Written evidence submitted by Woodman Chairs Limited

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An established wholesaler of wooden chairs to the retail, hospitality and contract markets, who have suffered a very significant loss of business during the first and present lockdown, albeit, overall, @ 75% recovered between those periods.

Reason for submission

To highlight and seek correction of the clearly inequitable treatment of company directors paying themselves dividends, as ourselves, who have been unable to claim "furlough" equivalence support compared to PAYE employees or the self-employed.

To highlight the inequitable delivery of grants to small business due to overly crude and inflexible eligibility criteria.

To suggest basic ways in which support to small businesses might be better deployed in future.

Summary

HM Government should take fair, immediate and retrospective steps to place small company directors paying an element of their income by dividends on a level playing field with the self-employed (which, in practice, of course, they are) and (their) PAYE employee's. Not to do so would be actively discrimatory, inequitable, a flagrant breach of human fairness and just plain wrong.

It should also make eligibility criteria for grants more focused on actual loss - rather than on more arbitrary criteria applied merely because the latter had the advantage of simplicity. This correction is possible in a number of ways and can be applied retrospectively.

The Government, financially, is the lender/insurer of the last resort. If it, for the good of the many penalises the few, then the few should be properly and fairly compensated and with good grace in a timely fashion. Notwithstanding what has clearly and positively been achieved, what has largely been plucked is the low hanging fruit and what comes across in so many ways is an almost begrudging, in truth, limited and short term response, whereas a more open minded, fair, reasonable and long term approach would be far more likely to yield better long term outcomes.

Schemes such as the CBILS and Bounce Back Loan have been a welcome and essential part of immediate Government support. Their scope and range should be significantly expanded as a part of a broader plan and philosophy to support small and medium sized business in the future and possibly as part of the remit of a state "investment" bank.

Evidence

Equivalence for company directors paying themselves substantially by dividends

Your own Committee have already articulated in the very strongest of terms why the Government should put company directors (amongst other disaffected groups) paying themselves by dividends on similar terms to the PAYE and self-employed furlough schemes.

The government has offered no robust or reasonable argument against doing so, save to hide behind HRMC suggestion that they would have no adequate means of checking against fraudulent claims.

Whilst that risk is understood, it is, in reality, a clearly significantly overstated one and which must also be balanced against the risks that both the PAYE and self-employed scheme embrace anyway.

It would be perfectly possible for directors to self-certificate the element of their past dividend declarations which relate to employment (and in the vast majority of cases for small businesses they will be one and the same). There is also a cross check against statutorily filed company records. If necessary, a simple certification from the company independent accountants could be offered. The limit at £2,500 per month is itself an effective cap against real and substantial risk.

One can only conclude that HM Government has set its criteria at some crude and misplaced heroic notion of "control" or of saving the public purse, but rather it simply exposes itself as making no attempt at fairness. This is patently not good or responsible government.

Grants to small businesses during the pandemic

To look at the positives first, like the furlough schemes, these grants have been significantly helpful (essential even) in supporting many through this economic crisis. However, like the furlough schemes these were hastily put together for quick and simple roll out. Criteria was crudely set and as a result of arbitrary cut offs many otherwise deserving businesses did not receive any grant support. As time was generally of the essence this was, perhaps, understandable. But now there should be time to look more fairly at the inequities produced by the crude blanket approach and particularly at the margins of eligibility criteria.

It seems to us entirely inequitable that business such as ours, who are very substantially dependant on bricks and mortar retail and hospitality and an integral part of those supply chains should not get any grants or support or rate relief – yet are just as badly affected. Or that small business not actually paying any rates, as below the £15,000 cut off, should get a £10,000 grant, whereas we with an only marginally higher rateable value of £19,000 and paying rates of £10,000 , get no grant or rate relief.

The setting of criteria may, initially, have needed to be crude but there was and remains the possibility of tapering criteria or, now, retrospectively re-measuring against actual income loss. Both of these recalibration measures should be retrospectively introduced by Government. Various measures would be possible, ranging from allowing more tapered grant relief or equivalent tax or rates reliefs.

How to better support small businesses through and post pandemic

We think what most small businesses want is a fair and level playing field. That if their business are wholly or partly closed for the greater good, that society, as a whole, fairly and reasonably compensates them and in an open and honest manner.

As business people they are used to and understand risk and will generally accept that not all of that risk can or should be wholly compensated. Grants and furlough type relief will clearly go some way to help, but as set out above, application has been broad-brush and to a large extent arbitrary.

Businesses ultimately fail because they run out of cash (or of bank support). Propping up businesses that would have failed anyway should clearly not be part of normal Government activity but many other businesses will have also been tipped now into this category through no fault of their own. The CBILS and Bounce Back Loan schemes have been an essential and critical life line to the survival of many small businesses through the pandemic. The extensions of time to repay more recently added are also valuable additions. VAT and tax deferments have also been useful (but see below) to shorter term cash flow support.

The Government should – we would say must – extend and increase these schemes. The fact that some of these supported loans will, inevitably fail and are already bad, is simply the nature of the beast and do not at all render the policy unsound. It is imperative that Government continues to support the economy to recover and that recovery will take several years and is a medium to long strategy not just a short term necessity.

Whilst criteria may need to be more particularly applied and with greater emphasis on growth than raw survival, increasing government support for small business through such as CBILS type schemes MUST be a medium to long term strategy. Equity type funding at very small levels and a medium to longer term view has been very sadly lacking in lending circles in the UK for many decades – if it has every truly existed at all – and which demand or need we have, quite wrongly , expected or assumed high street banks would meet. Government has to be more prepared to “soft fund” or take even really small equity type risks backing individuals and small businesses. Whether this is best achieved by a state “investment” bank or channelled through existing commercial banks with supported schemes is we think less important, but why not both – and experiment. Getting real - short, medium and longer term - well-structured financial support to business, matching entrepreneurial spirit to necessary money, has long been what holds us all back. Government should lead the markets in the direction it needs to go.

In the short term, do NOT pull plugs too early. Cash flows within many businesses are still far too fragile and uncertain. Society generally (“we all”, that is), can wait a little longer for “our” money back. For now it has to let more cash stay in the business community, circulating. Government should be flexible and intelligent on tax and VAT repayments and be prepared to defer both individually and on mass. There is, we think, a strong case, now, for allowing the equivalent of at least another 3 to 6 months deferment of such taxes generally. Or allow these to be added to existing (or new) CBILS or Bounce Back loans. Right now, business needs the cash flow more than do we, the people. Or at least, the people to part with it.

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