HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Mel Stride MP
Chair, Treasury Select Committee
House of Commons, Committee Office
London
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Dear Mel,

1. Thank you for your letter of 11 May 2020, following my appearance before the Treasury Select Committee on 30 April. Below are answers to the questions that you have passed on.

Proposals to help Limited Company directors

2. What proposals are the Treasury looking at to assist the Limited Company directors who pay themselves dividends?

We have been working to understand options for supporting this group, while continuing to ensure the other schemes the Government has committed to, including the Self-Employment Income Support Scheme (SEISS), Coronavirus Job Retention Scheme (CJRS), and statutory sick pay scheme, could be delivered in a timely way.

We have engaged with stakeholders, including the Association of Independent Professionals and the Self-Employed (IPSE) and Institute of Directors, noting proposals including extending the existing income support schemes to cover this population; asking company owner-managers to make a direct claim, using a 'pay now, claw back later' approach through a new scheme; and using accountants to verify information provided.

As stakeholders have acknowledged, extending support through a scheme for company owner-managers who pay themselves via dividends is not as straightforward as the existing income support schemes, which were designed to use information HMRC already holds. This is because, under current reporting mechanisms, it is not possible for HMRC to distinguish between dividends derived from an individual's own company and dividends from other sources, and between dividends in lieu of employment income and as returns from other corporate activity.

3. What is the estimate of the number of individuals impacted?

HMRC administrative data does not cover the sources of dividend income. It is therefore not possible to accurately determine the number of individuals who have taken dividend income in lieu of a salary from Limited Companies.

The Institute for Fiscal Studies have estimated[1] there were 1.8 million company-owner managers - defined as directors of companies with one or two directors - based on data from 2014-15. However, this is an estimate of the number of company owner-managers overall, and is not an estimate the number of company-owner managers who receive dividend income in lieu of wages. There will also be companies with more than two directors who also own the company.

4. What is the estimated risk of losses from fraud or incorrect entries if the Treasury does undertake a scheme to support such individuals? What would this be if, for example, directors were to make their own applications for support based on what they believe is due with HMRC checking and clawing back money later?

It is difficult to quantify the estimated risk of fraud and incorrect entries, as this would depend on the design of any scheme. However, any 'pay now, claw back later' approach would be more susceptible to fraud and error than existing schemes, which are based on data HMRC already holds.

If directors were to make their own applications for support based on what they believe is due, it would require owner-managers to make a claim and submit information that would be very difficult for HMRC to verify up-front to ensure payments were made to eligible companies, for eligible activity. Trying to recover payments through a 'claw back' approach could create significant losses due to error, fraud and criminal attack, and there

[1] https://www.ifs.org.uk/uploads/R158_Who_are_business_owners_and_what_are_they_doing.pdf

is a high risk that incorrect or fraudulent payments could not be recovered, ultimately at the cost of UK taxpayers.

Furthermore, requiring manual compliance checks would be highly resource intensive for HMRC; due regard must be given to the opportunity cost for that resource and where compliance activity would have to be reduced elsewhere.

Forecasting and economic impacts

5. What forecasting on the economy and public finances is being done in the Treasury and across Whitehall? Who are the teams working on this? What information will be made available to the public about this analysis?

The Treasury does not publish forecasts of the economy or the public finances. The Office for Budget Responsibility is the UK's official forecaster. They produce independent forecasts of the economy and public finances twice a year, typically at fiscal events. The OBR published a reference scenario of the potential impact of coronavirus on the economy and public finances on the 14th of April. On the 30th of April, they also published a coronavirus policy monitoring database.

6. What are the sectoral and regional impacts of the coronavirus outbreak and social distancing measures in place? Which team in the Treasury is responsible for undertaking this regional analysis? What packages of support are going to be available for areas particularly hard-hit by the current health and economic crisis?

The economic disruption of the coronavirus outbreak is being felt across the UK, and PMIs have dropped to their lowest levels on record in every region and nation of the UK. Treasury officials are working with local leaders, MHCLG and other departments to understand the regional picture. This work is highly cross-cutting and a number of Treasury teams contribute to it.

