

Written evidence submitted by ICAEW

ICAEW welcomes the opportunity to submit written evidence to the **Economic Impact of Coronavirus** inquiry, opened by the Treasury Select Committee on 19 March 2020. This evidence is supplementary to **ICAEW REP 12/20**, which was submitted on 23 March 2020. We welcome parliament's continued action to gather feedback of the government's support packages.

At this stage in the government's response to the pandemic, there are a number of areas that require further attention. In particular we believe government should look at:

- the coverage of support measures;
- how to achieve an appropriate and targeted mix of continued forbearance and recapitalisation for 'unsustainable' debt;
- restrictions caused by state aid rules;
- implications for accounts and audit;
- how the tax system can support recovery;
- urgent reform of business rates;
- how deferred tax payments can come back on stream sustainably; and
- revisiting 'crown preference'.

ICAEW's Technical Policy set out in this response has been informed by ICAEW's faculties and communities - recognised internationally as a source of expertise on specialist issues in their areas – and through strong engagement during the present crisis with chartered accountants in business and practice.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 184,500 chartered accountant members and students around the world. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

1. We are responding to the Treasury Select Committee's further call for evidence on the economic impact of coronavirus. We understand the committee is assessing whether the government's response to the coronavirus is sufficient, and asking for areas where more support is needed.
2. The comments in this written evidence focus primarily on individual citizens, the self-employed and small and medium sized businesses. For the largest businesses, issues around financing, reporting and governance are more complex. The Financial Reporting Council (FRC), the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) have implemented measures to underpin market stability, which are dependent to some extent on decisions government, and the regulators themselves, make about the targeting, timing and structure of reliefs. We understand these are being kept under review.
3. Our points on areas where government policy might go further are stated as of 17.00 on 26 June 2020, but we are aware that many of them are under active consideration by government and might be acted upon in the near future. ICAEW is a body whose members (1) are accountable under a code of ethics; and (2) have unequalled access to all sizes of UK businesses and organisations. In that context we have been seeking to play and want to play a constructive role in supporting government and would be willing to provide further detail in understanding any of the issues raised in this response.

KEY POINTS

4. At this stage in the Coronavirus pandemic, large parts of the economy are now dependent on government support. This is unprecedented and highlights a number of areas where government will have a key role to play in the recovery:
 - Coverage of support measures: the committee's interim report highlighted gaps in the government support provided, which collectively affect a large number of people. While the broad and extensive government support provided has enabled many businesses to tide themselves over during the lockdown, questions will inevitably be raised about the equity of the schemes' coverage. They should not be forgotten as government makes decisions about sustaining and extending support.
 - Appropriate and targeted mix of continued forbearance and recapitalisation: there is now a very large, and growing amount of likely unsustainable debt in the UK economy, most recently illustrated in the interim report from CityUK's recapitalisation group. Much of this debt will need to be restructured, and this market-led group has set out a range of interesting potential solutions. However, forced recapitalisation, and its trigger event(s), have negative direct and unintended consequences for business and wider society, and ICAEW has highlighted some of these in feedback to the group. We believe that an immediate government focus must be to lead a joint public/private strategy of continued business support and carefully targeted forbearance. Government should, of course, consider all good ideas and ICAEW is prepared to help with and support this. Government should consider how this should happen, what support it will need to provide. That might include considering its transfer from the banks' balance sheets into a vehicle designed for this purpose. Innovative solutions will be necessary. Nevertheless, in designing these solutions government should consider carefully the borrowers' perspective. Decisions will need to be taken about when and how to communicate to borrowers and what triggers will push loans into restructuring. It's essential that these are objective, certain and simple (see para. 33).
 - Restrictions caused by state aid rules: We have seen that state aid restrictions have had significant implications on the availability of CBILS for some types of business. The application and interpretation of state aid rules, which categorise a large population of businesses (which after lock-down might be perfectly viable) as 'Undertakings in Difficulty', has severely restricting access to CBILS and CLBILS for many companies whose capital structure is intended to support and drive growth. The government can

help mitigate this by requiring consistent interpretation by those charged with delivery of state-backed schemes (see paragraph 29). But with unprecedented levels of government support now perhaps being a feature of the economic landscape for an extended period, and the opportunity outside the EU to reconsider this, government should also look again at state aid rules.

