ000609484**]. Officials

subsequently provided information and data, including the VOA property types identified for each of the 12 sector categories that were being considered for JSS [**BR/F/075 - INQ000609479**] [**BR/F/076 – INQ000610833**]. It was noted that the VOA data was not comprehensive, and it was not always possible to fully identify which properties were being used for particular types of business trading.

117. Alongside work on the design of JSS, the Chancellor further considered potential business schemes revisiting the data on how a three-week lockdown was calculated for the Local Restrictions Support Grant and was of the view that slightly more could be done to expand the generosity of the scheme [**BR/F/077 – INQ000609483**]. On 2 October 2020, advice was sent to the Chancellor on options for raising the value of the Local Restrictions Support Grant in England, recommending that if he wished to raise the grant, all properties regardless of rateable value, should be given an increase of £1,500 per three weeks period that they were closed and that this increase should be backdated [**BR/F/078 – INQ000609747**].

118. On 7 October 2020, the Chancellor indicated that he agreed with the increased rates as proposed and was minded to also provide the support to nightclubs and other sectors that had been forced to close and had not reopened. To avoid confusion by LAs, this application of funding to businesses that had never reopened was later called Local Restrictions Support Grant (Sector). This support was the same value as other closed businesses but applied over a longer period [**BR/F/079 – INQ000609484**]. The development of this scheme is explained in further detail below.

119. Following a meeting with the Chancellor on 7 October 2020, officials sent advice seeking his agreement on the final design of the increased generosity of the Local Restrictions Grant Scheme [**BR/F/080 – INQ000609751**]. The Chancellor had indicated he wanted to increase the generosity of the existing scheme in light of the changing epidemiological situation, as follows:

a) Grants to be given per two weeks of closure instead of per three weeks (this aligned more closely with the two-week closure periods under nationally imposed lockdowns).
b) For properties with an RV of under £15,000, grants to be £1,334 per month or £667 per two weeks.
c) For properties with an RV of £15,000-£51,000, grants to be £2,000 per month or £1000 per two weeks.

d) For properties with an RV of £51,000 or over, grants to be £3,000 per month or £1,500 per two weeks.

120. This advice also included that eligibility for the Local Restrictions Grant Scheme aligned with the JSS, and all businesses legally closed on a national basis (such as nightclubs) be eligible. Hotels and Bed & Breakfasts would not be eligible unless they were mandated to close.

121. The total cost per month of these changes if all retail, hospitality and leisure were closed England wide was assessed to be approximately £1.45 billion a month. Officials also sought the Chancellor's steer on detailed design queries including eligibility of specific businesses and proposed dates for the scheme to be in place until April 2021, with a review point in January 2020, to align with JSS. The Chancellor agreed with all recommendations on 7 October 2020 and requested a three-page policy summary bringing the key stats and narrative into one place [**BR/F/081 – INQ000609487**]. This was sent on 8 October 2020 setting out the rationale for the grant, implementation, supporting facts and a question-and-answer section [**BR/F/082 – INQ000609488**]. Private Office responded the same day, noting the Chancellor would consider the brief and was looking to announce the increased generosity of the Local Restrictions Support Grant on 9 October 2020 and flagged that BEIS would need to develop guidance quickly [**BR/F/083 – INQ000609490**]. Officials worked closely with BEIS colleagues to share developments and understand their perspectives.

122. The increase in generosity of the Local Restrictions Support Grant was announced on 9 October 2020 [**BR/F/084 – INQ000583633**] [**BR/F/085 – INQ000609914**]. HM Treasury worked with BEIS to develop guidance which was published on 1 November 2020. The guidance set out the details of the scheme as follows:

a) Cash grants for businesses increased to up to £3,000 per month with eligibility starting after two weeks of closure rather than three weeks.
b) Properties with a RV of £15,000 or under would receive grants of £667 per two weeks of closure (£1,334 per month).
c) Properties with a RV of over £15,000 and less than £51,000 would receive grants of £1,000 per two weeks of closure (£2,000 per month).
d) Properties with a RV of £51,000 or over would receive grants of £1,500 per two weeks of closure (£3,000 per month).

e) The government also extended the scheme to include businesses that had been forced to close on a national rather than a local basis.

Policy development and announcement of Local Restrictions Support Grant (Sector)

123. As outlined above, in early October 2020 when the Chancellor was considering advice to increase the Local Restrictions Support Grant (Closed), he indicated that he was minded to provide additional support to nightclubs and other sectors that had not been able to reopen following the first national lockdown [**BR/F/086 – INQ000609486**].

124. On 9 October 2020, the government announced further funding to support businesses that had been required to close on a national basis throughout the whole period since 23 March 2020 and were not able to re-open due to restrictions. This support would take the form of a grant funding scheme in financial year 2020/21 and was described as the Local Restrictions Support Grant (Sector).

125. The eligible businesses under this scheme were: nightclubs, dance halls, discotheques, sexual entertainment venues and hostess bars.

126. The scheme opened on 1 November 2020, with funding made available to all 314 LAs.

127. The guidance was published by BEIS on 3 November 2020 [**BR/F/087 – INQ000543465**]. It explained that in the event of a national lockdown the new Sector based grant would cease to apply, as relevant businesses would receive funding from the Local Restrictions Support Grant (Closed).

128. To be eligible a business had to demonstrate it was:

a) Listed as a ratepayer on the 1 November 2020.
b) Trading on 23 March 2020.

129. Businesses were able to receive the following support:

a) If a business occupied a premises appearing on the local rating list with a RV of £15,000 or under on the date of the commencement of the national restrictions, it could receive a payment of £667 per 14-day qualifying restriction period.

b) If a business occupied a premises appearing on the local rating list with a RV of over £15,000 and less than £51,000 on the date of the commencement of the national restrictions, it could receive a payment of £1,000 per 14-day qualifying restriction period.

c) If a business occupied a premises appearing on the local rating list with a RV of exactly £51,000 or above on the commencement date of the national restrictions, it could receive a payment of £1,500 per 14-day qualifying restriction period.

Policy development and announcement of Local Restrictions Support Grant (Tier 2), later renamed Local Restrictions Support Grant (Open)

130. Throughout August and September 2020, the government continued to apply local restrictions to areas with high rates of infection. As the scale of the virus rapidly increased, in October 2020 the decision was taken to impose further restrictions on a national level and on 14 October 2020, a new three-tier system of restrictions was introduced in England. This replaced the system of local lockdowns introduced in July 2020. Under this new system, areas would have different levels of restrictions on social interactions and rules on when and if businesses could operate.

131. Each area of the country was placed into one of the three tiers based on the level of Covid-19 transmission which were: Tier 1 (medium alert); Tier 2 (high alert); and Tier 3 (very high alert). Each tier came with its own set of NPIs, which affected different sectors differently depending on the tier. For example, in Tier 2, pubs and bars were required to close unless they were serving a substantial meal with drinks, whereas all hospitality was required to close in Tier 3. By way of another example, in Tier 3 people were not permitted to socialise outside their household in private gardens or most outdoor venues and could only meet in groups of six in other outdoor areas. In Tier 1 working from home was encouraged and spectator venues were limited to 50% capacity.

132. HM Treasury officials worked at pace to develop proposals for potential support for businesses impacted by the tiered restrictions, working with BEIS and MHCLG. On 16 October 2020, a submission was sent setting out considerations for additional grants for businesses that were not required or forced to close but were severely impacted due to tiered restrictions [**BR/F/088 – INQ000609492**]. The Local Restrictions Support Grant in operation at that time did not provide support to businesses that were not forced to close but were economically impacted by the restrictions in place due to the pandemic. The advice outlined that there was a £200 million budget already available to provide support

for Tier 3 areas to give to businesses, £30 million of which had already been given to Lancashire. The advice recommended allowing case-by-case Tier 3 business support funding negotiations to continue and recommended providing a lump sum for LAs subject to Tier 2 restrictions to provide business support on a discretionary basis.

133. The advice also outlined alternative options for providing grants on a consistent national basis, providing examples of the impact restrictions have had on different sectors across the country. The advice suggested grants could be introduced for Tier 2 areas, outlining that hospitality businesses in the North-East (the area which had been in effect 'Tier 2' restrictions for longest) were receiving 30-40% of pre-Covid revenues due to a combination of the national and local restrictions. Businesses in city centres and 'wet led' pubs (pubs that focused on selling drinks not food) were seeing worse still declines in income. It was outlined that providing these grants across the country would be very expensive and there would likely be pressure to extend the grants to all areas including Tier 1.

134. The advice stated that another option was, if grants were provided to businesses open in Tier 2, to extend these grants to businesses in Tier 3 which remained open but were impacted by restrictions such as hotels. For example, in Liverpool, intelligence suggested that hotel occupancy rates since the Tier 3 restrictions were announced were only 10-15% of normal. This would introduce a grant to 'open but affected' businesses, such as restaurants and hotels. The advice outlined that a decision could be made to only provide these grants to businesses in Tier 3 however this would be difficult to defend as Tier 2 businesses would also impacted by restrictions.

135. This advice also addressed businesses which were 'effectively closed' but not legally required to close, and suggested seeking No.10 formally close a narrow list of businesses which were 'effectively closed' (such as theatres). This would result in them receiving the 'up to £3,000 grant level' from 1 November 2020, which had been agreed for businesses (such as nightclubs) that were forced to close due to restrictions. This was ultimately agreed and became Local Restrictions Support Grant (Sector), addressed above.

