Written evidence submitted by the British Chambers of Commerce

ABOUT THE BCC

The 53 Accredited Chambers which make up our network are trusted champions of businesses, places, and global trade. Together, we represent tens of thousands of businesses of all shapes and sizes, which employ almost six million people across the UK.

Working together, we help firms of all sizes to achieve more. We believe it's our relationships with others that lead us to achieve goals beyond those we could ever achieve alone. We're the only organisation that helps British businesses to build relationships on every level, in every region and nation of the UK.

Our network exists to support and connect companies, bringing together firms to build new relationships, share best practice, foster new opportunities and provide practical support to help member businesses trade locally, nationally and globally. Because we sit at the heart of local business communities in every part of the UK, we are uniquely placed to help businesses of every size and sector to thrive. This includes the active role Chambers and their members undertake to improve the local business environment and communities in which they work. Our opinions are regularly sought by policymakers and parliamentarians and we've been helping to shape the UK's business agenda for more than 150 years.

INTRODUCTION

The BCC welcomes the opportunity to respond to the Treasury Committee inquiry into the economic impact of coronavirus. As things stand our members believe while a swift 'V-shaped' economic revival as restrictions are lifted may prove too optimistic, government support can play a vital role in avoiding a prolonged downturn. The extension of the furlough scheme was a crucial first step, but more needs to be done to ensure that the right support is in place to deliver a successful restart of the economy. This should include steps to offset the demand and supply side shocks to the UK economy caused by the pandemic and to build economic resilience:

- Extend key loan and grant schemes and rates reliefs to help more businesses survive and adapt
- Substantial reductions in Employer's National Insurance Contributions to support jobs
- Major new support for youth Apprenticeships and work experience
- Incentives for businesses to invest in productivity, people and carbon reduction
- Demand stimulus, e.g. via targeted 'restart vouchers' for all UK households or a temporary cut to VAT
- Streamlining regulatory processes to make life easier for businesses without compromising safety or the environment

JOB RETENTION SCHEME AND SELF-EMPLOYMENT INCOME SUPPORT SCHEME

Feedback from our members confirms that the Job Retention Scheme has been very successful in its aim to protect jobs and livelihoods during the pandemic. The BCC's Coronavirus Business Impact Tracker[1] which serves as a barometer of the pandemic's impact on businesses and the effectiveness of government support measures, show that majority of employers (around 70 per cent) have furloughed a portion of their staff. The scheme continues to prevent firms having to make redundancies, with very few respondents making any to date.

Cash-poor firms, with less than three months' cash in reserve, remain more likely to furlough portions of their workforce. Therefore, it is particularly welcome that 85 per cent of respondents have received payment from furlough scheme. We congratulate the Treasury and HMRC on the simplicity of the scheme, the remarkable pace of development, and on providing payment to businesses promptly within six days of application.

Our members are also pleased to see that the UK government listened to business communities and extended the scheme to the end of October and struck a careful balance that will help many firms bring furloughed staff back to work flexibly over the coming months. The gradual reduction in furlough contributions from the Treasury will give businesses additional time to rebuild their income streams and cash flows, and the decision to give businesses maximum flexibility to bring people back part-time will be appreciated.

Businesses are eager to return to full operations where they can do so safely. However, for many, this will not be possible until the lockdown restrictions have been fully lifted and demand recovers. Over the coming months, our members believe that the government will need to be open to providing new and additional support for businesses and staff who are unable to get back to work for an extended period, especially in sectors of the economy facing reduced capacity or demand due to ongoing restrictions.

On the self-employment income support scheme, feedback from our members confirms that it is providing a vital lifeline to many self-employed people, many of whom have seen their livelihoods vanish overnight. Similarly, the extension of support for the self-employed will come as welcome relief for those who have seen their livelihoods impacted by the virus. It is right that this group continues to receive similar levels of support to those on the job retention scheme.

[1]BCC Coronavirus Business Impact Tracker, 609 responses, conducted from 13 - 15 May

Yet while there is welcome support for staff, and the self-employed, many owner directors that have setup as a Ltd company have fallen into the gap between the Job Retention Scheme (JRS) and Self-employment Income Support Scheme (SEISS) because they take only a minimal salary and instead largely rely on company dividends for their income.