- Implications for accounts and audit: Important components of our financial system rely on being able to make reasonable assumptions about the future. The going concern assessment that is done as part of preparing audited financial statements relies on businesses looking forward, considering factors like refinancing dates and conditions that might impact a business's ability to continue. Disclosure in financial statements also needs to comment on these factors. For many businesses, future prospects in the medium term now depend on government decisions. In making these decisions government should be mindful of processes and safeguards in the economy, like audited financial statements, which have to be produced at a point in time and need certainty at that point.
- A tax system to support recovery: ICAEW has expressed concern for some time about key elements of the tax system. As the government seeks to support recovery and repair the fiscal position, these issues have never been more important. Urgent attention is needed on employment status, to enable taxpayers to determine with much greater certainty whether they are employed or self-employed. Government also needs to consider the tax differential between employment and self-employment. IR35 is a sticking plaster and although the extension of the off-payroll working rules to the private sector has been deferred to April 2021, we remain concerned it is too soon and that there should be a wide-ranging review of the work in accordance with the recommendations in the 2017 report *Good work: the Taylor review of modern working practices*.
- The business rates system also needs urgent reform. It was inevitable that it had to be suspended for large parts of the economy at the outset of the crisis, as its failure to flex rapidly enough with economic conditions would have exacerbated hardship. Its reintroduction in April next year will bring these issues to the fore.
- Review the deferral of tax payments. Consideration also needs to be given to the repayment of the various tax payments which have been deferred. There is a real danger that these deferrals may come back into charge at a time when many businesses are still facing liquidity problems.
- Revisit crown preference: Crown preference, which will elevate claims by HMRC above other creditors, is set to be reintroduced in December. We are concerned that this will affect the availability and cost of finance for businesses and December 2020 seems a particularly inappropriate time to make this change.

ANSWERS TO SPECIFIC QUESTIONS

JOB PROTECTION SCHEME AND SELF-EMPLOYMENT INCOME SUPPORT SCHEME

How effective have these schemes been in maintaining employment and reducing job losses?

5. The Job Retention Scheme appears to be working well for many businesses. We understand that the scheme was intended to support lockdown, while avoiding unnecessary redundancies at that time, and it appears to have met this objective. Large numbers of businesses have accessed the portal to make claims and it is impressive that this has been made available at the pace it has been. The committee could monitor the level of payments made and compare this to expectations. Members told us:
"Job retention scheme yes, this has helped support our salary costs which are a large part of our fixed costs. Activity is at 20% of normal levels, so rather than significant scale

redundancies we have furloughed 80% of our workforce and accessed significant support via the CJRS.”

“Will access shortly through CJRS which will give us longer to recover.”

6. Nevertheless, inevitably many jobs will have been lost in the crisis and there is clearly a risk that redundancies will continue to mount the longer the situation continues. The steps government has taken to incrementally increase employer contributions are sensible in incentivising employers to identify positions that will not continue while continuing viable positions to be held open. We hope this will help ease the transition into recovery.

What problems (if any) are individuals facing in claiming support from the Job Retention Scheme and the Self-employment Income Support Scheme?

7. Given the scale and scope of the schemes it has been impressive that they have been delivered effectively within the advised timescale. An unprecedented amount of cash has flown into the economy through the scheme, which indicates it has been effective.
8. Issues that have arisen have included difficulties in calculating reimbursement under the scheme, particularly with the scheme requiring the use of calendar days rather than working days. Inputting data manually for payrolls of under 100 people, as is required, has been time consuming. One member operating a payroll bureau told us they had encountered “huge difficulty manually inputting individual furloughed employees personal details for employees with less than 100 staff.”
9. Other members have experienced problems with furloughing recent joiners.
10. Agents should be able to access support schemes on behalf of clients: It is vital that agents are able to act on behalf of their clients when it comes to accessing the schemes. Although agents have been able to access the CJRS, they have not been able to access the SEISS. As a result, we think it likely that some taxpayers, notably the digitally excluded, will fail to claim the grant by the deadline.