The Government is committed to supporting all parts of the economy and we have provided an unprecedented national package of support in recent weeks, supporting businesses, protecting jobs, and providing our public services with the resources they need to cope with the pressures of Covid-19 in the short term. These measures are helping

CHIEF SECRETARY TO THE TREASURY

the most vulnerable people and businesses across all parts of the country. This includes £12.3bn to Local Authorities to support local businesses via the Small Business Grant Fund, and the Retail, Hospitality, and Leisure Grants Fund. In addition, we have announced up to an additional £617m funding to allow Local Authorities to establish a Discretionary Grants Fund. This was done to help many businesses excluded from the previous grants schemes because of how they are treated by the business rates system, but which still face high fixed costs. Local Authorities will be responsible for defining precise eligibility for funds in their areas.

As we think about economic recovery, our levelling-up agenda will be more important than ever. We will therefore continue to engage with local leaders, MHCLG and other departments to ensure all areas – particularly hard-hit areas – are supported to help them transition to an effective economic recovery.

Supply chains in developing countries

7. What pressure is the Government putting on companies to pay their suppliers in developing countries, particularly in the garment industry?

While these are commercial decisions for British companies to make, we would encourage them to act in good faith and consider the challenges that developing markets face, especially in this time of great stress.

Business Interruption Loans

8. We have heard reports that businesses that were not profitable at the end of 2019 are not catered for under Government schemes, even if in cases where they had been profitable in prior years. What is the Government doing to support businesses that were not profitable at the end of 2019, but have sound future prospects?

The government support programme must comply with European State Aid rules. The rules as they stand do not permit state aid to be provided to businesses classed as "in difficulty" at the end of 2019. My officials are actively exploring this issue as a priority to ascertain if there is anything more than can be done.

9. Why has it taken 8 weeks to work out that more needs to be done fast on very small firms, with regard to Bounce-back Loans?

We said from the start that we would do whatever it takes to support business and we are delivering on that promise. Although CBILS has been a success there have been some challenges with lending to smaller business at pace. BBLS, targeted at the smallest businesses in the country, was launched specifically to address these challenges.

10. How is the Government ensuring funds are distributed swiftly through the Large Business Interruption Scheme?

We are working closely with the British Business Bank to ensure smooth delivery of the Coronavirus Large Business Interruption Loan Scheme (CLBILS), and with lenders to monitor progress in processing applications and agreeing CLBILS loans. CLBILS is targeted at a smaller number of companies with a turnover of over £45 million and we would expect a slower rate of CLBILS lending given the nature of the borrowing: these are larger loans, for which we would expect lenders to carry out more detailed due diligence. Prospective CLBILS borrowers are also more likely to be multi-banked, access finance through syndicated facilities, and have more complex borrowing needs.

11. In order to qualify for the Future Fund, a company must have raised £250,000 in private sector investment in the last five years. Has the Government estimated how many start-ups are actually eligible for this help?

Approximately 7,000 small and medium-sized businesses have raised £250,000 in private equity investment over the last five years. Of these, hundreds could benefit from investment through the Future Fund, provided they can raise at least equal match funding from private investors. We have made an initial £250m commitment to the scheme and will keep its scale under review.

12. How many research and development firms will be eligible for the targeted £750 million of grants and loans?

The details of the £750m package are being finalised. The grants and loans will be made available to both existing Innovate UK customers and some new ones. Since 2007, Innovate UK has worked with 8,500 customers, with the support package aiming to expand Innovate UK's support for both new and existing customers through a mixture of grants and loans.

13. What is the amount of loans that the Government is anticipating that banks will disburse overall? We would be grateful if the Government provides a breakdown under every scheme.

There is no limit on the capacity of the scheme, in line with the Chancellor's commitment to do whatever it takes to get businesses through this period of uncertainty.