Examples of businesses falling in the gap between CJRS and SEISS include a small business in Northampton which setup as a limited company and took a minimal salary with the majority of their income via dividends, as per advice from our accountant. Under CJRS they would only receive 80% of £700 with no protection for their other income. Similarly, an owner/director with an annual salary of just £8,600 which was then topped up by dividends all of which is taxable. 80% of £717 doesn't really amount to much.

Our members therefore believe that income protection support for owner/company directors in limited companies should be extended so that it is on a par with the support available for employees and the self-employed. We believe this can be achieved by:

- **Extending CJRS** - so that owners/directors can furlough themselves to cover 80% of average monthly earnings from company dividends over the last three years and their salary paid through PAYE, capped at £2,500. The proportion of monthly earnings covered, and the cap would be tapered in line with the most recent changes to the scheme.
- **Extending SEISS** - so that owners/directors claim a taxable grant worth 80% of their average monthly earnings from company dividends and PAYE salary, paid out in a single instalment covering 3 months' worth of income, and capped at £7,500 in total. They would also be eligible for the second grant where the proportion of monthly earnings covered, and the cap would be tapered in line with the most recent changes to the scheme.

Those eligible for the support should be tightly defined to help those most in need. It should therefore cover only active micro firms, where the owner/director is working in their own personal company, and on the payroll on March 19. The payment can be administered in the same way as CJRS/SEISS, via payroll and subject to tax and NICs.

While our members understand the technical challenges that need to be overcome, including whether HMRC are able to establish dividends that derive from an individual's own company and dividends that derive from other sources. However, we believe that there are a number of practical solutions to deal with the technical barriers to extending income support for owner/directors of limited companies.

Under our proposal, owners/directors would need to make manual claims, clearly evidencing from formal financial accounts of declared dividends, and if necessary, any share splits. Personal self-assessment forms, CT600 forms, company dividend vouchers, board minutes, or certified accountants' records could all be used to support claims and where possible cross-checked with real-time information submitted by accountants to HMRC. Additional information considerations maybe needed for micro-entities.

In line with a number of the other government support measures, the owner/director should be able to self-declare with HMRC adopting a "pay first, check later" to accelerate the process. HMRC should have the right to retrospectively audit any claimants to the scheme, with scope to claw back amounts claimed fraudulently or in error. If delivered such a scheme would help to protect these critical important firms, providing urgently needed headroom to support the recovery.

SUPPORT TO BUSINESSES AND FINANCIAL SERVICES

Our members believe that HM Treasury should publish more granular data, including at a local and sector level, on applications, approvals and rejections for each government loan schemes to help inform both national and local policymaking.

Bounce Back Loans Scheme

Feedback from our members confirms that the Bounce Back Loans Scheme (BBLS) is playing a key role in getting cash to the front line to support our smallest companies. For example, a chamber member reported that:

"I must confess to being extremely impressed with the bounce back loan scheme that has been offered by the government through my bank. As a small consultancy, we have experienced a dramatic decrease in income since the crisis hit. We are starting to see some green shoots and we are keen to really take advantage once a little confidence returns. The bounce back loan represents an important capital injection which will allow us to invest in innovation and marketing to get us back on track. The process was a simple on-line application and we had the funds in our account within 48 hours. All in all a thumbs up from me for this initiative."

However, some members are also reporting that due to the relatively limited number of accredited lenders they are effectively locked out of the scheme if their currently lender has not been accredited because approved lenders are largely focusing on existing customers.

There is also a concern that customers of specialist non-bank lenders such as fintech firms and local community lenders are also struggling to access BBLS. For example, a chamber member reported that:

"Unfortunately there are only a few banks on the scheme, mainly the high street names and all of them require you to be an existing business banking customer to even apply for this. Many SMEs like ourselves use internet banks who are not able to offer this facility. A massive oversight here leaving a lot of businesses disappointed after raising hopes with all of the advance publicity."