Is the Government doing enough to ensure that businesses and individuals are claiming appropriately and that fraudulent claims are detected?

11. These are unprecedented schemes, with the objective of enabling people to stay at home while mobilising emergency financial relief. Inevitably, there is a trade-off between the security of the schemes and their rapid deployment. By using established channels, where robust data was already held, we believe government has designed the schemes with an objective of minimising abuse, as far as possible.
12. However, the wide access and rapid deployment of the schemes will inevitably have made them vulnerable to misuse by criminals and HMRC should be equipped to deploy incremental resource to identify abuse and apply sanctions.
13. To support businesses that have accessed these schemes under conditions of severe pressure and may subsequently face investigation by HMRC, government can help by:
 - expediting the progress of investigations so taxpayers can expect swift resolution;
 - providing clarity on penalties and routes for taxpayers to easily settle repayment of any amounts they subsequently believe have been claimed inappropriately;
 - ensuring that legislation (the Direction under sections 71 and 75 of the Coronavirus Act 2020) and the enforcement approach are consistent with the already published guidance.

Has the Government struck the right balance between targeting support and making it easy to access?

Where has Government support been too generous and where has it not been generous enough?

How successful has the Government been in plugging the gaps in the schemes?

What gaps in coverage still remain and are changes required to increase their effectiveness?

14. The government has had to make tough decisions under high pressure to get cash out into the economy while minimising opportunities for misuse. The scale of the stimulus and how it is distributed are questions of public policy. Funds have been easy to access by those eligible for them. However, where we have heard concerns from our members, these have largely related to gaps in scheme eligibility. These are outlined in paragraphs 22-33.
15. We note the Treasury Select Committee's analysis into gaps within the support schemes as set out in this inquiry's **interim report**, and echo its recommendation that the government explore what further action can be taken to address these.

How viable is it for the Job Protection Scheme and the Self-employment Income Support Scheme to be open for longer?

How and when should the Government's support packages be wound up?

16. We welcome the efforts the government has made to redesign the JRS to change its focus to support reopening. Businesses will need support over the medium-term and in some sectors, for example hospitality and sporting, this may need to continue for longer. We expect the Chancellor's anticipated announcement about fiscal stimulus will set out what government intends to do in this regard

How should the Government prioritise which continuing sectors and groups to support as time goes on and ongoing support is needed?

What actions does the Government need to undertake to pursue to support a successful exit strategy?

17. We welcome the redesign of the furlough scheme to accommodate part-time work. This is an important adaptation to support recovery. Government will need to continue to monitor the scheme to review its effectiveness in supporting recovery and identify where and how it needs to be modified.
18. Decisions about targeting support by sector need to be made by government. We note that some sectors will typically not be profitable at moderate or low levels of occupation. As profitability is an accounting measure, we encourage the government to engage with the accountancy profession to help understand and measure these factors in designing measures to deliver its policy objectives.
19. We note that businesses with high business rates liabilities will be particularly challenged in the recovery. As we have previously noted to the committee, the business rates system is not fit for purpose in a downturn. It is a very material fixed cost that does not flex with business success. It was therefore inevitable that as the crisis struck business rates had to be suspended for a large part of the economy. Given the significant revenues this represents, that will present a major challenge to government and that must be addressed as a matter of urgency. Now is the time to make once in a generation changes to improve the existing business rates system.
20. We also note that many businesses have taken advantage of a tax payment holiday, but they will have to pay the amounts due once the deferral period ends. Whether there is a further extension of this support, and how that is phased, will be crucial to many businesses.
21. At the same time the reintroduction of 'crown preference', which subordinates private creditors to HMRC will affect the pricing and availability of finance for some businesses. This is due to take effect in December 2020, which is very unfortunate timing given the current situation.