136. The advice also highlighted some risks of additional grants for businesses such as potentially inflating rental values and poor VfM. Concerns were raised about using VOA data, for example, defining eligibility by sector, as LAs could argue it was outdated and missed eligible businesses, such as those without individual ratings assessments.

137. On 19 October 2020, following further discussions with HM Treasury officials on business grant options, the Chancellor requested further costings and indicated that he was minded to give grants to Tier 2 hospitality businesses, with additional business support funding being agreed with each Tier 3 area **[BR/F/089 – INQ000609495]**. The Chancellor was also inclined to provide grants by way of a lump sum to be distributed by the LAs In response to the Chancellor's requests, HM Treasury officials advised on different levels of grant amounts, eligibility, whether funds should be provided to LAs to deliver and business support 'top ups' for Tier 3 [**BR/F/090 – INQ000609496]**, **[BR/F/091 – INQ000609498]**, **[BR/F/092 – INQ000609497**].

138. On 21 October 2020, HM Treasury provided an updated analysis outlining the grant costing for various LAs if they were to enter Tier 2 or Tier 3 restrictions [**BR/F/093 – INQ000609506**]. This updated version had been requested with the figures which would be applicable to Greater Manchester, for which restrictions were being considered at the time. As the Chancellor wished to use the categories 'hospitality', 'hotels and Bed & Breakfasts' and 'Leisure' to determine the level of funding to LAs, HM Treasury officials sought the Chancellor's decision on how each category was to be defined [**BR/F/094 – INQ000609507**].

139. HM Treasury officials also sent a final decision record to the Chancellor on LAs and Tiering Support [**BR/F/095 – INQ000609508**]. The advice outlined the main areas of support HM Treasury was proposing to offer LAs, consolidating various advice the Chancellor had received. At this stage there were a number of LAs considered to be at a high or very high alert level in relation to further spread of Covid-19. The government was in discussions with these LAs as to how to jointly agree to imposing restrictions and considering what economic support was available to LAs.

140. This document summarised the advice in relation to the levels of support recommended for a Local Restrictions Support Grant (Tier 2), taking into account funds already allocated to LAs on a case-by-case basis and confirmed the advice that such funds should be backdated.

141. On 22 October 2020, the Local Restrictions Support Grant (Tier 2) was announced. [**BR/F/096 – INQ000609514**]. Additional funding would be provided to LAs in order for them to support businesses in Tier 2 areas which were not legally closed but were severely impacted by the restrictions on socialising. That same day a factsheet was

published setting out information relating to the Local Restrictions Support Grant (Tier 2) scheme and confirmed that additional funding would be provided to LAs in order for them to pay the grants. The guidance confirmed that the funding LAs would receive would be based on the number of hospitality, hotel, Bed & Breakfast, and leisure businesses in their area and would assume that these businesses receive grants equivalent to 70% of the grants for which legally closed businesses were eligible. This would be equivalent to:

a) For properties with an RV of £15,000 or under, grants of £934 per month.
b) For properties with an RV of between £15,000 - £51,000, grants of £1,400 per month.
c) For properties with an RV of £51,000, grants of £2,100 per month.
d) LAs would determine what precise funding to allocate to each business (the above levels were only an approximate guide).
e) LAs would also receive a 5% top up amount to these implied grant amounts to cover other businesses that might be affected by the local restrictions, but which may not be in the BR system

142. On 23 October 2020, HM Treasury formally wrote to BEIS and set out the Chancellor's decisions on additional support for non-closed businesses in Tier 2 [**BR/F/097 – INQ000609519**]. HM Treasury officials advised that BEIS would need to draft guidance for the scheme and complete a formal Accounting Officer assessment. The guidance and funds were to be sent to the LAs by 31 October 2020.

143. On 25 October 2020, BEIS responded requesting clarifications on the scheme including eligibility [**BR/F/098 – INQ000609518**]. BEIS queried the rationale behind the request within the email for "*…LA moving out of tier 2 during a 28-day period would keep any funding received for that period This gives rise to Accounting Officer concerns, on the basis that it goes against HMT's Managing Public Money principles*". BEIS noted "*…we think there are ways to manage overpayments in a way that addresses these risks while also satisfying Managing Public Money principle. We would like to reserve the right to develop and deploy these overpayment approaches.*" HM Treasury responded that they were happy to work alongside BEIS officials and set out the policy justification for not returning the funding, this included the rationale for LAs to provide businesses with funding rapidly, allowing businesses to continue to meet essential costs and avoid closure [**BR/F/097 – INQ000609519**].

144. On 28 October 2020, the Chancellor's office wrote to the SoS for BEIS confirming that the Chancellor would like to extend the scheme to LAs in Tier 3, which would provide LAs in both Tiers 2 and 3 with additional funding to enable them to make grants to businesses which could remain open but were experiencing severely reduced demand due to restrictions on socialising [**BR/F/099 – INQ000609521**]. The scheme was renamed the Local Restrictions Support Grant (Open). The provision of this grant funding to Tier 3 areas would be done according to the same formula and timescales as in Tier 2 areas. The Chancellor requested BEIS lead on the extension to the scheme and take Accounting Officer responsibility.

145. The Chancellor emphasised the importance of making urgent progress on operationalising the Local Restrictions Grant (Open) scheme given the challenges facing business in Tier 2 and 3 areas, and asked BEIS to finalise the guidance for the grant by 31 October 2020 and to send the grant determination letters on the same date.

146. On 30 October 2020, officials advised the Chancellor and Chief Secretary to the Treasury ("**CST**") on the equalities impact of the Local Restrictions Support Grant policy [**BR/F/100 – INQ000609523**]. The advice outlined the two forms of Local Restrictions Support Grant (open and closed) and made the assessment that those policies would have had a minimal equalities impact. The CST noted the equalities advice and raised no objection to the continued implementation of the scheme. As it was ultimately for LAs to make funding decisions and set precise criteria for the schemes, they would also be under an obligation to consider equalities impact in the decisions they took.

147. On 30 October 2020, in preparation for the announcement of the extension of Local Restrictions Support Grant into Tier 3 areas, HM Treasury officials collated a scheme summary and standard question-and-answer lines for use [**BR/F/101 – INQ000609522**

148. Guidance for the new grant was published by BEIS on 12 November 2020 [**BR/F/102 – INQ000543464**] and set out that a business would be eligible if it was:

a) Based in England.
b) In an area subject to Tier 2 or Tier 3 local restrictions since 1 August 2020 and was severely impacted because of the local restrictions.
c) Established before the introduction of Tier 2 or Tier 3 restrictions; and had not been required to close but was impacted by local restrictions.

149. Funding would be provided under the following conditions:

a) Businesses with a RV of £15,000 or less, would be eligible for a cash grant of up to £934 for each 28-day period.
b) Businesses which had a property with a RV over £15,000 and less than £51,000 would be eligible for a cash grant of up to £1,400 for each 28day period.
c) Businesses which had a property with a RV over of £51,000 or above would be eligible for a cash grant of up to £2,100 for each 28-day period.
d) It was recognised that LAs were likely to need to run some form of application process in order to undertake proportionate pre-payment checks to confirm eligibility relative to their local scheme and to determine how to use their discretion in relation to the appropriate level of grant.

Policy development and announcement of Additional Restrictions Grant

150. The Additional Restrictions Grant had broadly the same justification as the Local Authority Discretionary Grant Fund in Cohort One. It was a discretionary scheme designed to support businesses that were not covered by other grant schemes (for example, due to being outside the BR system). However, as a result of the learnings from some of the 'edge cases' in Cohort One and the different impact of imposing a tiered approach compared to a national lockdown, the scheme afforded a higher degree of discretion to LAs. This allowed them to use their local knowledge and data to direct funding to cases where a high degree of support was needed, but where businesses may not be eligible for other support schemes. This could include market traders and shared space users. The overarching objective was to mitigate the impact of Tier 3 (very high alert) restrictions on their economies.

151. As set out above, on 21 October 2020, HM Treasury officials provided a submission to the Chancellor on LAs and Tiering support, [**BR/F/095 – INQ000609508**]. This was during a period where several LAs were considering further lockdowns to prevent the spread of the pandemic. The advice outlined that the Covid Taskforce had been provided with £200 million to negotiate bespoke deals with LAs entering Tier 3 which had been used for a number of LAs already to provide discretionary funding. As the number of LAs entering lockdown was greater than anticipated there was a need to ensure consistency in approach as well as to increase the discretionary funding available beyond the £200 million cap. The advice recommended that there was a need for a "*...robust and clear nationwide approach*" and that these negotiations should be

replaced with a £20-per-head lump sum to be used at the LA's discretion. It was outlined that this would cost approximately £1.125 billion nationally, excluding Barnett. It was recommended that payments be made for a 6-month period, or the end of financial year, whichever was sooner.

152. Following discussions between MHCLG, BEIS and HM Treasury officials, on 31 October 2020, the details of the scheme were agreed as follows [**BR/F/103 – INQ000609525**]:

a) LAs were to receive a one-off payment of £20-per-head of population upon first classification of Tier 3.
b) Distribution of the funds would follow from Covid-O[4] decisions to move areas into the Tier 3 level, subject to agreement by the department with Accounting Officer responsibility, and advised by MHCLG and BEIS.
c) LAs could use Additional Restrictions Grant for a range of activities such as providing direct support to businesses and wider measures to support businesses, so long as these contribute to the overarching aim of mitigating the impact of Tier 3 restrictions on their businesses – including supporting business recovery. The funding was intended for support for local businesses, not to provide welfare support to individuals e.g. topping up national schemes like JSS.
d) The arrangements would be reviewed by 31 January 2021.

