



THE IMPACT OF CORONAVIRUS ON BUSINESSES AND WORKERS

Issued 30 April 2020

ICAEW welcomes the opportunity to submit written evidence to the **Impact of Coronavirus on Businesses and Workers** inquiry, opened by the Business, Energy and Industrial Strategy Select Committee on 13 March 2020. We welcome parliament's urgent action to gather feedback while the government is still developing its emergency support package.

Our evidence reflects feedback from ICAEW members and is intended to help the Committee assess in particular the adequacy of the government's financial response. In particular, we believe the committee should consider:

- The adequacy and effectiveness of government financial support: we include comments in this written evidence on how the various schemes are performing in getting cash out into the economy and the role of the tax system in supporting government's objectives.
- The process and timetable for easing lockdown restrictions.
- Support businesses will need for the post-COVID-19 recovery. We make a number of suggestions in this written evidence.

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 150,000 chartered accountant members in over 160 countries. 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.

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1. We are responding to the BEIS Committee's call for evidence on the impact Coronavirus is having on businesses and workers. 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. We cannot comment on any issues relating to particular businesses or sectors. 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 30 April 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. We appreciate circumstances mean that the committee has not produced formal terms for this inquiry. We believe it should focus on three issues crucial to the economy:
 - a. The adequacy and effectiveness of government financial support.
 - b. The process and timetable for easing lockdown restrictions.
 - c. Support businesses will need for the post-COVID-19 recovery.
5. The necessary focus of the inquiry should initially be on identifying areas where more support is needed. We also think that in designing how measures are delivered government needs to minimise administrative burdens and try to provide certainty to business. Thought should be given now to how future uncertainty can be minimised to businesses accessing these schemes under the conditions as currently published. Where legislation is to follow it is vital that this is fully consistent with guidance already published. It is the role of government to decide where to target relief in the economy. The comments below are intended to help government implement those decisions equitably and effectively.

ADEQUACY AND EFFECTIVENESS OF GOVERNMENT FINANCIAL SUPPORT

Business Finance & Cash Flow

6. 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. Businesses will fail unnecessarily without liquidity. It is essential that government measures are effective in quickly getting cash to where it's needed.
7. 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. That includes taking an active stance in securing state aid approval. Many Small and Medium Enterprises are facing a liquidity crisis and need cash now.
8. Action falls under these areas:

Ensuring government backed loan schemes are effective

9. The 'bounce back' loan scheme is 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. This was illustrated in feedback from one of our members on CBILS:

"we started this process as soon as announced. Other than directors' guarantees which they are not asking for (a major plus), the loan application and approval process is as cumbersome as if we were applying for the facility under normal commercial terms. We do not get the impression that the Banks are delivering credit decisions and cash in the time frame that the Government are requesting and that is required by business. The absence of liquidity will severely impact our ability to restart manufacturing and may mean we delay restarting until we can guarantee that reopening will generate less negative cash flows than staying shut. Of course we cannot go on for too much longer before the decision will have to be taken not to reopen. There is a danger that we have kept businesses open on the promise of CBILS. If these [funds] are not forthcoming, the directors will have continued trading whilst insolvent. "

10. Extending the government guarantee to 100% for SME loans reduces risk to banks and we hope will help accelerate transmission. But even with a larger guarantee, we assume banks will still bear responsibility for chasing and collecting payment and without proper underwriting, risks to taxpayers and borrowers increase. 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 proof will now be in how rapidly bounce back loans and the other measures already in place manage to get cash out into the economy.
11. The application and interpretation of state aid rules which categorise a large population of businesses (which after lock-down should be perfectly viable) as "undertakings in difficulty" is severely restricting access to CBILS and CLBILS for many high growth companies. We strongly suggest that the application of state aid rules to CBILS be looked at again. 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.
12. We also note that the government schemes are largely delivering term debt. Businesses that need short-term cash would benefit more from extended overdraft and other short-term funding than from a loan paid back over years. More could be done to bring short-term finance into CBILS.
13. Alternative finance sources have an important part to play. Invoice finance will be helpful for many businesses. Effective trade credit guarantees are typically an essential element of asset finance and we urge the government to support measures designed to maintain trade credit guarantees (see also item 18).
14. Removing personal guarantees on loans below £250,000 increases access to the scheme. However, the lack of collateral has locked out some alternative lenders and products. Government should assess collateral across the whole range of products to see whether more businesses could be helped by greater flexibility.