SUPPORT TO BUSINESSES AND FINANCIAL SERVICES

How effective is the Coronavirus Corporate Finance Facility, Coronavirus Business Interruption Loan Scheme, and the Coronavirus Larger Business Interruption Loan Scheme? In particular, are these measures succeeding in preventing viable businesses from potentially going under during the Coronavirus lockdown?

How effective has the Government support been so far in terms of coverage and speed?

What gaps are there for businesses within the schemes?

22. There are a number of factors to consider when evaluating the effectiveness of Government support, and granular data will be needed for this purpose. It is premature to form a conclusive view on that effectiveness based on data published by HM Treasury to date, as such data lacks granularity and HM Treasury itself indicates may be incomplete. For example, oversubscription to schemes may indicate the relative attractiveness of the terms rather than the need for support. HM Treasury also points out that the data for CBILS include facilities subsequently converted to BBLs so there is an element of double-counting.
23. Businesses will fail unnecessarily without liquidity. It is essential that government measures are effective in quickly getting cash to where it's needed. We welcomed the announcement of the Coronavirus Business Interruption Loan Scheme at the beginning of the pandemic crisis and appreciate the steps taken since then to adapt and extend it, such as the removal of the need for personal guarantees for loans under £250,000.
24. Initially, the banks were quite slow in approving loans under CBILS and a number of banks were not accredited under the scheme. To a large extent, these problems have been resolved. Regarding coverage, banks are still quite wary about making loans available to their existing clients (never mind new customers) – this is partly driven by the concern that if they do not follow the correct processes in determining whether a customer is eligible for a loan, the government guarantee will not be effective and so they will be left with 100% of a defaulting loan.
25. CCFF has provided valuable liquidity for some businesses, and has taken pressure off other banking facilities. We understand that a problem created by the BoE's remit that allowed it to unilaterally revoke an issuer's eligibility, at any point after initial acceptance and without explanation, has been addressed as it will not now apply where the business has drawn down the facility. Government will also need to keep under review its and the BoE's commitment to maintaining and extending CCFF funding. Although this point will undoubtedly be high on agendas at present, the government should be aware of the potential implications for audited financial statements of uncertainty related to the continuation or extension of funding.
26. Debt will not be suitable for all businesses and the obligation to meet future debt repayments may simply defer or exacerbate problems. For example, debt might be inappropriate for start-ups or for some businesses that have grown organically without recourse to external funding; equity may be a more appropriate finance route here. So far, equity schemes have been on a much smaller scale than debt and even then, in the case of the Future Fund, have been designed for a very narrow range of businesses (ones backed by venture capital funds).
27. Securing the appropriate form of financing is critical to a business achieving its full potential – and the right advice, including on timing, is a major catalyst. These are the principles behind the work of ICAEW and the British Business Bank in their well-established initiative with key market participants - the [businessfinanceguide.co.uk](https://thebusinessfinanceguide.co.uk). The website and interactive guide are instrumental in educating businesses on the right financing for each stage of growth and the range of options available. ICAEW and the British Business Bank have continuously updated and added to the information, with specific material relevant to COVID-19 conditions. The importance of independent business advice is explained and sources are signposted, including ICAEW's free Business Advice Service¹.

¹ <https://thebusinessfinanceguide.co.uk/advice/>

28. We appreciate the steps being taken to keep under constant review the levers, including government supported debt and equity schemes for getting cash to businesses. To get through this, government needs to remain open to exploring additional measures, a significant one being in relation to state aid rules.
29. The application and interpretation of state aid rules which categorise a large population of businesses (which after lock-down might be perfectly viable) as ‘Undertakings in Difficulty’ has severely restricting access to CBILS and CLBILS for many companies whose capital structure is intended to support and drive growth. We strongly suggest that the application of state aid rules to CBILS be looked at again to ensure that interpretation is not unnecessarily restrictive. We note that in some EEA member states, such as Germany, state aid rules do not appear to be limiting the effectiveness of government supported loan schemes in the same way. We need to understand why this is.
30. That includes taking an active stance in securing state aid approval and then supporting sensibly interpreted and consistent implementation of the conditions in the delivery. Differing treatment and approaches mean it can be a lottery if a business application is approved, or receipt of cash in the business is delayed. Different interpretations of the ‘Undertaking in Difficulty’² condition by banks offering CBILS have been reported by ICAEW members and include the treatment of:
 - a deficit on a defined pension benefit scheme; and
 - shareholder loans and interest paid thereon.

