

Public Accounts Committee Hearing 8 June 2020

Welsh Government support for business in response to Covid-19

Introduction

We are living in extraordinary times. The health, economic and social implications of Covid-19 are far-reaching and profound, and have required an unprecedented response from government. Our overarching policy objectives are to protect lives, communities, and businesses. We are still in the middle of our emergency response work, including to safeguard Welsh business, and jobs and employment opportunities for the people of Wales.

The UK Government has announced (up to 15 May 2020) support totalling £124.3 billion to support the economy. Annex 1 provides a summary of the main schemes announced by the UK Government. Welsh Ministers have agreed funding of £1.7 billion since March 2020 to support Welsh businesses and the Welsh economy through these turbulent times. The measures being delivered are complimentary to the schemes launched by the UK Government and address gaps identified which are specific to the needs of the Welsh economy.

Economy Skills and Natural Resources (ESNR) Group has repurposed and diverted significant resource at speed to help deliver the Welsh Government's response to Covid-19. As well as providing urgent and substantial support to tens of thousands of businesses and safeguarding jobs, our response has included developing our internal governance environment to ensure we continued to make safe decisions on the use of public funds in these unprecedented times.

This paper covers the current financial position in terms of funding for businesses, social enterprises and charities to help the Public Accounts Committee understand the Welsh Government's commitments and spending on the C-19 response. The paper is organised in the following sections:

Section 1: The economic context arising from Covid-19 within which the Welsh Government had to act.

Section 2: The policy context within which the Welsh Government considered providing financial support to business as part of our economic response to Covid-19, including a gap analysis of support mechanisms

Section 3: The economic interventions made by the Welsh Government as part of our economic response to Covid-19.

Section 4: The changes made to the governance and accountability frameworks in the Welsh Government to support and manage our economic interventions.

Section 1- Economic Context

Covid-19 has triggered an international and national economic crisis, and the pace at which unfolded – and continues to unfold – is breath taking. In particular, the situation in the few weeks of the crisis was unprecedented in modern times, with the rate of potential redundancies or business closures rising exponentially on an hourly basis. The lockdown measures needed to curtail the spread of the pandemic caused a fundamental and severe shock to the economy. This required a direct and immediate response from the UK Government and the Welsh Government to prevent crisis turning into a disaster from which many businesses would not survive, with devastating consequences for jobs and livelihoods across Wales, and the future of our economy.

Overall, the OBR estimate that UK real GDP will fall by 35% between April and June and 12.8% in 2020. This would be a much larger fall than that seen at any point during the financial crisis. An illustrative scenario presented by the Bank of England predicts that the UK economy will rebound in the second half of 2020 and into 2021 as social distancing measures are gradually lifted.

In addition, there were 113,000 new Universal Credit claimants declared in Wales between 17 March and 12 May (though not all will go on to receive a payment). Both household consumption (down by 30% in April) and business investment figures have fallen significantly from previous quarters with household spending in sectors of transport and restaurants (+50%) being the hardest hit. This data is supported by ongoing intelligence from businesses and communities across Wales.

The economic impacts of Covid 19 have occurred in waves, starting with the self employed, hospitality, retail and tourism. This quickly spread to aerospace, automotive and wider manufacturing, within days. There is now no part of the economy that is untouched by the Covid 19 crisis. The uncertainty at how the disease will evolve further compounds the difficulties for an already unstable economy.

As plans are developed for Wales and the UK to emerge from lockdown, the situation remains fluid, with ongoing uncertainty and businesses and jobs remaining at risk.

The range of business experiences during this crisis will be on a continuum:

- those that have had to cease trading;
- those that may be able to go into medium term hibernation;
- those that are able to adapt to remote ways of working; and
- those who will continue trading because their business is critical to the functioning of the nation, and they can still operate legally and safely in relation to C-19 guidelines.

The degree to which a business is exposed, and when, will vary according to a number of factors, including sector, size, customer base, workforce, cost base and location, all of which are impacted by the decisions taken on the scale and speed of easing the lockdown. Key costs which businesses need to meet include payroll,

debt servicing, rent / lease, insurance, tax liabilities, security, essential maintenance and utilities.

