HM Treasury

Lead: Name Redacted

Team: Local Government & Reform

Date: 08/03/2020

Submission: small business grants – covid-19 budget package

To: CX

1. You asked for options to distribute grants through Local Authorities to support small businesses with a temporary cash flow problem.

2. We are awaiting advice from BEIS on other possible payment mechanisms as alternatives to using Local Authorities. At present, we think LAs are conceivably a viable mechanism for administering this kind of scheme. However, there are very substantial risks to effective LA delivery, and so if you were minded to proceed we recommend you do not make a final decision until we have provided further advice on possible alternative mechanisms.

3. We think there are significant challenges with distributing a large scale business grant scheme through Local Authorities:
   - Local Authorities will need to set up systems and processes to administer the grant. They are likely to be juggling a number of other CV-19 related administrative pressures, both in terms of service delivery and with potentially large numbers of staff off work.
   - We, or they, will need to establish criteria to limit the number of businesses eligible (to avoid overly diluting the funding or making the scheme unaffordable). If we give LAs significant discretion, it may take them a long time to form a political consensus on criteria. It took authorities six months or more to get the 2017 discretionary rates relief money out of the door and that was through an established mechanism. A significant cause of delay was getting political agreement, often through full council, for whatever scheme they decide upon. However, if we make the criteria too prescriptive (to limit the scope for local political decision making) without sufficient consultation with LAs on practicalities, we risk making the scheme very difficult to administer.
   - There will be risks that LAs underspend the funding if they are overly cautious in setting criteria, or do not have the administrative capacity to operate a scheme effectively
   - There could be risks of a serious discontent if LAs underdeliver on promises you make at Budget

- We also need to take further legal advice on LAs powers to give grants to LAs. This may influence how much you can shape LA discretion in using these funds.

4. If you did decide to fund a scheme of grants to small businesses, £1 billion could fund 400k businesses at an average grant size of £2.5k (which is about a third of business with 1-50 employees, 40% of businesses with 1-9 employees). If you were minded to include the self employed in the scheme, the grants would need to be much smaller, or the total pot of funding much larger. You are familiar with the fact that this would be a very big new fiscal hit to be absorbed.

5. Before making any decision, you should clearly note that:

   - LA's have not administered a scheme like this on this scale before, so there are clear and present delivery risks to how such as scheme would and could operate. Even the much smaller scale scheme of grants to businesses affected by flooding has been criticised for delays in the flow of funding to businesses. Similarly it took LAs over 6 months to implement flexibility business rates reliefs in 2017. As such we cant guarantee this scheme would be a success - payments may be slow to reach businesses and delivery may be very patchy across the country. You should be clear on that before making any decision.
   - While there is an economic case for providing timely support for small businesses with temporary cashflow problems, many other elements of the CV-19 Budget package are already aimed at addressing these issues, and may be better targeted at reducing business costs. For example, the measures on Statutory Sick Pay, business rate relief, Time to Pay are all aimed at supporting business cash flow.
   - There is a significant fiscal risk should we come under pressure to provide funding sufficient to cover all small businesses, given the sheer size of the business population. If that materialises, the total quantum would easily double or triple.

6. Our business and sector-level monitoring indicates that we are not yet seeing particular impacts on small firms, so we do not yet see an urgent need to provide LAs with funding for business grants. Impacts are currently largely limited to firms which are exposed to Chinese supply chains, and dependent on Chinese demand, which tend to be larger manufacturing firms which can adjust production or rely on private financing. While we can expect this to evolve as the situation develops and if the virus spreads within the UK, given businesses' likely ability to weather a small period of lower demand through cash reserves or private lending via banks, we are not likely to see substantial impacts to small local businesses in the immediate term.

7. Therefore, due to the significant risks with announcing a scheme that LAs fail to deliver at pace, we recommend holding back on a scheme of grants to small

businesses until the impact of CV-19 is clearer. In the meantime we will continue to work on options to mitigate the risks of delivering such a scheme, in line with the proposal set out in the attached Annex.

8. Should you decide to proceed with an announcement at Budget, the annex sets out the options for delivering such a scheme.

9. **Do you agree to holding back on announcing this scheme, and for us to continue working on options in the meantime?**

Annex: potential scheme design

Quantum

10. We think £1 bn is an appropriate size for this type of scheme. How many businesses this could support will come down to choices that will affect how much any individual business can receive (see below). But indicatively: £1bn would support 400k businesses at an average grant size of £2.5k (which is about a third of business with 1-50 employees, 40% of businesses with 1-9 employees). If you were minded to include the self-employed in the scheme, the grants would need to be much smaller, or the total pot of funding much larger.

11. We recommend that you split the total quantum into two pots. One to be allocated up front to all LAs to begin administering as soon as possible, and one pot to be held back to provide additional spots to any localised areas that are subsequently identified as being particularly hard hit (e.g. if a local quarantine measure becomes necessary).

12. If you announced £1bn total funding, you would have a choice on how much to allocate up front, and how much to hold back. We do not think you would need to announce this split at Budget, and we could provide further advice on a recommended split in due course. The sections below outline our current considerations.

