



**Submission: Coronavirus Response**

To: Chancellor

**Introduction**

1. This note sets out the final decisions on your Coronavirus Response. The attached grid provides you with an overview of the package as a whole.
2. The following are the live policy questions remaining and points of information to note.

**Part 1: Public services**

**FOR DECISION: General Funding Pot / Covid-19 Response Fund**

3. If you are minded to announce a general pot then we would recommend you consider an initial size in the region of £3-5bn. However, there is still significant uncertainty around costs and pressures that might arise and therefore fairly difficult to estimate an appropriately sized pot at this stage.
4. A pot of £3-5bn would be a total response package in the region of £11bn-£13bn. To compare to international comparisons, this would be roughly \$14.2bn-\$16.8bn (c0.40% - 0.47% GDP, 164-194 GDP per capita).
5. The general pot would include the DEL costs related to the DHSC emergency Bill legislation (c£2bn of the Bill costs are expected to be DEL at this stage), as well as provide wider support for the NHS, local authorities and public services. It would be separate to any business support funds.
6. The pot would need to be used on a reactive basis once departments and Local Authorities know more specifically what they need; for example, for social care this may be traditional social care places but also scaling up services such as meals-on-wheels. This should all be ringfenced specifically for response to Coronavirus Covid-19 in 20-21.
7. Given the current uncertainties, we would also keep pressures and needs under review as the situation evolves and would provide further advice about adding more to this pot if needed at a later point.
8. We would recommend announcing with language along the lines of "I am creating an emergency response fund, set aside to ensure the NHS and other public services have the resources they need to tackle the impacts of Covid-19. Initially set at £3-5bn, it will fund pressures in the NHS, support Local Authorities to manage pressures on social care and support vulnerable people, and help deal with pressures on other public services. The size of the fund will be reviewed as the situation develops, to ensure all necessary resources are made available.
9. ***What size of respond fund / pot do you want?***

**FOR INFORMATION: Scotland, Wales and Northern Ireland Considerations:**

10. Time to Pay, Sick Pay changes, Coronavirus Interruption Loans and welfare changes will provide UK-wide support, but some elements of the package will only apply in England. We will therefore need to give the DAs sufficient certainty (as quickly as we can) about

how much funding we will provide so that they can put in place comparable measures in SW&NI. Further advice will follow, but it is worth flagging that the general pot is particularly difficult in this regard.

**11. This is for information.**

**Part 2: Business Support**

**FOR DECISION: SME lending**

12. You have confirmed that you would like to announce a new loan guarantee scheme to support banks in offering credit to otherwise viable businesses suffering cashflow disruption due to the impact of CV-19. We recommend calling this the Coronavirus Business Interruption Loan Scheme. Calling it a scheme helps make it clear these are not direct loans from government. **Do you agree?**
13. We recommend announcing that the scheme will start on 1 April 2020. We are confident that this gives banks and the British Business Bank time to deliver the scheme while still announcing that it will be available to SMEs quickly. **Do you want to announce a scheme start date of 1 April?**
14. You asked for confirmation that the proposal to announce £1bn of headroom for this scheme is appropriate in the context of the wider market.
- a. In 2019, the largest 7 SME lending banks granted an additional £5.5bn of overdraft facilities to SMEs. £1bn of available headroom for this scheme would therefore equate to just under 20% of all new overdrafts approved by the biggest banks. We believe that this can be presented as an ambitious and appropriate starting point for the scheme, with the option to increase headroom even further if take of the scheme is high.
  - b. 400k businesses (13% of the 3.2m VAT/PAYE registered businesses in the UK) have 10-49 employees; 3% (8,200) have 50-249 employees.
  - c. 43% of SMEs currently use external finance; 23% use overdrafts, 19% credit cards, and 9% use commercial loans or mortgages. Q2 18-Q2 19, 4% of SMEs made an application for new or renewed finance, 76% of which were successful (success rates were higher for larger businesses (over 50 employees)). It's hard to predict exactly how banks will respond to CV-19, but we think the lending market is currently working relatively well for businesses seeking finance. The new loan guarantee scheme may not therefore serve a significant market segment, but does sit well alongside a narrative that banks are well-capitalised and able to continue lending to businesses.
15. As a result, we think an initial 1bn headroom is a suitable starting point. This would, for example, provide 10k £100,000 facilities. However, we will keep take-up of the new scheme under review, and return with further advice on increasing the available headroom as needed. To that end, we could signal the possibility of increasing the size of the scheme by announcing an initial £1bn at Budget. **Do you want to announce an 'initial' £1bn scheme, to allow further increases if required?**

**FOR DECISION: Local Authority Grants and Small Business Rates Relief**

16. You asked advice on an LA administered grant, and basing eligibility on receipt of small business rates relief. This sets out answers to the key parameters needed for an announcement tomorrow.