Coronavirus Business Interruption Loan Scheme (CBILS)
While our members welcomed the introduction of CBILS, the acid test for the scheme will be whether it is able to get credit flowing quickly to firms who most need it. Feedback from our members confirms that while the number of firms accessing CBILS is on an encouraging upward curve, a concerningly high number of firms continue to struggle to access this crucial lifeline. The complexity of the application process and a slow or lack of response from the relevant body were cited as reasons for those who were unsuccessful. For example:

Confusion over CBILS eligibility criteria:
In mid-April they were informed that they did not meet the parameters for CBILS for a loan of £25,000, The banks reasoning was that in 2016/17 we would not have met the "Affordability Criteria", even though subsequent accounts were ok.

Concerns over bank response rate on CBILS:
A sports and events business made a CBILS application, via their bank. It took four weeks for the bank in question to respond to their initial on-line application and they were then informed there are a further three stages to go through, including a telephone recorded interview.

It has been good to see the government have been listening to business concerns making improvements to the CBILS schemes since its launch 23 March, including the banning personal guarantees for facilities below £250,000. However, CBILS scheme can still be improved as many are still finding accessing the scheme too complex and too lengthy.

Our members believe that CBILS would benefit from a more standardised approach, replicating the template for BBLS. There should be a simple and clear viability test that is standardised across all accredited lenders as the current approach remains too much of a subjective judgement call for the lenders which is causing unnecessary delays There should also be a standardised interest rate charged on CBILs facilities, after the initial 12 month interest free period. There should also be a public commitment from the major banks to provide overdraft facilities under CBILS as they can play a critical role for those who are facing an immediate and significant loss of cashflow.

Companies with private equity funding - many such applicants are being rejected as "undertakings in difficult" because they were acquired using a leveraged buyout structure or with growth capital. The commission should alter the rules temporarily to allow access for firms who are funded primarily by debt, are investing heavily to grow and are otherwise performing well. We understand that this is not entirely within HM government's gift but we ask that they work towards the most permissive approach possible, as quickly as possible.

OTHER GOVERNMENT INTERVENTION

Discretionary Fund

Our members welcomed the BEIS announcement of a discretionary fund for small businesses on 2 May. Many businesses had been falling through the gaps around the original business rates grant scheme, particularly those who paid business rates indirectly via overall rents. As the scheme has continued to be developed, our members have reported a number of problems.

The size of the discretionary fund is insufficient to meet demand from eligible businesses. Our discussions with local authorities in some areas initially estimated, for example, that charity groups alone could use up all the funding grant, whilst B&Bs were also potentially a very large claimant group. We are therefore concerned that the available money will run out quickly and that businesses who are eligible and in financial distress could lose out. The available level of funding in some local authorities will also mean very small grants compared to the original scheme – which are likely to be insufficient from stopping some businesses from going under.

Our local intelligence suggests that many local authorities are struggling to design this scheme and deal with potential administrative complexities: for example understanding how to prioritise within diverse groups against need, demonstrating 'significant fall in income due to Covid-19' and filtering out B&Bs from rented premises/rooms hosted on platforms such as Air BnB. It's also unclear how a Local Authority can verify whether the applicant business would be eligible for SEISS either at the time of application or as part of post assurance checks. If the scheme is distributed on a first come first served basis, the chances of unequal outcomes rise significantly.

Our members believe that the size of the discretionary fund should be increased to ensure that all local authorities have sufficient funding to support all eligible businesses identified by BEIS. Local authorities would need to demonstrate they have an oversubscription of eligible businesses to access additional funding. If there emerges a major discrepancy between the levels of grants being given to trading businesses between local authorities, additional funding is given to ensure businesses receiving low levels of grant are topped up if they can demonstrate significant financial distress.

ECONOMY, PUBLIC FINANCES AND MONETARY POLICY

The speed and scale at which Coronavirus has hit the UK economy and economies around the world is unprecedented. The results from BCC's weekly Coronavirus Business Impact Tracker, which ran over an eight-week period between 25th March and 15th May, while broadly consistent with an historically significant contraction in economic activity in Q2 there are signs of a 'bottoming out' in the declines in business conditions.