153. BEIS confirmed they would take Accounting Officer responsibility for the Additional Restrictions Grant Scheme on the basis of the policy outlined above, subject to the Chancellor's agreement that the guidance would be drafted to clearly limit any expenditure of the grant on anything outside direct grants or closely related business support.

154. The Additional Restrictions Grant Scheme was announced on 31 October 2020. Guidance on the Additional Restrictions Grant was published on 3 November 2020.

155. As this was a discretionary fund, LAs could determine how much funding to provide to businesses, and exactly which businesses to target. LAs were however encouraged in the guidance to develop discretionary grant schemes to help those businesses which – while not legally forced to close – were nonetheless severely impacted by the

[4] Covid (Operations) was a decision-making body supporting the coordination of the cross-government and the devolution aspects of the response to Covid 19.

restrictions. This could include retail, hospitality, leisure or the events sector. LAs could also choose to help businesses outside the BR system, for example market traders.

156. In taking decisions on the appropriate level of grant, LAs were invited to take into account the level of fixed costs faced by the business, number of employees, whether they could trade online and the scale of Covid-19 losses.

157. Advice was sent to the CST's office on 5 November 2020 on a Contingencies Fund advance of £2.23 billion to enable cash payments to LAs so they could pay out grants. CST is the HM Treasury minister responsible for setting Departmental spending allocations and providing budget cover. In order to ensure the Contingencies Fund is repaid (which is requirement for use of the Fund) the CST and the Chancellor must agree that additional budget cover will be provided at the next available estimate. This process allows departments to spend above their existing budgetary limits in emergencies. During this period, due to the scale of spending on the grants, the Chancellor made the majority of the key decisions about scale and eligibility. CST made some smaller ancillary decisions, including on the exact amount of funding to be approved for LAs. [**BR/F/104 – INQ000609542**]. At this point, this included:

a) £1.13 billion for the Additional Restrictions Grant.
b) £1.05 billion for Local Restrictions Support Grant (Closed) to cover the month of national lockdown.
c) £126 million for Local Restrictions Support Grant (Open).

158. The advice detailed that the first source of funding for these schemes should be the underspend from the earlier grants funding which totalled £740 million. However, as the money was still with LAs and would not be returned until December 2020, BEIS requested a cash advance for the full £2.23 billion. The Chancellor was keen that the money reached LAs as soon as possible so that payments could be made to those businesses in need. The CST agreed to the approach on the same day.

Further Policy Development of Cohort Two grant schemes

159. On 31 October 2020, in light of the forthcoming second national lockdown, the Chancellor commissioned HM Treasury to prepare further advice on options for increasing the generosity of the grants for businesses forced to close due to concerns that the proposed funding did not go far enough [**BR/F/105 – INQ000609526**].

160. Advice was sent to the Chancellor on 1 November 2020 recommending that he should not extend the eligibility or generosity of the Local Restrictions Grant Scheme (Closed) [**BR/F/106 – INQ000609528**]. Officials noted the following:

a) Whilst the number of businesses estimated to benefit from the closed scheme was less than those who had received funding in March 2020, this difference was likely driven by small businesses in receipt of SBBR who were able to operate remotely (such as small marketing firms and accountants), many of which would also benefit from the SEISS.
b) Retail businesses who would not be entitled to receive this funding would remain open, with many likely to see increased demand.
c) The £1.1 billion Additional Restrictions Grant funding provided to LAs was double the amount within the previous discretionary scheme in Cohort One. LAs could use this to address other hard cases not captured by the scheme.
d) Whilst the new grant amounts were lower than the March 2020 levels:
    i. They were on a monthly basis as opposed to the previous funding.
    ii. The levels provided 100% of rents for the businesses with the lowest RVs, 60% of rents for businesses with RVs between £15,000 and £51,000 and whilst they covered less than half of the rent for businesses above £51,000, these businesses did not receive any funding previously.

161. This advice also referenced other business support schemes which could be extended or adjusted to provide further assistance including extending the MHCLG ban on evictions and potentially exploring a national scheme to provide grants to business premises for the purpose of funding better ventilation systems to control the virus spread.

162. On 2 November 2020, the Chancellor agreed with the advice not to go further and to keep the existing generosity for the Local Restrictions Support Grant (Closed) [**BR/F/107 – INQ000609530**].

163. That same day, HM Treasury urged BEIS to publish the guidance and grant letters for Local Restrictions Support Grant (Closed) and Additional Restrictions Grant to LAs before new restrictions came into force [**BR/F/108 – INQ000609533**]. The following day, BEIS confirmed they were aiming to send the letters out by 5 November 2020, and guaranteed they would publish guidance that day, attend a live stream with

approximately 600 LA representatives to set out the support offered and provide a question-and-answer session and publish a summary table the following day setting out allocations for each LA [**BR/F/109 – INQ000609539]**, **[BR/F/110 – INQ000609760**].

164. On 3 November 2020, BEIS requested permission to avoid the process of 'netting off,' which involved deducting the amount of one grant from another where there was overlapping eligibility [**BR/F/111 – INQ000609536**]. This was specifically relevant for the Local Restrictions Support Grant (Closed) and Local Restrictions Support Grant (Open) in Tier 3 areas in October 2020, and removal of netting off would expedite backdated funding to LAs. HM Treasury officials recommended agreeing to this approach for these two schemes only, while requiring netting off for any other scenarios involving reintroduced local restrictions after the national lockdown. The Chancellor agreed with this approach.

165. On 5 November 2020, the second national lockdown was announced. Non-essential retail was legally required to close from 5 November until 2 December 2020. As a result, LAs were provided with a one-off payment for Additional Restrictions Grant (with the exception of LAs who had already received an Additional Restrictions Grant as a result of entering Tier 3 local restrictions). This was on top of support that would continue on a monthly basis through the Local Restrictions Support Grant (for both open and closed businesses).

Local Restrictions Support Grant (Closed) Addendum: Tier 4

166. As mentioned above, on 5 November 2020 a second national lockdown came into force in England for four weeks, ending on 2 December 2020. During this period, businesses were entitled to support under the Additional Restrictions Grant and Local Restrictions Support Grant (Closed).

167. HM Treasury continued to work with other government departments and the Covid Taskforce to forecast the likely impact of restrictions when the lockdown was lifted to consider options for further economic support measures [**BR/F/112 – INQ000609545**] [**BR/F/113 – INQ000609785**] [**BR/F/114 – INQ000609787**] [**BR/F/115 – INQ000609786**]. Proposals for the regime after national lockdown included a tightening of Tiers 1 to 3 or the introduction of a new Tier 4 for areas with particularly high rates of infection [**BR/F/116 – INQ000609547**].

168. On 12 November 2020 officials sent advice to the Chancellor on the Covid strategy for December and return to tiering [**BR/F/117 – INQ000113689**]. The recommendation was to support a return to tiering once the lockdown ended (from 3 December 2020) built on principles of durability and certainty for businesses, with a clear rationale for progression between tiers to maximise compliance. As discussions on a potential Tier 4 progressed, HM Treasury reviewed economic support and LA funding to prepare advice for the Chancellor for decision on whether additional funding would be required.

169. On 17 December 2020, officials advised the Chancellor on additional support options, particularly for larger hospitality and leisure businesses which were facing months of disruption or closures as a result of being in Tier 2 or Tier 3 [**BR/F/118 – INQ000609194**]. Officials recommended that legislative rent reform was the best way to support the sector, however if business grant support was preferred then options would be provided on potential mechanisms. This included increasing grants to cover rent, fixed costs or the creation of a new discretionary scheme to top up the Additional Restrictions Grant.

170. As the end of the lockdown approached, the Prime Minister published his Covid Winter Plan confirming England would return to local tiers. Shops, gyms, personal care and leisure were to reopen, but the tiers would be toughened in some areas to ensure testing and vaccines could have maximum impact. Tiering allocations would be reviewed every 14 days.

171. On 18 December 2020, advice was sent to the Chancellor on possible measures to go further on support, with strategic decisions the Chancellor needed to consider on the substance of Tier 4. Officials noted that LAs that went into Tier 3 in October 2020 had received £30-per-head under the Additional Restrictions Grant and were eligible for the Local Restrictions Support Grant. It was likely the Chancellor would come under pressure to provide additional funding in Tier 4 which would be very expensive if swiftly followed by national lockdown.

172. The following day, on 19 December 2020, the Prime Minister announced that tougher restrictions would be imposed on some areas, with a new Tier 4 “stay at home” alert level added to the Tier based system. The Tier 4 restrictions came into force for London and the South-East on 21 December 2020, with a number of other areas moving into Tier 4 from 26 December 2020.

173. Having considered the measures in detail, and advice from officials, the Chancellor remained of the view the existing economic support package was sufficiently wide [**BR/F/119 – INQ000609566**]. Tier 4 was expected to have the same characteristics as the November national lockdown. On that basis, HM Treasury did not consider there was a case to increase funding for Tier 4 areas [**BR/F/120 – INQ000609567**].

174. It was however necessary to amend the scheme to ensure it reflected the new national measures. The Local Restrictions Support Grant (Closed) Addendum Tier 4 was introduced on 12 November 2020 (ending on 4 January 2021 when the third national lockdown was imposed). This was an extension of the Local Restrictions Support Grant (Closed) scheme, aimed at businesses that remained closed and subject to Tier 4 restrictions including non-essential retain, leisure, personal care, sports facilities and hospitality.