Upfront grant pot

13. We recommend that BEIS publish guidelines to inform LAs in developing local schemes, rather than establishing a detailed national scheme for all LAs to implement. This would provide Local Authorities with flexibility to limit the scope of the scheme to avoid overly diluting the available funding. However, we will need to get the balance between local discretion and central guidance right in order to avoid delays resulting from a lack of political consensus in LAs about scheme design. The alternatives to allowing some LA discretion in scheme design would be:
    - Allowing all micro-business to access the grant, which even if capped at £2.5k per business, could cost up to £2.5bn if there was 100% take-up
    - Allowing all micro businesses to access the grant, and capping the grant at £1k, which we think would spread the funding too thinly to make a real difference to most of the firms that get it. If you held back significant funding for later allocation, this would further dilute the initial allocation.
    - Prioritising sectors nationally, which we do not recommend
    - Establishing some other criteria (e.g. revenue position, cash position) to limit the scope of eligible businesses, which we think is better done at a local level by individual LAs, based on local circumstances and institutional capacity

- Limiting the scheme to a subset of LAs, which we do not recommend

14. If you agree to providing guidelines to set some broad parameters, but provide LAs with flexibility in local scheme design, we recommend the following guidelines:
    - Size of firm eligible: we recommend capping this at 9 employees ('Micro businesses'). Small grants will make the greatest difference to these firms and prevent any money from being spread too thinly (e.g. a grant of £2-5k per business looks like to be around 5-10% of a microbusiness' monthly turnover; whereas it's more like 1% of a firm with 10-50 employees, 0% for over 50 employees).
    - Minimum conditions for firms: we recommend that to be eligible a firm should have at least one employee. If you were minded to extend the scheme to firms with no employees (of which there are over >4m) we recommend that you limit it to firms that are registered for either VAT or PAYE (of which there are c.1.2m). But this risks significantly diluting the available funding.
    - Maximum grant size for any one business: We recommend capping this at £5k. You could consider a taper; e.g. 5k for 5-9 employees, 2.5k for 1-4 employees.

15. Guidelines could also cover:
    - LAs should take reasonable steps to make sure that businesses have sought other relevant forms of support before applying for a grant, including seeking credit from the banking sector, and, if they have outstanding tax liabilities, contacting HMRC to discuss their eliebility for a Time To Pay arrangement. Accessing these other areas of support would neither be a pre-requisite for a grant nor make a business ineligible for one, but should be taken into account by the LA
    - Options that LAs may want to consider for establishing additional localised criteria, such as businesses demonstrating a significant decline in revenue, businesses demonstrating a weak cash position, or limiting support to areas (e.g. high streets) where businesses may be particularly hard hit by impacts of CV-19.
    - A recommendation that the grant be limited to businesses not receiving retail business rates relief (i.e. limiting support to businesses already on small business rates relief or other businesses that will not be receiving a benefit under the expanded retail relief measure)?

16. You do not need to make decisions on the scope and content of the guidelines now, but you should be content with the type of criteria the guidelines might cover.

17. You would need to agree an allocation formula with MHCLG and BEIS. This would likely be the proportion of micro-businesses in each LA, but we will discuss other potential options with the relevant departments and advise you further.

Reserve pot

18. We recommend that you hold back a pot of funding to increase support to businesses on a localised basis as the spread and impact of CV-19 materialises. This will enable you to provide additional funding to LAs where the impact is most significant.

19. While clearly not for inclusion in any announcement, holding a certain amount in reserve would allow you to retain the option to target areas that may face particularly localised spreads of CV-19, as has occurred in Italy. Funding could then be targeted at areas that would be impacted should the situation warrant HMG implementing measures such as localised quarantine or travel restrictions, as have just been announced in Italy. This would be more closely modelled on the locally-targeted 'turnkey' flooding business support grants, and will direct funding to areas where there is a clearer need for support.

Split between initial allocation and reserve pot

20. As proposed above, we would not recommend communicating the split between these two pots at Budget. We will provide further advice on options in due course, if you decide to go ahead with this measure.

21. However, our current thinking is that the reserve pot should be between 25% and 50% of the total allocation.

22. The advantages of a smaller reserve pot could include:
- Reducing the size of the upfront allocation risks overly diluting the amount of grant funding LAs are able to provide
- Having a large upfront formula based allocation to LAs provides more transparency compared to having a large discretionary reserve pot
- Announcing the majority of funding at Budget will better support LA financial planning, and enable a faster response from LAs

23. The advantages of a larger reserve pot could include:
- a smaller up-front sum may be beneficial from a value for money point of view as it may force LAs to choose between what businesses to support (e.g. prompt them to focus on firms which won't benefit from the business rates measures?)
- The amount of funding that gets tied up in LAs that are slow to implement a business support scheme may be reduced
- a smaller upfront pot could emphasise the fact that this is not designed for all businesses, but is intended only for the very smallest businesses in need of a quick and small cash injection
- being able to make larger grants to businesses facing a disproportionate impact from CV-19 for localised reasons

Budget announcement

24. If you decide to proceed with an announcement at Budget, we think your announcement could be:

25. **Cashflow funding for small businesses –** Alongside measure to ease cash pressures on businesses (such as Time To Pay) and to facilitate access to short term credit, we will provide Local Authorities with access to up to [£1billion] to address cashflow challenges of small businesses. We will provide further details of this scheme shortly.

26. We do not recommend announcing any further detail of the scheme design until options have been further worked up with MHCLG and BEIS shortly post-Budget. Instead we would recommend that the public line to take be that 'we will work with MHCLG and BEIS to develop a scheme, and expect funds to start flowing to Local Authorities shortly. The Government will publish full guidelines for the scheme within weeks.

27. We do not currently have an estimate for how quickly Local Authorities would be able to begin paying grants. Experience from the 2017 business relief package is that there is potential for many months delay. We will work closely with LA stakeholders to minimise any delays.

28. It is likely that you would need to provide Local Authorities with New Burden funding to cover costs of administering this scheme. We do not currently have an estimate of the scale of such funding.

Equalities Advice

29. You will want to consider the equalities impact of this measure before deciding on the final scheme design. On 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.