New starter furlough scheme

14. We welcome the Government extending the cut-off date for furlough to workers to 19 March 2020. However, guidelines issued by the Treasury indicate that in order to be eligible for support, the employee must have been notified to HMRC through an RTI submission on or before 19 March. We understand that some employees might have started in March, but the employer may not have made the RTI submission to HMRC yet. Can you tell us how many employees would be captured by the new cut-off date, and how many would still not be eligible for the scheme?

- *Also, we have been told by UKHospitality that recent changes to the eligibility criteria mean that that there are a number of people who previously thought they were eligible for the Job Retention Scheme but no longer are, for instance, there are people who have already been paid wages by the cut-off date, but their employer hadn't submitted their RTI to HMRC. Can you clarify whether this is the case and how many employees could this apply to?*
- *For those still not eligible, could HMRC not use alternative evidence of their employment such as their contracts?*

The government has announced that it would extend the cut-off date for the CJRS to 19 March – including employees whose payroll information was notified to HMRC by 19th March. The government expects over 200,000 employees who started a job in March to benefit as result of this change. This allows as many people as possible to be included by going right up to the day before the announcement, and balances the risk of fraud that exists as soon as the scheme became public. The government's priority has been to support as many people as it possibly can, and as quickly as possible.

15. Why has the Government taken the decision not to top up wages of those having to reduce their hours due to the coronavirus outbreak?

- *The Job Retention scheme has already been extended one month. Going forward, how is the Government intending to close the scheme? For instance, is it intending to extend the furlough scheme for an even a longer period of time to those sectors requiring the most support, such as in the hospitality sector for instance?*

The Chancellor has been clear that as we reopen the economy, we will need to support people back into work. To support this, on May 12 we announced that the job retention scheme would be extended for four months, until the end of October.

Until the end of July, the scheme will continue as it is. From August to October, the scheme will continue for all sectors and regions of the UK, but with greater flexibility to support the transition back to work.

Employers currently using the scheme will be able to bring furloughed employees back part time. Employers will also be asked to start sharing with the Government the cost of paying people's salaries. The Government is clear that workers will, through the combined efforts of the Government and employers, continue to receive the same level of overall support as they do now, at 80% of their current salary, up to £2,500 a month.

Service charge /"tronc"

16. We have also heard that a proportion of workers in the hospitality industry rely on service charges ("tronc") for their wages sometimes in the region of 20% to 50%. but these currently lie outside the Job Retention Scheme. Will the Government consider including service charges for these employees? For what reason is the Government excluding the service charge, especially where it is included on payslips?

The only payments in scope for the grant are those regular payments that employers are obliged to make, including:

- regular wages you pay to employees
- non-discretionary payments for hours worked, including overtime
- non-discretionary fees
- non-discretionary commission payments
- piece rate payments

The following cannot be included when calculating wages:

- payments made at the discretion of the employer or a client - where the employer or client was under no contractual obligation to pay, including:
    - any tips, including those distributed through troncs
    - discretionary bonuses
    - discretionary commission payments
- non-cash payments
- non-monetary benefits like benefits in kind (such as a company car) and salary sacrifice schemes (including pension contributions) that reduce an employees' taxable pay

The objective of the scheme is to enable employers to keep people in employment. To achieve this, the grants compensate employers for the payments that they are contractually obliged to make in order to avoid the need for redundancies. Covering discretionary payments would go beyond the objectives of the scheme.

The Government recognise that for some employees, the pay in scope for this emergency grant package will be less than the overall sum they usually receive. The Government is also supporting people on low incomes who need to rely on the welfare system through a significant package of temporary measures. This includes a £20 per week increase to the Universal Credit standard allowance and Working Tax Credit basic element, and a nearly £1bn increase in support for renters through increases to the Local Housing Allowance rates for Universal Credit and Housing Benefit claimants. These changes will benefit new and existing claimants. Anyone can check their eligibility and apply for Universal Credit by visiting https://www.gov.uk/universal-credit.