Deliverability: We have discussed with MHCLG and think the system is workable, subject to:

17. LAs would send a simple form to all eligible properties to get details about the business, for example their bank account details, and for occupiers to confirm a basic statement, for example, that they are operating a business from that property.
18. MHCLG will speak to LAs on Budget day to explain.

Proposed Eligibility Criteria:

19. To be in receipt of Small Business Rate Relief (either 100% relief or on the taper)
20. Or to be in receipt of rural rate relief
21. We do not recommend extending this grant to charities, who's donations should not necessarily be affected. However, you may come under criticism for this decision, as charity shops in particular are likely to see a drop in footfall.

Size of grant:

22. We recommend a flat amount of grant. We also recommend that you make clear this is a one-off, exceptional, grant to be paid next financial year. The size and cost of the scheme is scalable. Assuming full take-up (which is very unlikely), here are the approximate cost of the schemes with a different level of grant. These costs exclude the Barnett impacts, which would add 18.9% to costs.
  - a. £1000 per property – £750m
  - b. £1500 per property – £1.1 bn
  - c. £2000 per property – £1.5 bn
  - d. £2500 per property – £1.8 bn
  - e. £ 3000 per property – £2.2 bn (£2.6bn including Barnett) & equivalent to ¼ of the annual rental value for properties at or below £12k, and therefore eligible for 100% relief through the SBRR.
23. What size of grant do you want to provide, per property?

Bottom up analysis of population:

24. We do not have data of the rateable value breakdown of recipients of SBRR specifically – LAs just report how much money the relief is worth and number of recipients.
25. We do have data of the overall property population. Of all the properties with an RV below £12k, over half of these are below £6k. (This isn't the same as those getting SBRR as some properties below the £12k threshold won't be eligible as businesses will have multiple properties) This indicates that this grant will go to many small properties with and RV below £6k.
26. More properties are eligible for SBRR in areas of the country with lower property prices. This means the grant scheme will support more properties in these areas as well.
27. The annex has a table of the distribution of rateable value by band.

Rationale and links to rent:

28. We have recommended a flat rate grant, rather than any link (even presentational) to rent paid by businesses.

29. The rateable value is the hypothetical market rent assessed by the VOA, so it isn't directly linked to the rent a business actually pays which we do not have information on.
30. We could potentially use a presentational rationale based around a link to average rental costs. However, we would not recommend this as there will be many cases where the actual rent paid is higher than a grant, and you would face calls to extend the grant if the crisis went on longer than expected (to 'cover more months' rent'). Therefore, we think a flat grant poses fewer presentational risks

State aid:

31. These grants will be treated as a de minimis state aid.

Tax treatment:

32. The default position is that these grants would be liable for tax, as are the business costs this grant is supporting.
33. We think we could look at amending this through a clause in the Finance Bill. Do you want us to do further work on this?

LAs new burdens funding:

34. This will be determined in a post-Budget assessment. The amount will depend on final design, but we expect this to be low £10millions, in addition to funding for the scheme itself.

Equality assessment, and family test:

35. Men and white people are disproportionately represented amongst small business owners, therefore this measure will disproportionately benefit those groups.
36. We do not believe this will have any significant family impacts.

Climate change impacts:

37. We do not believe this measure will have any significant climate change impacts.

Accounting Officer responsibility:

38. BEIS and MHCLG senior officials are speaking today to agree whether the funding will flow through BEIS or MHCLG budgets. We recommend you or SpAds inform BEIS and MHCLG SoSs/SpAds of your intentions regarding this scheme ahead of Budget.
39. A small amount (low £ms) of admin funding is likely to be required by whichever Department takes on this responsibility in order to establish and monitor this significant new scheme.
40. ***Are you content to go ahead on this basis? What level would like to set the grant at?***

### **Part 3: Individuals Support**

#### **FOR DECISION: LCTS/local hardship fund**

Quantum

41. Council Tax Benefit was devolved in 2013-14 with a 10% cut (£420m). A total of £3.7 billion was paid to councils in England.
42. In 2019, the IFS estimated that councils have since cut LCTS entitlements by a further £286m, so £706m in total.