Ensuring support from government backed loan schemes is effective and maintained as long as necessary

31. The ‘bounce back’ loan scheme has been a positive addition to the existing loan schemes. ICAEW members work for and advise businesses who have faced ongoing difficulties accessing funds through the Coronavirus Business Interruption Loan Scheme (CBILS). The banking system simply isn’t designed or intended to deliver a stimulus package at the scale required under the terms of that scheme and further measures were needed for funds to flow at pace. Extending the government guarantee to 100% for SME loans reduced the risk to banks and significantly accelerated transmission.
32. In balancing credit risk to the government and therefore potential loss of public funds, government is right to be mindful of the damage to the wider economy caused through lack of cash. The focus must now turn to sustaining support while it’s needed to support recovery, while examining how the debt burden can be managed and repaid.
33. The scale of debt by way of government-backed loans schemes carries the risk of unsustainable debt. One estimate, in an interim report by TheCityUK’s Recapitalisation Group, quantifies this at approximately £30bn by March 2021. The report considers the need for recapitalisation of such debt and explores a number of innovative ways to achieve this. ICAEW has concentrated on the concept of recapitalisation and there are negative and wide-ranging consequences of forced recapitalisation that should be taken into account when considering the appropriateness of such a policy. Not least of these is the fairness of a policy that penalises businesses that could not, or chose not to, take advantage of the government-backed loan schemes and became indebted on normal or more onerous terms. Moreover, the decision for a trigger for recapitalisation is complex, with implications that cannot be ring-fenced.
34. In ICAEW’s view government financial support must be managed with an appropriate and targeted mix of continued forbearance and recapitalisation, meaning that thought will need to be given to accommodating credit extension as well as collection. The question of transfer of facilities to commercial arrangements will arise over time and needs special consideration to ensure the best use of taxpayers money while avoiding onerous terms that might themselves cause business failure. The scale of these issues is unprecedented and will need to be handled sensitively and equitably. While these issues will inevitably receive great scrutiny it would be best to give them thorough examination at inception. Transparency is essential so

² The ‘Undertaking in Difficulty’ condition is set out in the British Business Bank’s [CBILS FAQ for businesses](#)

the business people in communities across the UK, including our members and many businesses our members advise, can make appropriate decisions to support recovery and growth. ICAEW members have deep experience in helping businesses manage and conserve working capital and attain sustainable recovery and will be drawing on these skills and knowledge to best support the businesses with which they are involved. ICAEW has published detailed guidance on working capital forecasts, going concern analyses and cash flow management, specifically to support these activities.

35. Alternative finance sources also have an important part to play. Invoice finance will be helpful for many businesses. We also note that many businesses rely on trade credit, often supported by insurance. Trade credit insurers are facing big difficulties and we welcome the significant measures that government has taken to support this vital product with trade credit guarantees.
36. Debt will not be suitable for all businesses, particularly those with weak cash-generation before the pandemic. As a society, we invest in educating people not to take on debt that they might not be able to pay back and good prudent businesses may very well be wary of debt at this time. We welcomed the government's launch of the Future Fund, while pointing out in writing to HM Treasury its likely limited impact, and provision of incremental funds through Innovate UK.
37. Start-ups and scale-ups are key examples of businesses that had difficulties accessing funds through CBILS. Here equity injections are likely to be more appropriate. We note that the Future Fund was immediately over-subscribed. Nevertheless, we are concerned that a number of the terms of the scheme are unduly restrictive and this limited its suitability for many entities. To achieve the government's objectives in this area it is likely that a further scheme, with more inclusive terms, will be necessary.
38. Many start-ups as well as established businesses that have hitherto been funded by the owner, and for whom CBILS may not be available or appropriate, are not eligible for the Future Fund. Such businesses are missing out on support. Many may be significant employers.