Ensuring supplementary channels are also getting funds out

15. 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 and provision of incremental funds through Innovate UK.

16. 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 hope the Future Fund scheme will be effective in achieving these and in mobilising private capital to help. Nevertheless, we are concerned that a number of the terms of the scheme are unduly restrictive and this will limit 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.
17. Established businesses that have hitherto been funded by the owner, and for whom CBILS may not be available or appropriate, will not be eligible for the Future Fund. Such businesses are missing out on support. Many may be significant employers.
18. We also note that many businesses rely on trade credit, often supported by insurance. Trade credit insurers are facing big difficulties and measures are needed to help balance risks for this vital product.

Get grants to those that need them

19. 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.
20. 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. We note that there remain a number of groups who are not eligible. The government should consider the extent to which further support measures might be needed as the lockdown continues:
21. For example:
 - Businesses that sub-let premises within a larger unit or have no premises at all will not benefit from grants linked to business rates.
 - 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 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).
 - Are put on reduced hours instead of being furloughed.
 - 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.
22. 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. Nevertheless, we also draw attention to the large number of businesses without premises, or who sublet and pay rates via a landlord and do not benefit from these schemes.

Explore regulatory assistance options to enable banks to lend

23. 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, timetabled for June. The UK's ability to influence these changes was restricted given the Brexit transition period. Measures related to financial reporting could be enhanced through the provision of a central economic scenario for banks (and others) to use in their IFRS 9 *Financial Instruments* calculation of expected losses.
24. Greater leniency should be sought from the EC 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

25. 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. For example, larger businesses will be paying quarterly instalments of corporation tax for their current accounting period but are now facing substantial losses for the remaining part of the period, with the result that that they are likely to have overpaid previous instalments. While we believe that the quarterly instalment rules allow for refunds of quarterly instalments where they are likely to have been overpaid, we understand that such refund requests are being refused.
26. 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.
27. Explore easing of debt enforcement: The Irish Revenue authority have effectively stayed debt collection from businesses. The UK hasn't quite gone that far, but we have raised this as a possibility with government.
28. 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

29. 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”.

Employment Support Schemes

30. The Job Retention Scheme appears to be working well for many businesses. We understand that the scheme was intended to support the lockdown, while avoiding unnecessary redundancies, 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.”

31. Nevertheless, there is clearly a risk that further redundancies will result the longer the situation continues. Early clarity about scheme extension could help in this regard.
32. 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.”

Other members have experienced problems with furloughing recent joiners.

33. There are also large exclusions from the scheme. In particular the committee could consider:

Part-time furlough to help restart the economy

34. A major design feature of the job retention scheme is that it is all or nothing. Employees cannot work at all while they are on furlough, an important consideration when the country was in lockdown but which needs to be reconsidered as the country emerges from this state. For many businesses that have seen reduced demand but have had to maintain some level of service, this reduces the attractiveness of the scheme, although larger employers will have more flexibility by furloughing only part of the staff. The ability to bring back workers on reduced hours will be key in the recovery and consideration should be given as to how this might be supported. While the existing furlough scheme could be used as a base, its complexity makes this impractical. An alternative, such as a block grant which allows more flexibility, could be one way of achieving this. Members told us:

“A half-way house on furlough. Some people could work but less hours which would help with their mental wellbeing”

“The job furlough scheme requires a binary split between working or not working - why can't staff be put on half time instead?”

“I have to tell [single person] ltd companies they can’t take on new work if they still want their furlough grant.”

Other comments

35. Agents must 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. Agents are able to access the CJRS but not the SEISS.

Tax

36. There are a number of measures that government could take through the tax system, which would help struggling businesses at this time:
37. Defer non-critical changes to tax system: Any other planned, but non-essential, changes to the tax system are deferred with immediate effect. This will help ensure that taxpayers, businesses, and chartered accountants can focus on the COVID-19 crisis.
38. Extend Time to Pay and time limits: HMRC should consider increasing the current £10,000 limit for making online time to pay applications, both in monetary terms and to taxes other than Self-Assessment income tax. HMRC should also amend the system to allow the taxpayers’ agents to make the application. HMRC should also announce a number of relaxations, including extending time limits for answering correspondence, submitting returns, etc. for example, a 30 day time limit for responding should be increased by at least a further 60 days.
39. Members have found the time to pay scheme helpful in conserving cash flow. One member said “we have taken advantage of the Time to Pay Scheme for PAYE/NIC and the VAT deferment scheme. This has given the business an additional £0.5m cash headroom in Q2 2020.”
40. Reintroduce extended loss relief carry back: The current crisis means that a large number of businesses will be looking at incurring a loss in their current financial year and possibly the following year. We recommend the reintroduction of the temporary extension of the carry back of losses rules to the previous year, as was provided after the 2008 financial crash. The relevant legislation was set out in Section 23 and Schedule 6 of the Finance Act 2009 and provides a suitable model to follow, although the monetary limits would need to be re-assessed in the light of today’s circumstances.