The first weeks of the tracker showed that the vast majority of firms saw decreases – mostly significant decreases – in revenue from both UK and overseas customers. This trend levelled off in later weeks, with an increasing percentage of firms reporting 'no change'. Similarly, cash reserves: at the start of the tracker, almost two-thirds of firms reported that they had less than three months in cash reserves. This gradually declined to around half of firms in later weeks.

Economic Recovery
While a swift 'V-shaped' economic revival as restrictions are lifted may prove too optimistic, our members believe that much can be done to limited government support can play a vital role in avoiding a prolonged downturn much can be done to limit the economic scarring to avoid a prolonged downturn and kickstart an economic recovery. This should include:

Offsetting the supply shock:

- **Closing gaps in government support**
  The extraordinary actions taken by the UK government to support UK business during this unprecedented economic storm have provided a real lifeline to businesses across the UK, many of whom have seen their livelihoods vanish overnight. Feedback from our business communities also makes it clear that a significant number of firms are falling through gaps in the existing support. It is vital that these gaps are closed to help protect the supply capacity of the UK economy. This includes extending income protection support for owner/company directors in limited companies (see page 3 for details) and an expansion of the discretionary fund (see page 5 for details).

- **Extending government support**
  Our members believe there this include creating a new grant scheme to support SMEs seeking to re-establish operations, in sectors which meet defined criteria. A new scheme of grants (which could be at the £25,000 level as per previous schemes) could be linked to the adaptations that a company needs to make in order to open successfully and sustainably. We would want to see such a scheme operating UK-wide, with collaboration between the UK Government and devolved Governments to ensure a similar level of support across all four nations.

  Our members also believe that the 100% Business Rates discount to all businesses (irrespective of rateable value) in the retail, hospitality and leisure sectors in England for 2020-21 should be extended to all businesses in the hardest hit sectors and their direct supply chains

- **Support to upskill and reskill to help people back into the labour market**
  As sectors of the UK economy are reshaped, and in some cases are smaller in size as a consequence of the pandemic, there will inevitably be people who lose their jobs. It is crucial to the recovery that we can get them back into work as quickly as possible. There must be an

immediate ramping up of support that includes pre-employment training, one-to-one coaching and additional specialist support, where needed. Rapid bite-size training and re-skilling opportunities are needed to help people and businesses benefit from new opportunities in the changing workplace. There should be a particular focus on easing the path of employment through to those sectors that are growing, particularly the tech and digital sectors and the clean energy sector.

Drawing upon the interim findings and recommendations of the BCC's Workforce Training and Development Commission, it is vital that steps are taken to ensure the skills system meets the needs of employers, workers and apprentices as the economy restarts. The Commission's research highlighted the need for more flexible, bite-sized forms of training that help people to quickly upskill and reskill as the workplace evolves. With young people likely to be disproportionately affected by the recession, the Future Jobs Fund should be relaunched to give them funded work experience with businesses The government will need to be more active in the labour market, helping workers and firms to find each other more easily and providing incentives to encourage hiring and support upskilling and reskilling AIA should be broadened to include investment in training.

- **Support for Covid-related absence from work**
  Additional support is needed for SMEs to help meet the employment costs of people who are forced into Covid-related absence from work. Track and Trace is likely to result in employers having to pay for staff members taking multiple periods of sick leave. To ensure employers can continue to maintain a diverse workforce, additional support is needed to manage these additional absence costs for as long as public health authorities continue to require enforced two-week periods of absence from work. This should include employers being able to reclaim more than the current two weeks of Statutory Sick Pay per employee. There is a good argument for being able to reclaim all Covid-related SSP, or alternatively the Government might consider a more limited expansion to three periods of two weeks.

- **Easing the regulatory burden on business**
  A temporary easing in planning rules and fees that would ordinarily be in place for firms who change aspects of how they have previously operated, if it enables them to keep open and adhere to the latest guidance. For example, any licencing fees for bars and cafes that will need to shift to serving outdoors on pavements in order to adapt to social distancing, should be waived. At present, we have reports of several local authorities charging for these changes, although others do not, which risks a 'postcode lottery'.