175. The details of the Tier 4 grant scheme were largely unchanged from the earlier Local Restrictions Support Grant (Closed), including the grant amount, eligibility, payment details and grant conditions. As with the previous iteration of the scheme, grant funding would be paid to businesses on a rolling 14-day basis for as long as Tier 4 restrictions applied. To be eligible businesses were required to be either:

a) In an area of local Tier 2 or Tier 3 restrictions and required to close because of local restrictions that resulted in a first full day of closure on or after 9 September 2020.
b) In an area of local Tier 4 restrictions and required to close because of local restrictions that resulted in a first full day of closure on or after 19 December 2020.

176. Guidance for the addendum was published by BEIS on 12 November 2020 [**BR/F/121 – INQ000609846**] confirming that LAs were responsible for the delivery of the funds and had discretion to determine which businesses received a grant. Each eligible LA was issued funding allocations calculated using VOA data (based on the categories of business relevant to the closures imposed by government). LAs monitored funding using their DELTA reporting system (an online system developed by MHCLG to streamline its processes and systems for collecting statistical data and grant administration). Each LA therefore had an allocation based on a consistent approach that reflected the businesses closed by national restrictions. If the allocation proved insufficient for all eligible businesses, top-up funding was provided.

Christmas Support Payment for wet-led Pubs

177. On 25 November 2020, following a Covid-O meeting to discuss the Prime Minister's upcoming announcement on the exit from the second lockdown and allocation of regions of the UK to different tiers, HM Treasury sent an update to the Chancellor on the existing support in place, and likely economic impact of this change [**BR/F/122 – INQ000609552**]. HM Treasury's broad view was that the short-term economic impact would be worse than originally anticipated by the Office for Budget Responsibility ("**OBR**"), but this could be short lived depending on decisions taken at the proposed review point mid-December. The hospitality industry would be hit particularly hard with "wet" pubs (a pub which didn't serve food and relied entirely on the sale of drinks for its business) or "wet-led" pubs (a pub which generated the majority of its income from the sale of drinks rather than food) likely closed nearly everywhere in England (Tier 2 and 3) and all hospitality closed in Tier 3.

178. On 29 November 2020, HM Treasury officials were asked for information on the support already available to the hospitality sector and wet pubs in particular, and options for further support for the sector [**BR/F/123 – INQ000609553**]. Options that were being considered included 'bespoke' financial support for December, recognising the importance of the month and the run up to Christmas for the sector. HM Treasury officials were working closely with BEIS colleagues throughout this period to design the schemes.

179. On 1 December 2020, HM Treasury advised the Chancellor by email on options for a CSP for pubs [**BR/F/124 – INQ000609555**]. The advice considered how to define the eligibility of the grant, whether the grant should be available to all pubs, or only wet or wet-led pubs, whether payment was based on a tiered structure in relation to rateable value or a flat payment of £1,000, whether pubs in Tier 1 received the grant, the legal and fiscal risks, and the equality impacts. Due to potential difficulties defining 'wet-led' pubs, the advice recommended that the scheme should either be available for all pubs, or only wet pubs.

180. The Chancellor reviewed the advice and decided the grant should also cover wet-led pubs, being those who make the majority of their turnover from alcohol sales rather than food. The focus was to target wet-led pubs subject to restrictions in tiers which only

allowed alcohol to be served with food, therefore wet-led pubs were more affected by this than food led pubs.

181. Under the scheme, LAs would receive a one-off payment of £1,000 per wet-led pub in each eligible LA where Tier 2 or Tier 3 restrictions were imposed, aimed at those severely impacted over the Christmas period. LAs were able to use their discretion to determine whether businesses met the eligibility criteria for the grant scheme. Funding was allocated to LAs for distribution and eligible businesses applied to their LAs for the grant. As part of their application process for the scheme, all pubs were required to self-certify that they met the eligibility criteria which were determined by the LAs.

182. On 1 December 2020, the Prime Minister announced the reintroduction of the tier system from 2 December 2020 (and the end of national lockdown), and additional support measures including the Christmas Support Payment ("**CSP**"). Following this announcement, No.10 asked for further advice from BEIS and HM Treasury on hospitality sector support.

183. This advice was provided on 3 December 2021, setting out issues to consider and responses to the specific questions No.10 had raised [**BR/F/125 – INQ000609828**]. This included the number, characteristics and impact pub closures could have on communities:

a) It was expected that 40% of pubs, bars and clubs faced severe challenges in repaying their pre-Covid debt by March 2020. These were therefore the most vulnerable to closures, insolvencies and job losses, and employ approximately 127,000 people (25% of the sector's employees). Pubs and bars were at greater risk of insolvency than restaurants because they faced stricter restrictions – i.e. a 10pm curfew and alcohol with a substantial meal. Wet-led and independent or tenanted pubs were most likely to be at risk due to Tier 2 and 3 restrictions.

b) As well as the social element which played an important role within communities, large numbers of insolvencies would negatively impact local communities and result in disproportionate job losses for some groups – over 4 times as many young people were employed in pubs, bars and clubs than the average across the economy. 53% of employees in the pub sector are between 16 and 24, with a further 20% between 24-34. Allowing a significant number of these people to become unemployed would further widen the generation wealth gap.

c) Analysis suggested there were an estimated 16,457 wet led pubs based in the current English Tier 3 regions, all of which were closed. This equated to 43% of all wet led pubs in England. There were also 21,000 wet led pubs closed in Tier 2 regions.

d) Wet-led pubs in Tier 2 regions were estimated to operate significantly below capacity with December 2020 turnover being 85% less than usual December takings. The decline in revenues put some of the 278,000 workers employed by those businesses, at risk.

184. On 3 December 2020, HM Treasury officials wrote to BEIS formally setting out the details of the CSP [**BR/F/126 – INQ000609556**]. The Chancellor requested BEIS lead the scheme with Accounting Officer responsibility and emphasised the importance of transferring necessary funding to LAs as quickly as possible. BEIS agreed to take on the responsibility for the grant and in order to ensure funds were distributed quickly, confirmed their intention to instruct LAs to request pubs to self-certify that they derive less than 50% of sales from food, using accounting evidence [**BR/F/127 – INQ000609560**]. This would be followed up by sampling of a random set of applicants as part of the monitoring and evaluation of the grants.

185. Funding for the grant applied from 2 December 2020 to 29 December 2020 for England only, and the guidance published on 11 December 2020.

Business Support Package for January Lockdown

186. On 3 January 2021, in advance of the announcement of the third national lockdown (which came into force on 6 January 2021), the Chancellor requested a meeting with officials and commissioned advice on increased generosity, discretionary top ups and additional funding for 'wet led' pubs [**BR/F/128 – INQ000609568**]. On 4 January 2021 officials sent a summary of the existing support available to businesses in Tiers 1-4 and advice on business grant options [**BR/F/129 – INQ000609619**].

187. The advice provided the following range of options and set out the benefits and disadvantages of each:

a) One-off top up equivalent to doubling grants for three months:

i. *Benefits*: a large pot of additional funding to businesses (£4.5 billion, including the discretionary pot) and reduced risk of having to continue payments from April-onwards.

ii. *Negatives*: Very expensive, anticipated pressure from the hospitality sector and more payments for LAs to manage.

b) One-off top up equivalent to doubling grants for three months, but with a higher middle category:

i. Benefits and negatives noted to be the same as above

c) Increasing grant levels but with regular payments on same basis as previous grants:

i. *Benefits*: easier to explain, more upside fiscal benefit and slightly fewer payments for LAs to administer.

ii. *Negatives*: expensive, tied into to the level of support whilst businesses are closed and pressures to increase open businesses grant levels to the equivalent.

188. The advice also discussed discretionary fund options and whether to allocate funding per-head or per-business. Officials recommended funding to be allocated per-business. Equalities were also considered, with officials assessing a minimal equalities impact on the policies.

189. Officials met with the Chancellor later that day to discuss the options [**BR/F/130 – INQ000609195**]. On the same day, a formal readout was provided confirming the Chancellor wanted to pursue the option of a one-off top-up equivalent to doubling the value of grants for three months for all closed businesses worth up to £9,000 per property and extending the existing Local Restriction Support Grant grants [**BR/F/131 INQ000609569**] [**BR/F/132 – INQ000609571**]. This would be known as the Closed Businesses Lockdown Payment. The Chancellor also intended to announce another £500 million for the Additional Restrictions Grant.

190. HM Treasury prepared policy detail factsheets on the new measures [**BR/F/133 – INQ000609196**]. Three schemes were introduced which formed part of an overall "Business Support Package for January Lockdown" to support businesses in the third national lockdown. These were:

a) The Local Restrictions Support Grant (Closed) Addendum: 5 January onwards (an extension of the Local Restrictions Support Grant) (Closed) which was adapted due to the national lockdown);
b) The Closed Businesses Lockdown Payment; and,
c) A top up to the Additional Restrictions Grant.

191. On 5 January 2021, the details of the further support were sent to BEIS with a request that they lead on the delivery [**BR/F/134 – INQ000609570**]. The importance of transferring funds for the additional support to LAs as quickly as possible was highlighted and revised guidance was requested to be published by 14 January 2021. The Chancellor also requested that six weeks of Local Restrictions Support Grant (Closed) payments were made to LAs up front for them to make these payments to all businesses that were closed, alongside the new one-off Closed Businesses Lockdown Payment. This was in order to ease delivery for BEIS and LAs as the national lockdown was anticipated to last for at least 6 weeks, as set out in the Prime Minister's statement [**BR/F/135 – INQ000609569**].