- a. These cuts have been uneven across the country, in part because of the way in which the main LG settlement (Revenue Support Grant) has been reduced.
  - b. 18-19 CLTS spend was £3.4bn, this is not £706m lower than £3.7bn because total spending is also driven by growth in number of households.
43. Therefore, if you want to announce at pot of £400m we would be able to say this broadly equates to the cut made by Central Government to Council Tax Benefit when it was devolved in 2013 (but not the total reduction to entitlements made by LAs since 2013). A £500m fund would be “more than” the reductions made in 2013.
44. However, we would recommend against making this link publicly. There would be significant presentational risk as this would draw attention to reductions in funding for LCTS which we would not be fully reversing, and would risk expectations of a continuing intervention rather than a one-off temporary measure for 2020-21 only.

#### Working-age benefits

45. LAs must administer LCTS schemes within certain parameters set by Govt. The main parameter is that all councils must provide support for all eligible pensioners at the same level of support they would have received under CTB.
46. LAs determine working-age eligibility and the Government does not collect central information on working-age LCTS scheme design. The information MHCLG do hold indicates that there are currently around 2.3m working-age individuals in receipt of LCTS, costing around £1.9bn in 2018-19. The best information we have about how working-age schemes have changed since 2013 is the IFS 2019 report:
- There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained.
  - A further 1.6 million households are billed for more than they otherwise would have been.
  - Overall, only around 500,000 – barely a quarter – of the households that would have had their council tax bills entirely covered by the old CTS system still have it fully covered by CTS.
  - However, these figures are driven by both councils mirroring national benefits changes in CTS schemes and additional cuts to CTS schemes that councils have made. They vary widely at a local level and we need to do more work with MHCLG to assess options in this space. As such we don’t recommend linking the announcement to a specific working-age target.
47. We recommend against specifying a particular implementation method at Budget. MHCLG are working up implementation options to support speedy delivery, in light of the fact that LAs might need to agree changes to schemes at full council and consult; these decision making processes will be slowed further with local government purdah and elections in 118 authorities on 7 May. A preferable option might involve being proscriptive about the beneficiaries and setting a single uniform payment. We need to do further work with MHCLG to assess the most deliverable proposal.

#### Announcement

48. On this basis, the Budget could say:

- a. We will provide Local Authorities with new grant funding to support economically vulnerable individuals and households. We expect most of this funding to be used to provide more council tax relief, either through existing Local Council Tax Support schemes, or through similar measures.
- b. Are you content with this?

49. This measure would likely qualify as a New Burden for LAs. The amount will depend on final design, but we expect this to be low £10millions, in addition to funding for the scheme itself. This measure would also be subject to Barnett.

#### **FOR INFORMATION: The self-employed**

- 50. The self-employed are a diverse group, including both high-earning, wealthy individuals and less financially secure individuals. The annex provides a brief profile of self-employed people and their financial position, and we can provide more detail to a longer timescale.
- 51. The Covid-19 Budget package focusses on supporting those not entitled to SSP through the welfare system, through temporarily removing the 7 waiting days in Contributory ESA, temporarily relaxing the Minimum Income Floor and temporarily relaxing the need for claimants to attend the job centre.
- 52. The self-employed may in theory also benefit from Time To Pay arrangements, and in some sectors may also benefit from the planned 100% business rates relief where they occupy eligible property, although some self-employed are already exempt from paying business rates due to the current level of small business rate relief. Provided they meet the criteria, they may also benefit from local authority administered programmes, such as local welfare assistance schemes.
- 53. More generally, the Budget sets out a package of support for the self-employed, delivering on the manifesto commitment to review this. These are medium- and long-term measures on access to finance (start-up loans, guidance on applying for a mortgage and late payments), improved online guidance and support (HMRC interactive tax guidance to be launched soon and a new digital support service later this year) and considering appropriate support for self-employed parents in the government's review of parental pay and leave.
- 54. We do not think there are further viable welfare options for tomorrow's Budget, although we can develop to a longer timescale:
  - i. Writing off a portion of the first month's UC advance (very significant Managing Public Money and fraud implications to be worked through, and operationally unlikely to be deliverable before 2021)
  - ii. Reducing the existing £16,000 savings limit in Universal Credit, ensuring those with low earnings but high savings can claim (significant operational implications)
  - iii. You have received separate advice on the LEL threshold for SSP.
- 55. The only other welfare lever that could be pulled quickly is increasing the Universal Credit work allowance (the amount you can earn before your UC award is withdrawn). This would provide a general increase in support to parents and disabled people in work; it does not go to childless people and cannot be targeted to the self-employed or those not entitled to SSP. It is also expensive and difficult to reverse (a £500 pa increase costs c.£800m pa in steady state) - however DWP could implement from April 2020. Finally, you should be aware only 3 million welfare claimants are currently on UC, with around 4 million still on the legacy system.