Stimulating demand in the economy:

- **Consumer Demand** - There is likely to be some pent-up consumer demand released as households get more opportunities to spend as the economy gradually reopens. However, incomes of many workers have been badly impacted by the pandemic and the lockdown and together with concerns over a second wave of the pandemic and the near-term economic outlook could see many consumers could hold back spending and engage in increased precautionary savings which would be a drag anchor on the economic recovery, particularly given that consumer spending is a key driver of the UK economy. Boosting consumer demand by supporting spending in the short-term through measures such as a temporary cut in VAT to 17% and vouchers to aid spending in those sectors hardest hit. The timing of a such measures will be important to so that demand and supply grow in tandem.

- **UK business investment** - the impact of the crisis of firms in terms of deteriorating cashflow, higher debt burdens and lower confidence could see many firms hold back from investing, impeding productivity and the recovery. Measures to ease the cost of doing business in the UK and deal with the high debt burdens should be considered to provide businesses with the headroom to invest. Major incentives for firms to crowd in investment and deliver productivity improvement such as extending the £1 million Annual Investment Allowance beyond 31st December 2020 and a moratorium on all policy measures, including new regulations, that increase business costs for the life of this parliament to provide businesses with the urgently needed headroom to invest in growing their business.

- **Accelerate infrastructure investment** - such investment has one of the highest multiplier effects among all types of fiscal stimulus measures through support to the labour market, investment, reinvigorating supply chains and supporting international trade. Therefore, our members believe capital expenditure should be accelerated to ensure significant progress is made on ‘shovel ready ‘infrastructure projects.

Building economic resilience:

- **An exit strategy to deal with the high debt burdens**

  An interim report by the Recapitalisation Group, led by EY and TheCityUK, projects that businesses will be saddled with £97bn-£107bn worth of unsustainable debt by March 2021 - a third which will come from government-backed loans. Many businesses have taken out loans to help weather the unprecedented economic impact of Coronavirus, and bold solutions will be needed to prevent thousands of firms from falling into a spiral of unsustainable debt. If not addressed such large debt burdens would stifle the recovery by constraining business activity and investment. We support the work of TheCityUK Recapitalisation Taskforce in finding practical and sustainable solutions.

  A number of the approaches should be investigated further - including a ‘student loan’ type instrument, where repayments begin once revenues return to pre-crisis levels, for smaller firms. A debt for equity solution could provide a useful solution here with the recent launch of a future fund represents a potential testing ground for increasing the breadth of corporate ownership Feedback from our members suggests a one-size fits all approach should be avoided and the financial instruments should be deliverable and simple and easy to understand for business. Government, regulators and the financial services sector must work together with business communities to find solutions that help viable businesses recover and invest as they emerge from this crisis.

- **Accelerate introduction of Postponed VAT Accounting**
  The deferment of VAT payments for the period between 20 March and 30 June is extremely welcome. However, it appears that Import VAT and duty payments have been omitted from the list of payments that businesses are able to defer. To boost traders' cash flow, and keep goods flowing through our ports, this anomaly should now be corrected, and postponed VAT accounting introduced immediately for import VAT and import duty payments. This would allow businesses three months' breathing space on £25bn in import VAT and £3bn in import duties, in line with the broader VAT deferral already put in place.

  We ask that HM Treasury immediately introduce Postponed VAT Accounting for goods entering the UK from anywhere in the world – rather than wait until 1st January 2021. By bringing forward the transition to these new arrangements, HM Government would be supporting traders' cash flow and ensuring that vital imports from around the world make it into UK supply chains.

- **Confirm intentions for the UK Shared Prosperity Fund**
  From city regeneration schemes to business support, investment finance to research collaboration, businesses do not want to see a damaging 'cliff edges' in funding. We call on Government to publish and consult on proposals for a UK Shared Prosperity Fund – with a commitment to maximum local autonomy, a strong voice for business and a focus on economic growth.

- **Economic plan for potential localised lockdowns**
  Publish a plan for minimising the economic impact if localised lockdowns are required. This should include additional financial support measures for firms who are required to shut down – including both grant and wage support. There also needs to be an economic plan in place in case of a second wave of the Coronavirus. Both of these will allow businesses to prepare contingency plans now, minimising potential disruption and catalysing reopening later, if required.

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