The Office for National Statistics Business Impacts of Coronavirus Survey estimated that 66 per cent of businesses in Wales that responded experienced a fall in turnover outside of normal range in the period April 20 to 3 May. This is the highest share of all UK nations.

Section 2 - Policy Context

Our overarching policy objectives are to protect lives, communities and businesses.

Two intended outcomes are being sought from our economic interventions:

Firstly, to help businesses survive the shock of sudden and significant drops in revenues resulting from the coronavirus pandemic and from the enforced lockdown measures necessary to control the spread of the virus;

Secondly, by increasing the chances of business survival, to safeguard the jobs of the people employed.

The complete collapse of a normal functioning society and economy created immediate cashflow pressures for many businesses as they faced a collapse in turnover. Support measures announced by the UK Government in the immediate aftermath, and subsequent changes to these, have provided partial coverage of cost pressures faced by businesses. The Welsh Government undertook a gap analysis within the support mechanisms being introduced, and considered this alongside the economic data and real time business intelligence from companies and employees across Wales. This work was undertaken at pace and quickly established the clear need for additional targeted support to help businesses across Wales weather the economic hurricane. Offering direct funding support to businesses is considered to be the best and most cost effective way of maintaining employment levels and adding to efforts to stabilise the economy a method we have used in the past when responding to the 2008 financial crisis.

The economic proposals were developed to fit within the wider policy context of the Welsh Government, including the policy framework set out in our Economic Action Plan. Proportionate consideration was and continues to be given to the need to deploy public investment with a social purpose as set out in the economic contract, which includes an emphasis on fair work and climate change mitigation.

Our economic interventions seek to implement a whole system approach to protect the economy and minimise the impact for the longer term. Our approach is based on understanding how to best respond to the following business outcomes:

- Step down in activity / Maintain critical economic infrastructure (e.g. manufacturing) – response: SHORT TERM, MINIMISE IMPACT
- Hibernate now to re-open later (e.g. many hospitality businesses) – response: MEDIUM TERM, SOFTEN IMPACT

- Repurpose activity (e.g. restaurants selling to home delivery; manufacture of ventilators) – response: MEDIUM TERM, SOFTEN IMPACT
- Expand activity (e.g. food retail) - response: MEDIUM TERM, SOFTEN IMPACT

The overall economic impact is likely to be very significant, but potentially temporary and although the scale and duration of impact is difficult to predict, we anticipate the impact will fluctuate as Wales and the rest of the UK navigate our way out of lockdown. It is also clear from the evidence (including business intelligence) that the economic impact of the lockdown will come in waves, and that over the longer term some sectors and sub-sectors may be more significantly affected than others (at least until a reliable vaccine and therapeutics for C-19 are developed and widely available).

Over the medium and longer term, many businesses will face a fall in supply and demand. However, there is potential to protect capacity by enabling firms to ‘hibernate’ over the crisis period and re-emerge quickly; and also to enable repurposing of firm activity to support health resource.

The economic support schemes delivered by the Welsh Government have balanced the need to support business and jobs now, with the need to acknowledge further support may be required in coming months as the effects of the pandemic work through the different sectors of the economy. They also take account of potential further waves of the virus, with the accompanying lockdown measures which may be needed, plus the ongoing challenge to the economy posed by EU exit – both of which may escalate as the year continues.

Section 3 - Economic Interventions

The main Welsh Government interventions for support to business are as follows.

Economic intervention	Scheme value £m
Rates relief for retail, leisure and hospitality	332
£10k grants for businesses under £12k rateable value	636
Grants for retail, leisure and hospitality businesses with a rateable value between £12k-£51K (totalling no more than 25,000 grants)	214
Economic Resilience Fund (combination of direct grants and loans from the Development Bank of Wales)	500
Widening Scope of £10k grants to Community Amateur Sports Clubs and Charities	26
Total	1,708

In addition to the above there have been a number of sector-specific interventions we have made to address particular issues within the fishing and dairy sectors, and the culture and creative sectors, for example.