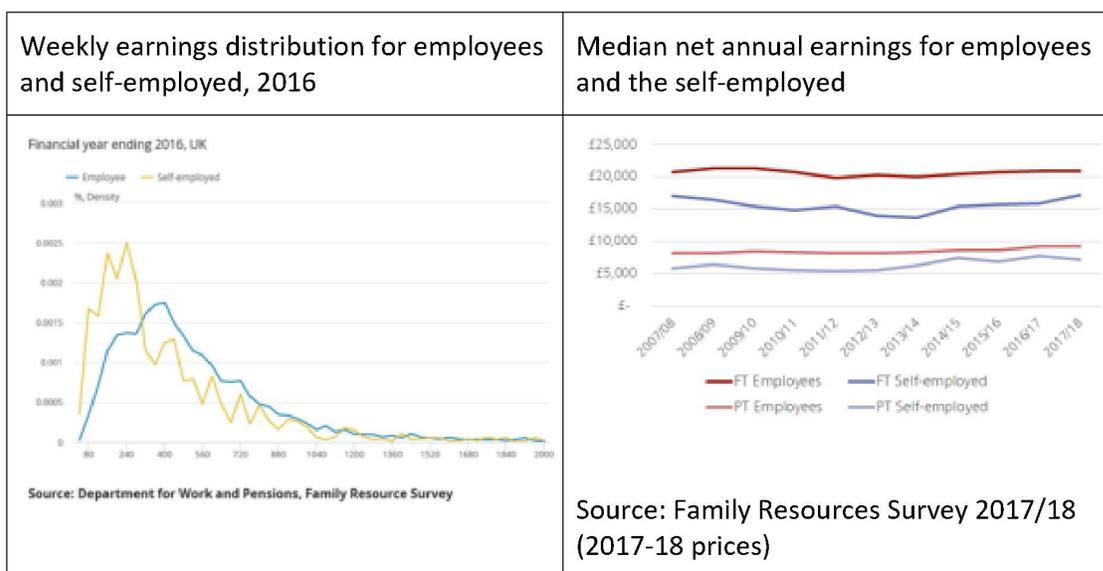
#### **FOR INFORMATION & NON-URGENT DECISION: Older individuals**

56. The Covid-19 package does not provide specific support for older people. Older people over State Pension age (SPa) (currently 65, rising to 66 by October 2020) are supported through the welfare system by the State Pension and, for those entitled to little or no State Pension, the means-tested benefit, Pension Credit. These do not normally depend on face-to-face interactions with DWP. Those over SPa who remain in employment – some of whom may have chosen to defer their State Pension – have the same entitlement to Statutory Sick Pay as those below SPa.
57. Financial assistance for the elderly and vulnerable is also provided through local authority administered programmes, such as local welfare assistance schemes. The wider public services pot (included in this advice) can be used by local authorities to bolster these schemes, as need arises.
58. An option to provide further financial support to pensioners would be to use the mechanism of Winter Fuel Payment (WFP) to provide an additional one-off payment and could be badged as a special payment for older people linked to Covid-19. WFP were used to get additional funding to pensioners on two previous occasions, 2004/05 and 2008/09. WFP are a tax-free annual payment to households with at least one member above SPa. It is worth £200 for pensioners aged between state pension age and 80, and £300 for 80+ year olds and is paid to c. 12m pensioners at a cost of £2bn pa. These are paid out automatically in November, based on a qualifying week of residence in September and are not taxable.
59. It would be possible to make an additional WFP and to change the amount paid and age eligibility, through negative secondary legislation; however, the operational lead-in time before which a payment could be made is four months or more. We are currently working with DWP officials to confirm timescales. Technically WFP can only be used to meet increased cost of heating and there must be evidence that there has been an increase in heating costs for pensioners for a payment to be legal, otherwise primary legislation could be necessary. WFP are not well targeted as they are paid to all pensioners regardless of income.
- 60. *Would you like us to work up a proposal for an announcement after Budget?***