PROCESS AND TIMETABLE FOR EASING LOCKDOWN

41. As government gains more knowledge about the behaviour of the virus and its progression in the UK builds, we hope we will soon have greater certainty about the exit strategy from lockdown. We appreciate that options for implementing social distancing and other necessary measures will differ between businesses and sectors and we understand that the government is working with businesses to understand how they can resume operations. From an accountancy perspective, we would make these observations:
- Many of our members travel regularly to the premises of their clients for meetings or to perform work there. There will be some backlog of this work to complete as not all of these activities will have been able to be performed remotely. Consideration should be given to how such business visiting can be resumed safely.
 - Forecasting is vital in making business decisions and raising finance. For example, while applications for CBILs will no longer require a forecast, businesses will want to ensure an

application is well considered and based on pragmatic plans. ICAEW's members play a crucial role helping businesses prepare forecasts and other information to support this. But forecasting is very difficult under current conditions. The time will come when government has greater clarity on phasing for the exit plan and should share this as soon as possible. Businesses would benefit from optimism, once it's justified.

BUSINESS SUPPORT FOR THE RECOVERY

42. It is important to differentiate between support measures helping businesses survive during the pandemic and those that will be required to restart and rebuild the economy subsequently. Significantly, government has to be ready to continue to support businesses, doing what it can to wean businesses off of support in a sustainable way. In some sectors, businesses will not be able to operate profitably at the levels of reduced capacity required by social distancing. Thought needs to be given to how the loan schemes, the job retention scheme and the self-employed income support scheme can be flexed and extended to support the recovery.

Longer term measures

43. The focus of government at this time rightly has to be in getting support in place and making sure it's working. However, some parts of the economic system have been under strain for a long time and can be seen to have failed in the current crisis. While political will to tackle these areas has been lacking we hope that more constructive solutions will now be possible. We note those areas here as there may be an opportunity in the committee's report to lay down a marker for further investigation and future action.
44. Employment status: The gaps in support from the current package between employed and self-employed highlight a major shortcoming in our tax system, which has been exacerbated by the recent growth in self-employment. The current ambiguity between employed and self-employed status, differences between tax and employment law rules and the tax differential between employed and self-employed cause many complications and difficulties. While the government's off-payroll working measures aim to address some of the symptoms of these issues, it is a sticking plaster for an issue that needs to be addressed as we believe that the current position is not sustainable. In our view the tax, NIC and legal status of work should be the same, it should be certain, and the consequences should be comprehensible to the engager and worker. There should be an informed national debate about what should be done to address it.
45. Reform business rates: It is widely accepted that fundamental reform of business rates is overdue and it is therefore no surprise that the business rates system can be seen to have broken down rapidly under the pressure of the current crisis. For many years now business rates have been precipitating failure and disincentivising investment in major sectors of the economy. We have previously warned that the current system could cause widespread hardship in a downturn. As government rebuilds the economy we need a business property tax that is fit for purpose.
46. The future of work: The Government intends to introduce an amendment to the Finance Bill at the Committee stage, to modify the off-payroll working ('IR35') rules. The proposal will extend to the private sector the rules that have applied since April 2017 in the public sector, where contractors provide services to end clients through their personal service companies.
47. These measures have already caused considerable disruption to businesses' and people's working practices, and it is far from clear that the country will be ready to absorb further changes by this time next year. There are a number of important policy issues that in our

view need resolving and we do not at the moment know what form the economic recovery from Covid-19 will take.

48. The Chancellor announced recently the possibility of changes to the taxation of the self-employed and we believe that it would be better for government to think holistically than introduce changes piecemeal. We have an opportunity to make tax and NIC changes alongside the Good Work Plan and other employment law outcomes from the Taylor Review and we look forward to participating in the debate.