Get grants to those that need them

39. Direct grants are a necessary part of the support package. They play a role that cannot be met by loans requiring repayment from uncertain future income.
40. Government is using the business rates, PAYE and Income Tax systems to deliver relief across the economy. This is a pragmatic solution which provides cash support quickly to a large proportion of those affected by the consequences of the lockdown, using the existing tax system to help delivery while providing a measure of reassurance against its abuse.
41. We note that as at 14 June Local Authorities had disbursed £10.5bn of the £12.3bn allocated to them in the Small Business Grant Fund or the Retail, Hospitality and Leisure Grant Fund. Nevertheless, the amount remaining undisbursed is substantial. Government should examine the factors restricting distribution and consider redirecting these funds.
42. We have not seen data on distribution of the Discretionary Grant Fund that is intended to support small and micro businesses not eligible for the other two.

Examine scheme coverage

43. We note that the committee's interim report highlights that there remain a number of groups who are not eligible. We agree that the government should consider the extent to which further support measures might be needed to support recovery, particularly given the restrictions that continue to affect some sectors and whose implications reach more widely across the economy:
44. For example:
 - The job retention scheme (JRS) isn't open to those businesses that:
 - Use annual payrolls where the 2019/20 RTI payment report made was made after 19 March 2020.

- Transferred employees under TUPE or business transfer rules after 28 February 2020.
 - Have no UK bank account, for example those whose payroll is handled through a UK representatives UK bank account.
 - The existing JRS doesn't cover employees who:
 - Started a new job by 19 March 2020, but had no payment of earnings by that date.
 - Are directors who take most of their income as dividends (any salary they take is covered).
 - The Self Employed Income Support Scheme does not offer support to those who started in business after 5 April 2019. Furthermore the £50,000 profit limit cut-off is a cliff-edge test so those even slightly above receive no benefit. The inclusion of a limit contrasts unfavourably with the JRS where there is no such limit.
 - We have also seen estimates (see the submission from 'Forgotten PAYE') that there are 1 to 1.7m people who have been paid through the payroll under PAYE but do not have employment contracts (which they refer to as PAYE freelancers). We do not have information to substantiate this figure but observe that such people who have now been laid off fall between two stools: they do not qualify under the JRS even though they have paid PAYE taxes like real employees and, although effectively freelancers, they do not qualify under the SEISS either. Although we understand the policy drivers for the two schemes, for this group this outcome appears particularly unjust.
45. Anecdotally we are hearing that the grant schemes administered through the business rates systems have been effective in rapidly disbursing cash to businesses. The committee may wish to gauge the pace and extent of disbursement to reflect on the capacity of this channel as it may be a particularly effective means of providing support.

Explore regulatory assistance options to enable banks to lend

46. Regulators are working with financial institutions to ensure that their lending is not curtailed due to technicalities of financial reporting and regulatory requirements. Some requirements (such as the countercyclical buffer) have been relaxed to free up capital to enable lending. Other measures will require a change in EU law, which is in progress at the time of writing this response. The UK's ability to influence these changes was restricted given the Brexit transition period.
47. Greater leniency should be sought from the European Commission on state aid restrictions, which have limited the flow of CBILs funds.

We heard from one member that "Bank schemes are largely irrelevant due to pre crisis approach by credit functions"

Our bank "have informed us that we fail an "undertaking in difficulty" state-aid qualification test due to our accumulated losses exceeding for than 50% of our paid up share capital. This position arises (a) due to our private equity funding structure; and (b) the investment we've made in a new start-up business over the past 4-5 years. They confirmed that we'd pass their normal internal solvency / viability tests, but in order to access funding from the CBILS we need to comply with EU regulations. My opinion is that the bank is looking for ways of avoiding having to make loans from CBILS as opposed to looking for ways to challenge / interpret the regulations to the advantage of their customers."