192. On 6 January 2021, SoS for BEIS wrote to the Chancellor outlining concerns that the number of different schemes could be considered too complex and risk delivery and therefore he suggested that further payments be made through existing schemes in the future [**BR/F/136 – INQ000543611**].

193. On 11 January 2021, BEIS confirmed they were happy to take responsibility for the new grants but noted the SoS felt additional funds should be provided to LAs who would otherwise receive a relatively low allocation due to having a low resident population and high business population [**BR/F/137 – INQ000609147**]. This was put to the Chancellor by HM Treasury officials who confirmed he did not want to top up the Additional Restrictions Grant allocations beyond what he had originally agreed or make any changes.

194. As with all other schemes, guidance was provided to LAs and published on 21 January 2021 [**BR/F/138 – INQ000609912**]. The eligibility criteria for the Local Restrictions Support Grant (closed) Addendum: 5 January onwards, was broadly the same as the Local Restrictions Support Grant (closed) Scheme. While the original scheme was tied to local restrictions, the Addendum applied to all eligible businesses as a result of the national lockdown. Under the Addendum, grants were calculated on a 42-day payment cycle for the lockdown period as opposed to a 14-day cycle used previously. In addition,

eligible businesses were also able to receive a one-off Closed Businesses Lockdown Payment which had not formed part of earlier support schemes.

195. On 20 January 2021, BEIS reported receiving "*...patchy, incomplete data*" from LAs regarding their business grant scheme allocations, indicating poor performance. [**BR/F/139 – INQ000609583**]. LAs struggled to deliver grants as quickly as the initial schemes due to the volume of grants, the tiering system before the national lockdown, and complex eligibility criteria across different periods. BEIS noted that despite multiple guidance documents, the eligibility criteria remained consistent and should not have hindered grant distribution.

196. By the date of closure of all the Cohort Two Schemes, 3 million grants had been administered totalling £7.4 billion.

Cohort Three

197. Cohort Three grants were introduced in April 2021 to support businesses in reopening safely as Covid-19 restrictions were eased in line with the government roadmap for lifting the lockdown (published on 22 February 2021). By 29 March 2021 the "stay at home" order had ended but people were still encouraged to stay local and outdoor gatherings were limited to groups of six, meaning there remained an impact on businesses despite them being permitted to open. These grants replaced the Local Restrictions Support Grant (closed, sector and open) and Additional Restrictions Grant available over the preceding winter.

198. The schemes in this Cohort were:

Scheme	Application open and closing date	Eligibility and amount per business	Amount of support distributed[5]
Restart Grant	1 April 2021 until 30 June 2021	Up to £6,000 for non-essential retail premises and £18,000 for hospitality,	396,000 grants totalling £3 billion

[5] Figures taken from Ipsos Evaluation, *Evaluation of the Local Authority COVID-19 Business Support Grant Schemes, Final Report*, Available at: Evaluation of the Local Authority COVID-19 Business Support Grant Schemes

Scheme	Application open and closing date	Eligibility and amount per business	Amount of support distributed[5]
		accommodation, leisure, personal care, and gym businesses.	
Omicron Hospitality and Leisure Grant	30 December 2021 until 31 March 2022	Up to £6,000 to businesses offering in-person services from fixed rate-paying premises in the hospitality, leisure, and accommodation sectors.	134,600 grants totalling £456m.

Replacement of Local Restrictions Support Grant with Restart Grant

199. On 5 February 2021, advice was sent to the Chancellor on options for LA delivered Covid-19 business grants beyond March 2021 noting there was likely to be pressure to announce the next phase of business grants alongside the publication of the government's roadmap out of lockdown [**BR/F/140 – INQ000609177**]. The Cabinet Office Covid Taskforce were developing scenarios for reopening, with a final relaxation of restrictions planned for between May and September 2021. Costings were uncertain until the final roadmap was agreed, but HM Treasury saw the key decision for the next phase was whether to continue with the Local Restrictions Support Grant or to replace it with a different scheme. While there was a clear cost benefit from the Local Restrictions Support Grant – which naturally tapered in cost as NPIs were lifted – it had a less distinct end point and was administratively burdensome. If support was needed, a one-off grant had a presentational benefit of announcing a significant cash figure and could support an exit from grants in the medium-term. The Chancellor also needed to consider the level of grant generosity and was provided with costings for three options comparing a mix of either up-front and monthly payments, or only an up-front/one-off payment.

200. On 9 February 2021, the Chancellors office confirmed the steer towards an up-front payment, described as a 'restart grant,' calibrated to where businesses ended up on the

exit roadmap with the payment for the equivalent of approximately three months on top of what the roadmap scenarios assumed [**BR/F/141 – INQ000609598**]. If non-essential retail reopened, it would drastically curb the cost of the scheme so it could be more generous per business. Follow up advice was requested including costings which were provided on 10 February 2021. The advice also suggested engaging with BEIS Accounting Officer prior to the announcement of the scheme at Budget **BR/F/132** – **INQ000609198**].

201. Following a meeting on 15 February 2021, the Chancellor confirmed he was minded to close the Local Restrictions Support Grant at the end of March 2021 and replace it with the Restart Grant which would maintain the current level of support received through the Local Restrictions Support Grant and the Business Support Package for January Lockdown (£8,000 - £18,000 grants as a single one-off payment) for eligible businesses [**BR/F/143 – INQ000609602**]. The Chancellor was also content for LAs to consolidate remaining Local Restrictions Support Grant payments into a single payment covering the period from 15 February 2021 to the end of March 2021. Final decisions were subject to any changes to the government's roadmap and final advice on equalities.

202. On 17 February 2021, officials sent a submission to the Chancellor on fall-back options for this grant in the event non-essential retail (**"NER"**) remained closed into April 2021 [**BR/F/144 – INQ000609199**]. The advice recommended continuing to launch the Restart Grant but excluding NER businesses if they were open in April 2021. The advice outlined that if NER were to remain closed in April then the support through Local Restrictions Support Grant could be extended for one month before launching the Restart Grant the following month, outlining that if the Restart Grant commenced earlier but did not include NER in circumstances where they remained closed it would be difficult to justify. Another option explored in the advice was topping up Additional Restrictions Grant, which the Chancellor had indicated he wanted to continue alongside the Restart Grant, providing costings depending on whether NER was open or closed in April of £320m and £425m respectively (excluding Barnett). The advice recommended a three-month limit on this increased discretionary fund.

203. The Chancellor agreed and reiterated his decisions of 15 February 2021 that the Local Restrictions Support Grant end at the end of March and be replaced with the Restart Grants [**BR/F/145 – INQ000609605]**. The Restart Grant levels would be calibrated to reflect the anticipated opening of different sectors within the roadmap with hospitality, leisure, personal care and gyms receiving a grant of up to £18,000 and NER receiving

up to £6,000. The Chancellor also agreed to topping up the Additional Restrictions Grant in line with the recommended figures on the basis that NER remain closed in April.

204. A briefing was provided on 22 February 2021 in advance of the Chancellor's announcement of the scheme, setting out the agreed policy for Restart Grant and confirming delivery by LAs, who would receive funding for the grants in April 2021 and were expected to make payments to businesses as soon as possible [**BR/F/146 – INQ000609611], [BR/F/147 – INQ000609610**]. In addition to the Restart Grant, LAs in England were to receive a top-up of £425 million to the Additional Restrictions Grant to be allocated to LAs once they had spent their existing allocation. The Chancellor reviewed the advice and confirmed he had noted the equalities impact. On 28 February 2021, the Chancellor announced the Restart Grant as part of the Spring Budget 2021 [**BR/F/148 – INQ000609615**]. Early feedback from business representatives was positive, although it was noted some businesses were still struggling to access existing support.

205. The third national lockdown ended on 8 March 2021 and restrictions were eased in accordance with the government's roadmap.

206. On 10 March 2021, HM Treasury senior officials wrote to the SoS for BEIS to officially confirm the introduction of the Restart Grant [**BR/F/149 – INQ000609618**]. HM Treasury acknowledged that the existing Local Restrictions Support Grant schemes had been complicated to administer as they were tied to specific NPIs and restrictions. As such the Chancellor had decided to replace them with the one-off Restart Grant which it was hoped would be simpler for LAs. As with previous grants, the Chancellor asked BEIS to lead on the delivery of the scheme and to take on Accounting Officer responsibility. BEIS were also asked to work on guidance at pace, to be published no later than the following week.

207. The guidance for the Restart Grant was published on 17 March 2021 [**BR/F/150 – INQ000609620**]. The guidance is provided in full at [**BR/F/151 – INQ000543737**].

208. On 1 April 2021, the Restart Grant opened for applications. To be eligible for the grant, businesses needed to be based in England, in the non-essential retail, hospitality, accommodation, leisure, personal care or gym sectors; the ratepayer in respect of the property and trading on 1 April 2021.

209. Eligible businesses were paid:

a) One-off grant of up to £6,000 in the non-essential retail sector.
b) One-off grant of up to £18,000 in the hospitality, accommodation, leisure, personal care and gym sectors.

210. The application closure date for the scheme was set at 30 June 2021, with final payments to be made by 31 July 2021.