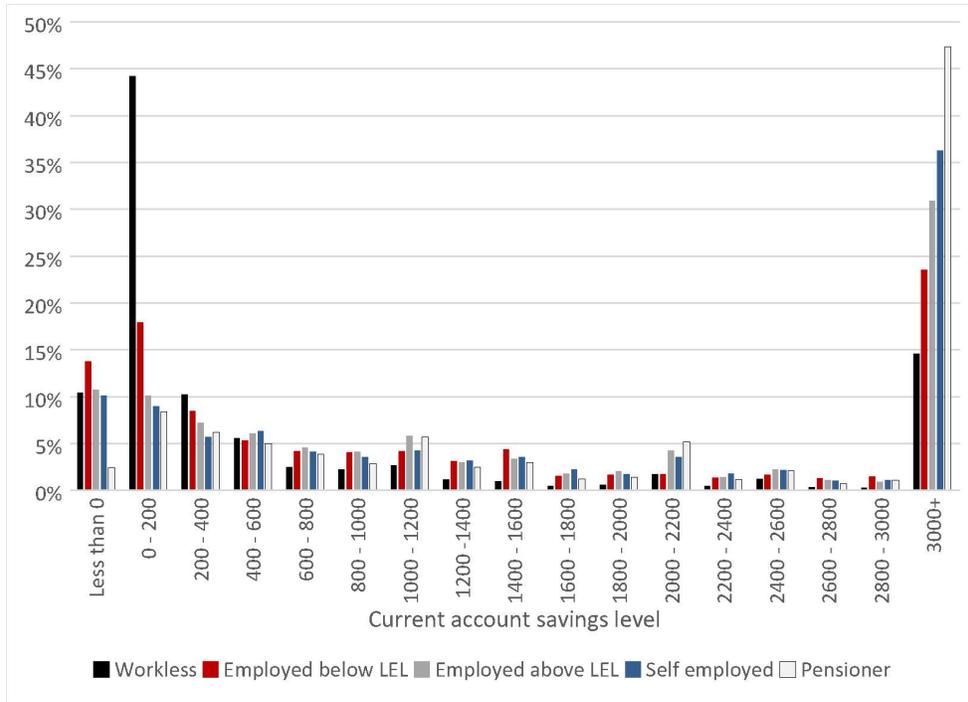
## Annex: Profile of self-employed individuals

1. There are roughly 5 million self-employed people, around 15% of the labour force. We don't have good, timely data on self-employed earnings. But overall the earnings distribution of the self-employed is lower than for employees (see below charts 1 and 2)
2. To get a sense of who might be most vulnerable to income loss (either due to self-isolating, or to a drop in demand for their business) we have looked at how much cash households have in current account deposits. Note many people will also have other, less liquid financial assets, as well as access to credit.
3. In general, self-employed people are somewhat less likely than employees to have very low levels of cash savings, and more likely to have very high levels [annex, chart 3]. Taking savings of £200 (just over 2 weeks SSP) as an illustrative threshold:
  - a. Around 20% of households with a self-employed individual (c.600k) have less than £200 in household current account savings, around 25% (c.800k) have less than £400.
  - b. This is a lower proportion than for employees below the LEL (around 30% (c.590k) of whom have less than £200, and almost 40% (c.620k in total) have less than £400), but because there are a greater number of self-employed households this represents a high number of households.
4. Self-employed households are evenly distributed across the household income distribution, making up just over 10% of each income decile (with slightly more in the in the top two income deciles).

### Charts 1 and 2 – Earnings of employees and the self-employed



**Chart 3 – Histogram of ‘cash savings’ level by work status of household**



Source: Wealth and Assets Survey

**Figure 4 – Make-up of income deciles by household work status**