Review other channels government has to enhance cash flow

48. We welcome the changes already announced to defer tax payments required by many businesses. HMRC continues to have a key role to play in supporting cash flow during this crisis and should now be prioritising tax repayments to business and those in need. We welcome the recent announcement from HMRC that where businesses can demonstrate that there will be a loss in the current period, claims can be made for refunds of quarterly

instalments of corporation tax for the previous accounting period. This will be a very valuable relief for some companies whose income has collapsed and HMRC should apply this ruling pragmatically

49. As deferred payments come back due, many businesses will face acute liquidity pressures and the phasing of this requires careful calibration.
50. Accelerated payment by Public Sector to suppliers: There could be accelerated payment of invoices by the public sector for private sector goods and services and, henceforth, payment on order/delivery.
51. Explore easing of debt enforcement: The Irish Revenue authority have effectively stayed debt collection from businesses (referred to as 'tax debt warehousing'). The UK hasn't quite gone that far, but we had raised this as a possibility with government at the beginning of lockdown.
52. Defer making HMRC a secondary preferential creditor in insolvencies: It is due to start from December 2020 and will make it more difficult/expensive for businesses to raise funding. We have argued that this change should not be introduced but, if it is, then now is not the time to do it. Its imminent introduction means it may well already be affecting loans being granted, or declined, now.

Increase scrutiny and penalties around late payments

53. It is also important that government does what it can to encourage prompt payment, particularly where this is flowing from those businesses who may have benefited from government support to smaller businesses and contractors, who may not. One member told us government could do more to encourage larger companies to "stop using the crisis as an excuse for delaying payment".

Is the financial sector supporting businesses enough? Are businesses getting the right advice on which grants/loans to access?

What are the financial regulators and the financial sector doing to reduce the risk of people being taken advantage of by fraud at this time, in particular with regard to vulnerable groups?

54. The financial services regulators and pensions regulators have undertaken various public awareness campaigns to help reduce the risk of people being taken advantage of. The risk is that with branch access limited, and people being more isolated throughout the pandemic, that those who are vulnerable to scams have been especially so during this period.
55. As well as vulnerable individuals being the target of fraud, the pandemic has given space for organised crime gangs (OCGs) to move into new areas. The public sector is also vulnerable to fraud, so additional intervention and activity will be required in the areas of fraud prevention and detection to protect public money too. Four areas of particular concern to ICAEW are:
 - Cyber Fraud. There is increased targeting of individual bank customers through cyber frauds. The fraud service Cifas has drawn attention to the way that home workers are being targeted by fraudsters, many through online file-sharing platforms and email scams to gather details as an example, but classic bank email phishing scams have been updated with new coronavirus-related information.
 - False applications. OGC's are seeking to defraud banks through falsified applications for government-backed funding, most likely through BBLs but also with concern for CBILS.
 - AML avoidance. The gangs are exploiting struggling businesses by forcing them into becoming a front to launder the proceeds of crime from racketeering and the international illegal drug trade. This is hard to detect, and unlikely to be reported (ie to Companies House) due to threats and dangers that the business owners are exposed to.

- Insider fraud. OGCs approach bank staff and use intimidation to force staff members to provide confidential information or access to internal systems .

OTHER GOVERNMENT INTERVENTION

Should the Government intervene more actively in redeploying staff and resources to certain sectors of the economy (health/food delivery)?

Should the Government intervene more actively in terms of state aid, bail-outs and its industrial strategy?