Adjustments to Restart Grant and Additional Restrictions Grants

211. On 11 May 2021, HM Treasury officials provided advice to the Chancellor on potential options for Covid economic support over the summer [**BR/F/152 – INQ000609651**]. The current situation was that the roadmap was progressing as expected and on target over the course of the summer. However, there were risks that a variant of concern could lead to local lockdowns. It was expected the UK would move through to step 4 of the roadmap by June, but the following scenarios were considered in the advice:

a) *Upside*: Proceed to Step 4 with only very baseline NPIs <u>*and*</u> do not have to subsequently reintroduce restrictions. Within the advice it was HM Treasury officials' assumption that in that scenario the objective would be to facilitate reallocation while supporting those particular sectors that continued to face economic impacts. They suggested highly targeted (sectoral) support to address sectors or locations at greatest risk of prolonged demand shortfalls after restrictions were eased.
b) *Downside: Proceed to Step 4 with only very baseline NPIs but then reintroduce restrictions over the autumn and winter. Officials' assumption in that scenario was to foc*us support on firms/sectors most immediately impacted by ongoing/further restrictions and, in so doing, look to minimise scarring and the expected rise in unemployment. They suggested sector-specific packages for remaining "hard case" sectors.
c) *Worst-case*: An outbreak of a variant of concern with substantial immune escape leads to imposition of local lockdown restrictions (failure to contain leading to national restrictions). Officials considered the worst case i.e. an outbreak of a dangerous variant and envisaged having to put in place restrictions, likely at a local/regional level. The scope and scale of restrictions were unclear at that time

however, it would likely be on the more severe end of NPIs (i.e. involving business closures).

212. Further work and advice on a worst-case scenario work up was to take place.

213. On 18 May 2021, Private Office confirmed in a readout that the Chancellor was interested in HM Treasury officials' initial thoughts on options to focus support on the sectors that have been hardest hit in the upside scenario, noting it was in part sector specific but also reflected the uneven nature of recovery [**BR/F/153 – INQ000609629**]. The Chancellor would consider the initial thoughts in light of the sector analysis that was underway.

214. As the government moved towards Step 4 in the roadmap, with a potential easing of restrictions planned for 21 June 2021, a package of proposals was developed for the Chancellor to consider in advance of meetings with the PM.

215. On 14 June 2021, advice was sent to the Chancellor on next steps on grants [**BR/F/154 – INQ000609640**]. Officials noted the Chancellor was reluctant to extend support schemes beyond what was announced in the Spring Budget, relying on the remaining discretionary Additional Restrictions Grant funds. As of 10 June 2021, 62% of the Additional Restrictions Grant allocation was spent, leaving about £800 million. Officials recommended maximising the remaining funds by updating BEIS's Additional Restrictions Grant guidance and extending distribution time to the end of July 2021. LAs had flexibility to deliver Additional Restrictions Grant based on local needs, with guidance listing businesses outside the core grant scope but being non-directive. The proposal was to update guidance to prioritise problem businesses, like nightclubs and travel agents, and clarify that businesses funded under the Restart Grant were still eligible for Additional Restrictions Grant.

216. On 15 June 2021 the Chancellor agreed with the recommendations [**BR/F/155 – INQ000609641**].

Cessation of Restart Grant support

217. On 30 June 2021, the Restart Grant closed for applications, as initially planned. By the date of closure 396,000 grants had been administered totalling £3 billion.

218. On 27 July 2021, advice was provided to the Chancellor on contingency planning for economic support, focusing on the end of September transition point where much of the wider economic support was due to end [**BR/F/156 – INQ000611620**]. The advice set out the risks and options in different economic scenarios which also included business support. The advice considered the risks of increasing insolvencies, disruption due to sickness and self-isolation, international travel and the automotive industry, but did not recommend further direct business support for primarily domestic-based sectors.

219. HM Treasury officials in their advice, considered the options for support if businesses were forced to close again in future due to restrictions. They recommended consideration be given to assisting businesses in the most affected sectors with their fixed costs. Officials recommended that if that situation arose a further LA grant scheme could be introduced which could either be targeted at specific sectors, discretionary, or a combination of both. Generosity was also considered alongside the importance of timely delivery from LAs. Officials noted the option of returning BRR to 100% (in England) for retail, hospitality and leisure, and/or removing the cost cap. This would reverse the move to 66% relief and the introduction of the cost cap from 1 July 2021. It would require LAs to reissue bills, and likely prompt calls for backdating of the enhanced relief. Therefore, it was unlikely to be attractive absent widespread business closures. In the event no further restrictions were introduced until towards the end of the year.

Omicron Hospitality and Leisure Grant

220. On 8 December 2021, the Prime Minister announced additional NPI measures following the rise of the Omicron variant of Covid-19. The situation moved quickly, and HM Treasury began developing contingency plans for further economic support in the event of further restrictions [**BR/F/157 – INQ000609682**].

221. On 10 December 2021, the British Chambers of Commerce wrote to the Chancellor setting out the need for support for businesses in response to the Omicron variant [**BR/F/158 – INQ000609684] [BR/F/159 – INQ000609683**].

222. On the same day, following discussions at COBR(M), HM Treasury were commissioned by the Prime Minister to work with the DAs on options to respond to the economic impact

of the spread of the Omicron variant, coupled with the financial implications of the current (and proposed) restrictions [**BR/F/160 – INQ000286693**].

223. On 13 December 2021, HM Treasury provided the Chancellor with modelling scenarios for Omicron including the impact of further restrictions and preliminary analyses of options for economic support [**BR/F/161 – INQ000113780**]. At this stage, the UK Health Security Agency suggested Omicron would make up over 50% of Covid-19 cases by 14 December 2021 and the total cases were rising with the 7-day rolling average standing at 44,281 in England, up 9% from 10 days earlier.

224. On 16 December 2021, the Chancellor and SoS for BEIS chaired a roundtable with the hospitality sector to listen to their concerns on the impact of the new wave of Covid-19 [**BR/F/162 – INQ000609686**]. It was anticipated that further support would be requested. HM Treasury officials also met with Confederation of British Industry who explained they were keen for messaging to be balanced to manage the impact on business [**BR/F/163 – INQ000609687**].

225. Following a meeting with the Prime Minister on 18 December 2021, there was an acknowledgment that further support to the hospitality sector could be required [**BR/F/164 – INQ000609691] [BR/F/165 – INQ000184558**] and on 20 December 2021, a final decision record was prepared setting out a new package to support businesses in the hospitality and leisure sectors, that were closed or severely impacted by new NPI restrictions [**BR/F/166 – INQ000609694] [BR/F/167 – INQ000609695**]. On 21 December 2021, the Chancellor announced grants to the hospitality, leisure and accommodation sectors affected by Omicron (known as the Omicron Hospitality and Leisure Grant scheme and a further top-up to the Additional Restrictions Grant fund [**BR/F/168 – INQ000609697**]. Many Covid-19 support schemes had ended by the end of 2021 and a new grant was therefore necessary [**BR/F/169 – INQ000609696**]. The amount of support was as follows:

a) £2,667 for hospitality, leisure and accommodation businesses with a RV of £15,000 or less.
b) £4,000 for hospitality, leisure and accommodation businesses with a RV between £15,001 and £51,000.
c) £6,000 for hospitality, leisure and accommodation businesses with a RV over £51,000.

226. HM Treasury requested that BEIS draft guidance and make payments to LAs. Funds were distributed by LAs, who were required to run an application process for all applicants and be satisfied that businesses met the eligibility criteria. This was a significant development to the process under Cohorts One and Two which did not have a mandatory application process (albeit in Cohort Two LAs had the discretion to introduce an application process), and as discussed below, it reduced the level of fraud and error to a significant extent.

227. On 17 January 2022, in response to a request by the Chancellor, HM Treasury arranged for further guidance to be provided to LAs to clarify that they should use their discretion on whether second homes / holiday lets were genuinely eligible and there was not requirement to automatically pay grants out [**BR/F/170 – INQ000609171**].

228. On 19 January 2022, the SoS for BEIS confirmed that they would work on updating the guidance and provided a copy of the FAQs which had been shared with the LAs [**BR/F/171 – INQ000609700] [BR/F/172 – INQ000543808**].

229. The guidance on both the Additional Restrictions Grant and Omicron Hospitality and Leisure Grant schemes were updated by BEIS, published on gov.uk and circulated to the LAs on 20 January 2022 and shared with HM Treasury on 21 January 2022 [**BR/F/173 – INQ000609701**].

230. On 31 March 2022 the Omicron Hospitality and Leisure Grant scheme and Additional Restrictions Grant schemes closed.

New Burdens Funding

231. New Burdens Funding was provided to LAs in relation to the provision of the Business Support Grants. This is a long-established principle that when central government asks LAs to take on new responsibilities, they also fund LA administrative costs associated with the task, including new staff costs. Throughout the implementation of these grants BEIS received requests for New Burdens Funding from the LAs in relation to the grants which were then submitted to HM Treasury for approval by the Chancellor.

232. A total of £210.44 million was provided to local authorities in New Burdens Funding for the implementation, delivery, reconciliation and assurance requirements related to these

grants. HM Treasury did not receive direct applications from LAs - BEIS consulted with LAs to ensure that this funding was adequate and proportionate to the additional work required from them. For example, on 18th March 2020, BEIS requested £70m New Burdens Funding to cover the associated administration costs faced by LAs in administering the grants. HM Treasury provided £80m at Main Estimates (as the scope of the schemes had expanded by then), but prior to that had provided LAs assurance that administration funding would be forthcoming, allowing them to repurpose other funds in the meantime in the knowledge they would be reimbursed. At Supplementary Estimates 2021, HM Treasury provided a further £75m as New Burdens Funding. BEIS requested £100m but in HM Treasury's view did not fully evidence why the winter 2020/21 grants cost more than the spring grants to administer. Subsequent to that, further requests were made and further new burdens funding was agreed.