Industrial Strategy

17. In evidence to us, you referred to the Government's £3.5 billion package of support to the rail industry. What criteria is the Government using to decide which sectors or companies to support? Also, how will it decide whether it uses loans or equity as a mechanism of support?

The temporary "Emergency Measures Agreements", estimated at £3.5bn, will maintain continuity of passenger rail services of the Department for Transport's Franchised Train Operating Companies, and fulfil the government's legal obligation to provide rail passenger services (section 30, Railways Act 1993). More generally, in exceptional circumstances, where a company in short-term distress as a result of COVID-19 has exhausted all other commercial options, and its failure would cause disproportionate harm to the UK economy, the Government may consider entering negotiations to provide support on a 'last resort' basis. Any support will be for companies that have a viable long-term future and on terms that protect the interests of the UK taxpayer. The Government will determine what mechanism of support to use based on the circumstances of the sector or company in question and a consideration of how best to protect the interests of the UK taxpayer.

Benefits

18. The Government has increased the level of universal credit. Why has the Government not increased the level of legacy benefits?

The Government will make sure it protects, as far as possible, people's jobs and incomes. To support those on low incomes through the outbreak we have announced a package of temporary welfare measures, which will benefit both Universal Credit and legacy benefit claimants. We have focused on measures that can be quickly and effectively operationalised, with a particular focus on Universal Credit since it is the main working-age benefit open to new claims. Alongside the increase to the Universal Credit standard allowance, we have announced measures within the legacy system, such as increasing the Working Tax Credit basic element by £20 per week. We have also increased the Local Housing Allowance rates for both Universal Credit and legacy Housing Benefit claimants so that they cover the cheapest third of local rents.

Insurance

19. UKHospitality has told us that insurance is a big challenge for its members and that most of whom thought they had extensive cover have had their claims rejected. Has the Treasury been putting any pressure on insurers to act fairly?

Most businesses have not purchased business interruption insurance that covers losses from non-property damage. Additionally, while some policies cover losses arising from any disease classed as notifiable by the government, or a denial of access to a building, most of these policies only cover a specific list of notifiable diseases or an incident specifically on the premises of the business.

Where businesses have purchased cover that includes losses due to Covid-19 Financial Conduct Authority (FCA) rules require insurers to handle claims fairly and promptly; provide reasonable guidance to help a policyholder make a claim; not reject a claim unreasonably; and settle claims promptly once settlement terms are agreed. In addition, the FCA has said that, in light of Covid-19, insurers must consider very carefully the needs of their customers and show flexibility in their treatment of them.

The FCA has identified some policies for which the extent of coverage for Covid-19 losses are unclear. On 1 May the FCA outlined its intention to seek a court declaration in relation to policies with uncertain Covid-19 coverage, on an agreed and urgent basis, to resolve uncertainty for many customers making business interruption claims.

The Government is working closely with the FCA to ensure that the rules are being upheld during this crisis and fully supports the regulator in its role.

20. We have heard from the FCA that pandemics are not as readily insurable as other kinds of risk and that it may make sense to have some kind of Government-backed or Government-associated pooling of risk in this area. The ABI has stated publicly that the UK should examine public-private partnerships to find a lasting solution, and that this would have to involve very significant state support, to enable the provision of more affordable, more extensive pandemic insurance cover to be available to those firms who want it. Is the Government actively considering this?

The Government is exploring all options available to ensure businesses can build resilience in the future. A number of industry working groups have been formed to consider insurance solutions for future pandemic risk, including the possibility of public-private sector partnerships.

Securing insurance cover on a commercial basis is far preferable to government intervention. It reduces burdens on the taxpayer and means that private sector innovation and efficiency can be brought to bear. The Government however recognises that some risks cannot be covered on a private sector basis alone. But any solution should not be about replacing commercial cover.

The Government is open to discussing these proposals. The Government has previously acted in relation to risks for which adequate insurance solutions could not be provided by the private sector, such as terrorism and floods.

21. I hope this provides answers to your questions.

Best wishes,

RT HON STEVE BARCLAY MP