56. As mentioned previously in paragraph 29, we believe that government should seek greater flexibility from the European Commission on state aid restrictions, which have limited the flow of CBILs funds.
57. There may be an opportunity to use spare capacity in the workforce to advance public objectives – e.g. addressing skills shortages, building infrastructure and housing.
58. Thought will need to be given to how businesses with unsustainable debt can be recapitalised, and a return obtained on taxpayer input and support, even if this is partial. We understand that CityUK is developing proposals in this area to present to government. In putting in place these measures careful thought needs to be given to communication to businesses at as early a stage as possible and how borrowers can maximise opportunities to take mitigating actions before they are placed into restructuring. Objective, certain and simple triggers for restructuring are a vital part of this. Economy, public finances and monetary policy

What economic challenges may arise as the public health and social distancing policies are lifted and the economy begins to recover? What preparations can be made to manage these challenges? For example, could there be difficulty in restarting sectors of the economy quickly, a risk of a spike in inflation, or pressure on the UK balance of payments?

Is the economy's recovery likely to be shallow or sharp? How long is the shock likely to last? Which sectors are likely to be impacted by economic scarring? Which sectors are doing best?

59. Oxford Economics, in a [report for ICAEW](#), suggests a relatively fast recovery may be possible assuming a further lockdown is not required
60. However, a K shaped recovery, with some activities bouncing back quite quickly and others struggling to survive is also possible.

What will be the economic impacts of the coronavirus outbreak and the social distancing measures in terms of sectors and regions and how temporary/permanent will they be?

61. ICAEW's members work across all sectors of the economy and all regions of the UK. Clearly in some sectors the effects of the lockdown and social distancing are profound. We are not making comments in relation to a particular sector in this written evidence.

What will be the impact on inequalities within society and how should the Government address inequalities that may have been exacerbated by the crisis?

62. Inequalities have been exacerbated by the crisis (see IFS reports) plus inequalities in funding in local authorities. However, this is an opportunity to seriously address those inequalities across society.

What will be the impact on the public finances? What are the potential future implications for tax and spending? What are the implications for the Government's "levelling up" agenda announced in the Budget/infrastructure strategy?

63. The impact on public finances will be huge. Please see [ICAEW's Fiscal insight](#) on coronavirus and the public finances for our analysis.
64. Higher taxes are likely in the medium to long term. There is a great opportunity for a radical reform of tax and welfare – a real simplification - and to consider how the tax system can be used more effectively to encourage enterprise.
65. In well used words, the levelling up agenda is now more important than ever. The infrastructure strategy has yet to be published and we would welcome clear and practical levelling up and green principles to be incorporated within the strategy. Cheap borrowing provides an opportunity to do more.

What will be the impact of high levels of Government debt on market interest rates, private investment, capital formation and future productivity?

66. Interest bills are reducing as existing debt is refinanced. But government will be more vulnerable to changes in interest rates in the medium to long-term and will need to manage the risks of being highly leveraged.

What has and will be the impact on global growth and what shape is the international recovery likely to take? Are there international examples of economic policymaking that we can use? How is the UK Government co-ordinating with other governments to boost global growth?

67. New Zealand has used better financial reporting to improve financial management and strengthen public finances. Norway and Australia have invested in sovereign wealth funds to strengthen public balance sheets.

How are countries coordinating their efforts to assist the global recovery?

What will be the impact of the outbreak on the Government's economic, customs and financial sector priorities in its negotiations with the European Union?

What are the lessons that society can learn for the future e.g. reducing carbon emissions, increased home working, business resilience?

68. Government has discovered it has more fire power than previously thought. The scale and pace of stimulus delivered has been unprecedented and has made good use of digital capabilities only recently developed by HMRC. These successes should be examined to see what can be learnt and how these new digital capabilities can be further built on. At the same time, government should also examine where there is inflexibility and complexity of public sector processes, including the tax and welfare systems, that have hampered the ability to respond quickly – in providing support to businesses and in some cases may have exacerbated gaps in scheme coverage. Reform and investment is needed in these areas. Also, NAO report published recently highlights the lack of integration between adult social care and the NHS and a lack of investment over the last 10 years was significant in making it even more challenging to deal with the emerging problems posed by the crisis.
69. ICAEW has called for its members to [build a legacy from the crisis](#). We have asked whether we can build back something better – while putting sustainability, people and planet at the heart of the economic model.