233. These payments were made in arrears with LAs absorbing initial costs associated with implementing the grants. The final New Burdens payments were made in March 2023. HMT does not hold the information on the exact timings of the payments of these Section 31 grants . MHCLG made the payments as required, within spending totals set by HM Treasury.

Fraud and Error

234. The speed at which the Cohort One schemes had to be designed, and the lack of robust granular data about the individual businesses, created a significant challenge for the implementation of the grants distributed by LAs. HM Treasury understood the information held by central government was incomplete, with no central database that could provide information on business size or whether they were still trading. Given the emphasis placed on getting support out to businesses as quickly as possible, ministers had to balance speed of delivery with the significant risk of fraud and error (i.e. irregular payments) if pre-payment checks were not conducted on potentially eligible businesses. This was acknowledged from the outset and balanced against what was considered to be the imperative to provide support quickly. As the schemes developed, significant steps were taken to improve the processes and mitigate the risk of fraud and error, led by BEIS and the LAs as the delivery bodies.

Cohort One

235. The first cohort of grants succeeded in their objective in getting financial support to businesses as quickly as possible in the circumstances, but this required use of BR data with no requirement for pre-payment checks to be conducted by the LA before dispersing the funds. Measures to address fraud and error were therefore limited to post-payment assurance checks only. LAs were required to submit weekly reports to BEIS via the DELTA reporting system, covering grant programmes the Local Authority Discretionary Grant Fund, Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. There was also no requirement during Cohort One for a structured fraud assessment.

236. The guidance issued by BEIS for Cohort One schemes outlined that the government would not accept deliberate manipulation and fraud; that any business caught falsifying records to gain additional funding would face prosecution; and funding issued would be subject to claw back, as would funds paid in error [**BR/F/174 – INQ000543172**] [**BR/F/040 – INQ000597678**].

237. The guidance provided that use of the Spotlight application would be available to LAs, with support offered in using this tool and interpreting results. Spotlight is an application which would help LAs spot irregularities and avoid errors and fraud. The guidance outlined that this tool, along with other checks conducted by LAs, could help with pre-payment and post payment assurance (although no specific checks were mandated). The guidance encouraged LAs to work with BEIS in identifying and developing good practice, 'including protecting eligible businesses which may be targeted by fraudsters pretending to be central or local government or acting on their behalf'.

238. As set out in further detail below, in 2021 Ipsos were instructed to conduct an independent evaluation of the Covid-19 grant schemes. The report concluded that comparatively high levels of irregular payments in the Cohort One schemes were a consequence of the rapid mobilisation as the schemes were launched without a formal application and due diligence processes, without pre-payment checks and with minimal requirements for LAs to provide the department with data on the payments made, and no guidance on debt recovery until months after the schemes ended [**BR/F/063 – INQ000585832**].

239. It is estimated that losses due to fraud and error from all of the grant schemes was £1.1 billion, with 90% of those losses resulted from the first cohort of grant schemes. HM Treasury accepts this is of significant concern in respect of the proper use of public

funds. Steps were taken to mitigate against these risks as far as it was possible to do so without causing undue delay in providing support to businesses and lessons were learnt for future Cohorts.

240. BEIS encouraged the use of Spotlight to collate and present key statistics and data, cross-referencing to data held by Companies House, the Charities Commission and Experian to respond to fraud.

Cohort Two

241. The rates of fraud and error under the later schemes have been assessed to be significantly lower, as lessons learnt from Cohort One were woven into the design of subsequent grants.

242. The assurance framework that applied to business grant schemes developed significantly across the three cohorts, with increasing emphasis placed on pre-payment and post-payment checks. For Cohort Two schemes, all LAs were required to conduct activity to provide assurance that the grants had been paid in line with the eligibility for the scheme by developing pre and post payment assurance plans, with an eligibility and recipient check on all payments (whether pre or post payment). The volume and depth of checks undertaken were expected to be proportionate to the grant value and informed by a fraud risk assessment of the likelihood of error and/or fraud in the payments made.

243. The guidance also made it clear that LAs must continue to ensure the safe administration of grants and put appropriate measures in place to mitigate against the increased risk of fraud and payment error. They should consider supplementing existing controls with digital tools to support efficient, appropriate and accurate grant awards.

244. Although the use of Spotlight was not mandated in respect to Cohort Two grants, the guidance for LAs was updated to note that it was "strongly recommended" and the use of Experian was offered to provide fraud-checking and data validation services. Access to these platforms was made free for LAs to utilise. These tools allowed LAs to verify the bank accounts of companies in receipt of business grants and provide insight into whether the company was trading during the relevant date for the grants.

Cohort Three

245. Further enhancements were introduced to strengthen fraud protections and reduce error for Cohort Three grants and HM Treasury collaborated with LAs to share best practices in fraud detection and support the introduction of pre-payment checks.

246. LA guidance mandated the use of Spotlight for enhanced checks and evidence was required to be retained by LAs for audit [**BR/F/063 – INQ000585832**]. Bank account checks were required, with the requirement for grant payments to only be made to UK bank accounts. The Bank Account Verification Tool was also widely available to LAs, and guidance recommended use of the tool to mitigate the risk of business impersonation fraud.

247. LAs were also mandated to complete fraud risk assessments. BEIS supported this process by providing risk assessment templates for each scheme. For the Omicron Hospitality and Leisure Grant scheme, LAs were required to run an application process for all applicants and be satisfied that businesses met the eligibility criteria unlike Cohorts One and Two which did not have a mandatory application process.

248. LAs were responsible for completing due diligence and were required to make an assessment as to whether an application was eligible and genuine. The assurance process involved a BEIS audit of processes used to check eligibility by LAs and the submission of data to BEIS of a sample of payments. Eligibility assessments could be undertaken before or after payment was granted with the choice left to LAs. LAs were also responsible for pursuing any losses from irregular payments identified. The Ipsos evaluation noted that risks identified included potential false misrepresentation through posing as an eligible business, multiple individuals receiving a grant for the same business and receipt of a grant despite the firm no longer trading.

Governance on fraud and error

249. A Covid-19 Fraud Ministerial Board was established in July 2020 by the General Public Sector Ministerial Implementation Group to oversee the response to Covid-19 fraud with a focus on fraud against the public sector, including grant schemes [**BR/F/175 – INQ000477265**]. Members included SoS of BEIS, Economic Secretary to the Treasury, DHSC, amongst others, as seen in the agenda [**BR/F/176 – INQ000609438**]. Meetings took place monthly between July and November 2020 before they were moved to a

quarterly basis [**BR/F/177 – INQ000609779**]. In addition to reviewing existing legislation and the need for new legislation, it reviewed opportunities to increase fraud intelligence sharing between banks, police and public sector post Covid-19.

Recovery of irregular payments since Covid-19

250. The Department for Business and Trade ("**DBT**") took over the remaining responsibilities from BEIS in February 2023 in respect of the recovery of funds as a result of fraud and error. LAs reported the recovery of £12.9 million in irregular payments in February 2022 and had referred a further £6 million to DBT to consider for referral to its recovery and litigation contractor. This increased to £20.9 million by May 2023. As of January 2024, DBT have stated that £34.7 million of fraudulent payments has been recovered for return to HM Treasury with the current recovery estimate based on LAs returns standing at £85 million.

Communications and Accessibility

251. Whilst HM Treasury officials were involved in drafting the announcements for the Chancellor on the various LA grants, responsibility for preparing the guidance and communicating the schemes fell mainly to BEIS and the LAs. Throughout the design of the grant schemes, HM Treasury was acutely aware of the need to manage highly sensitive information in advance of announcements, particularly where that information could also have given an indication of the government's plans for making changes to lockdown rules or approach to support more widely (and could therefore also be market moving). This meant that the government took a targeted approach to consultation in advance of announcements. As an example, HM Treasury with MHCLG consulted with a small group of LAs during the design of the policy, with BEIS then carrying out the more formal engagement across all LAs after the initial announcement to agree the details of delivery.

252. Due to the crossover of grant schemes or new schemes being delivered at pace in respond to fast changing NPIs, LAs reported that they were often not aware of the government's intention to launch new grants schemes until they heard the public announcement or received a couple of days warning beforehand [**BR/F/063 – INQ000585832**].This meant that LAs were under pressure to rapidly understand scheme

requirements, put in place the adequate processes and answer queries from local businesses.

253. BEIS developed supporting guidance to promote and raise awareness of the grant funding available. HM Treasury reviewed and cleared this guidance prior to its publication on gov.uk.

254. Existing MHCLG-led forums were used to communicate scheme information and address questions with all LAs. On occasion there were areas of the guidance that were considered vague or ambiguous by LAs, which led to uncertainty around interpretation, a need for follow-ups with BEIS to clarify elements, and differing interpretations across LAs around the country. At times BEIS requested a number of clarifications from HM Treasury, raising questions in relation to the level of discretion LAs should have in deciding eligibility criteria for grants in their local areas, as well as the payment schedules and timings. HM Treasury worked alongside BEIS officials to provide more clarity where needed [**BR/F/097 – INQ000609519**].

255. To raise awareness of grants amongst businesses, LAs used both direct engagement (such as letters, emails and telephone calls) and indirect methods (such as social media and newsletters). This was paired with public announcements from the Prime Minister and Chancellor outlining supports available to businesses on national broadcasts and information on the government website (gov.uk). Whilst these announcements did not provide the detail in eligibility, it did refer individuals to their LAs for further information [**BR/F/063 - INQ000585832**].

256. LAs were responsible for setting out the scope of their discretionary grant schemes on their websites, providing clear guidance on which types of business were being prioritised, as well as the rationale for the level of grant provided.

Monitoring and Evaluation

257. The clear priority in developing the schemes was providing funding as quickly as possible to protect businesses and maintain employment. Cohort One grant schemes were mobilised rapidly reflecting the urgency of the situation. The announcement of the schemes took place on 17 March 2020, with guidance published on 24 March 2020 and funding provided to LAs from April 2020. The government needed to rapidly provide

funding in order to respond to the risk of unprecedented widescale closure of businesses. As a result, the monitoring systems for Cohort One were not as developed as with the later grants and consisted of high-level aggregate returns from LAs of the amount of grants provided and the cost. This was insufficient for effective monitoring and evaluation, as the government had no information on exactly which businesses had received £11 billion.

258. Over time, processes were refined and LAs were required to report on a weekly and monthly basis to BEIS against a series of criteria on spend performance. This data formed the basis of published reports following quality assurance by BEIS and subject to approval by the minister. The reports were initially weekly before moving to monthly, one month in arrears, and later in 2021, quarterly. The reports (compiled by MHCLG and published on gov.uk) detailed individual LA performance, enabling the monitoring of LAs. By identifying the poorer performing LAs, officials were able to consult with them and understand the issues they were facing in meeting the delivery timescales. The information provided by LAs assisted in policy development and the refining of elements of guidance, where required.

259. For Cohort Two in November 2020, BEIS established an improved grant level return, to provide information on grant recipients, to enable follow up surveys and sectoral coverage. A Data Management System was rolled out in October 2021 which provided a more secure method of data collection from LAs, which was an interactive way to present the data, and this greatly increased the response rate. A real time dashboard enabled BEIS to monitor the performance of reconciliation, assurance, and debt recovery activities. This comprised a web portal through which LAs submitted a data return template, a secure cloud-based processing area and a series of visualisation dashboards in Power BI.

260. The Ipsos evaluation stated the quality of monitoring information improved substantially with the introduction of Cohort Two grants. Businesses were required to apply for grants either online or offline through their LAs and provide supporting evidence to confirm their eligibility and pass security checks. While this led to an increase of data being held by LAs, some of the quality of data was lacking, for example not obtaining company registration numbers ("**CRNs**"). The businesses that supplied correct CRNs were linked with the grants received which therefore assisted with monitoring and avoided data being duplicated.

Value for Money

261. As outlined above there were challenges determining VfM for each grant due to the unprecedented circumstances of the pandemic and the fact that the mechanism for its delivery was untested at scale. As stated in the Ipsos evaluation, the speed with which the Cohort One grants were developed and implemented meant that a formal Business Case was not developed and it was not possible to demonstrate that funding would represent VfM to the standards expected when managing public money. BEIS sought Ministerial Directions in relation to key potential risks to VfM. This included the potential for the programme to support businesses that did not need cashflow support and the possibility of irregular payments. These risks were accepted at a political level in light of the anticipated severity of the adverse shock caused by Covid-19, its potential to produce irreversible economic damage and the responsibility of the government to support small businesses.

262. Whilst a more targeted needs-based scheme could have delivered better VfM, this would have been both labour intensive, complex, and resulted in much longer timescales for the essential support to reach businesses. There would have been a higher risk of widespread business failures – and an unemployment impact – as a result. The priority at that stage, was the speed of response and ensuring businesses received support quickly.

263. The design of later cohorts improved targeting of resources at sectors most adversely affected. A discretionary element was introduced in an effort to eliminate “edge cases”.

264. The decision to use LAs as the delivery agent for the grant schemes meant funds got to businesses faster, and in later cohorts their local knowledge helped ensure funds were effectively targeted to those businesses most in need. While it did mean, as noted in the Ipsos report, that investments in establishing systems and infrastructure were duplicated across over 300 delivery agents, with no central delivery system, there were major questions as to what alternative delivery arrangements may have been feasible. LA had previous experience delivering grants of a similar nature (albeit on a smaller scale) and held relevant – if imperfect – data on businesses in their local area. HM Treasury also recognised the significant demands being placed on HMRC to deliver the CJRS, SEISS, and other support measures.

265. The Ipsos evaluation found that business support grants safeguarded jobs both through enabling the survival of businesses and through protecting jobs in those businesses; an estimated 300,000 to 400,000 jobs may have been protected by the end of March 2022. It is estimated that between 21,000 and 59,000 workplaces may have avoided closure due to the programme.

Reflections and Lessons Learnt

266. The economic response to the Covid-19 pandemic necessitated swift action under unprecedented conditions of uncertainty. The first cohort of business support schemes, launched in March 2020, was designed to provide rapid financial assistance to businesses across various sectors without a formal needs-based assessment. This approach prioritised speed to prevent widespread business failures and safeguard jobs, recognising the trade-off between immediate delivery and comprehensive pre-payment checks.

267. Given the importance of these schemes, DBT commissioned Ipsos to conduct an evaluation of the Covid-19 Business Support Grant schemes in December 2021, and the final report was published in October 2024. This report provides a detailed account of the various grants and is provided in full at [**BR/F/063 - INQ000585832**]. It noted lessons around pre-pandemic preparedness, availability of data, perceived inequalities, assurance, monitoring and evaluation, and learning. HM Treasury conducted a meta evaluation on the suite of Covid-19 business support measures and this was published on 26 June 2025 [**BR/F/178 – INQ000625793**].

268. In relation to preparedness, the Ipsos report noted there was no existing infrastructure to deliver the grants, which caused delivery issues given the necessary scale and pace of delivery, but found the schemes to have been a significant achievement, distributing £22.6 billion through 4.5 million payments over two years and in doing so successfully reached the smallest businesses that were expected to face the most significant disruption as a result of the pandemic. The report found that this rapid mobilisation was crucial in stabilising consumer spending, safeguarding approximately 300,000 to 400,000 jobs, and facilitating the reopening of the economy.

269. The Ipsos report found that delivery of the schemes did not involve any material test of need, with a reliance on eligibility criteria to target businesses facing financial distress.

Following analysis of the balance sheets of firms receiving grants, only a quarter had financial reserves that would not have allowed them to absorb the costs associated with short-term disruptions in their ability to trade and that firms benefitting from the programme also made widespread use of parallel initiatives launched to support businesses during the pandemic.

270. The report also concluded that using the BR system to define eligibility resulted in gaps, particularly for businesses operating under sublet arrangements or without fixed premises. Discretionary elements were introduced to mitigate these issues, although inconsistencies in LA interpretations led to a 'postcode lottery' effect. Furthermore, the lack of robust data and monitoring mechanisms initially hindered the ability to conduct thorough evaluations and ensure VfM.

271. The difficulties around availability of data at the time have been noted subsequently by the HM Treasury Director General for Growth and Productivity. He has observed that there were not many datasets that could be drawn on to help identify who to get money out to quickly, and help target smaller firms, which was why the BR data was used. It was an incomplete dataset for this (for example, excluding businesses without premises and having only high-level information on sectors) but whilst officials were aware of this at the time, there was not an obvious alternative in government as there was (and still is) no more detailed and complete central directory of business and their characteristics, including size and sector.

272. The Ipsos report also added that the advantage of using LAs was their existing relationships with and knowledge of local businesses (though in practice, the quality of information available to LAs was not as high as anticipated). In addition, other parts of central government were exceptionally busy at the time and substantial HMRC resources had been deployed to deliver CJRS.

273. As the pandemic evolved, and government received feedback from the initial payments, so too did the design of the support schemes. Cohorts Two and Three saw improvements in targeting and pre-payment checks, informed by better data and the changing economic landscape. The introduction of application processes requiring supporting documents helped address earlier shortcomings, though guidance complexity remained a challenge for LAs.

274. The Ipsos report noted that there was no evidence of inequitable access to the grants with the share of women and minority ethnic led businesses in receipt aligned with the ownership characteristics of the broader business population. The least deprived areas tended to receive lower levels of funding, though grant spending was largely evenly distributed across areas of different deprivation levels. However, the discretionary elements of the programme may have introduced some perceived inequities (though not discrimination) where neighbouring authorities pursued different approaches to allocating these funds.

275. The greater targeting for Cohort Two along with the introduction of differential tiers of restrictions, resulted in a more complex set of schemes. This was in the context of responding to changing health restrictions which were themselves complex and often fast moving. Focus was on ensuring the balance was right between giving support to those who needed it, whilst targeting schemes as tightly as possible to ensure VFM.

276. The complexity and the pace of delivery has also been commented on by the HM Treasury Director General for Growth and Productivity, noting that the restrictions got exponentially more difficult as time went on, with regional variations, grants for open and semi-open schemes and complicated edge cases to manage. Government responded to these developments by listening to, and working with, local government to get the guidance as clear as possible and fraud and error rates in the extremely complex set of subsequent schemes were distinctly lower than the first cohort.

277. The Ipsos report also highlighted the need for improved data collection and a clearer national approach to discretionary schemes to eliminate disparities in delivery. Lessons from these schemes have informed subsequent interventions, such as during the energy crisis in 2023, where fraud prevention and supplier readiness checks were integral to policy design.