Ex Ante and Ex Post appraisals

Given the unprecedented nature of the lockdown measures introduced in March 2020, the overriding priority in establishing the Covid-19 non-domestic rates (NDR) grant schemes was pace of delivery and ensuring essential emergency financial support reached businesses in a speedy fashion

This meant that a comprehensive ex ante appraisal, which would normally be associated with any intervention of this scale and value was not possible, given the urgent requirement for the grant schemes to become operational. Advice to Ministers recognised the anticipated risks with a scheme of this nature and its speed of deployment, setting those against the severe consequences of not acting. These risks have been managed as far as possible through appropriate mitigations, including as robust an appraisal as was practical and possible in the time available, and enhanced post award verification checks akin to those used by HMRC.

Given the limiting factors that restricted a full ex ante appraisal, officials are now in the process of specifying an ex post assessment of the Covid-19 NDR grants and the Economic Resilience Fund. This will articulate the logic model in more detail and give initial consideration to the extent to which the intended outcomes are being met (albeit still in a live crisis situation) In attempting to address this latter point, counterfactual approaches will be considered. There are likely to be significant limitations to this work, not least unknown factors such as the effect of the virus on macro-economic conditions, how these might recover or evolve and over what timescale. This is likely to mean that both formative and in the longer term, summative approaches to the ex post assessment will be needed as well as consideration of any unintended or unforeseen outcomes.

Business Rates Relief Schemes (NDR and grant scheme)

In March 2020 Welsh Ministers announced further details of a business rate support scheme in Wales. This would provide support to ratepayers in Wales on an equivalent basis to those in England (with the exception of larger rateable properties) and all properties in the retail, leisure and hospitality sectors would receive 100% rates relief in 2020-21. The scheme also provided for all ratepayers eligible for Small Business Rates Relief in Wales a £10,000 grant and all retail, leisure and hospitality ratepayers with a rateable value of between £12,000 and £51,000 would receive a £25,000 grant.

This intervention placed ratepayers in Wales on an equal footing with counterparts in England with the exception of the 200 properties with a rateable value greater than £500,000 not receiving the relief. It provided immediate support and clarity for ratepayers with around 70,000 businesses and properties eligible for support; to date nearly 53,000 grants totalling £640m have been awarded working through our local authority partners in Wales.

The schemes provided emergency relief for businesses affected by Covid 19, supporting continued trade and lowering the risk of job losses. This supports the Well-Being of Future Generations' objective of securing a prosperous Wales. The schemes also contribute to the Taking Wales Forward commitments to cut taxes for small businesses, reduce burdens on business as well as the Prosperity for All commitment to provide the right support to people and businesses.

The rates relief scheme is operated by local authorities. Officials from the Welsh Government worked closely with local government colleagues to compile figures for the amount of relief to be provided in each authority and how the scheme would be delivered to minimise the risk of fraud and error and to ensure deliverability. This has been an excellent partnership.

Economic Resilience Fund

The Economic Resilience Fund (ERF), is a cross Government, pan economy fund aimed at supporting employers and protecting employees. It was designed to plug any significant remaining – and emerging - gaps to support eligible enterprises with the remaining fixed costs of remaining in operation, whilst suffering from a significant reduction in turnover as a result of the Covid-19 pandemic. The Fund was designed to complement existing UK and Welsh Government support and is available to those not eligible for the above schemes or those still in difficulty having received the maximum funding available. It is recognised that the Fund would not be able to support every business (there were around 267,000 businesses in Wales in 2019) so policy choices would need to be made.

Where NDR was an immediate and urgent response in the days surrounding lockdown, the development of ERF allowed for a more considered view, examining impacts to sharpen the intervention and complement that support being provided by NDR and the UK-wide schemes. In view of the immediate cashflow pressures many businesses are facing across the economy due to a collapse in turnover, and the partial coverage of cost pressures by support measures announced to date, there is a clear need for ongoing support to rescue and sustain businesses across Wales. Offering direct funding support to businesses, charities and social enterprises is considered to be the best and most cost effective way of maintaining employment levels, adding to efforts to stabilise the economy.

The Economic Resilience Fund provides businesses, social enterprises and charities (due to separate support arrangements) with financial support, initially in the form of £200m non-repayable revenue funding support plus £100m financial transaction loan finance through the Development Bank of Wales (DBW). A further £100m of non-repayable revenue support was subsequently added to the initial £200m at pace due to the phenomenal take-up of the first tranche of funding. Ministers and officials reacted quickly to provide this additional funding from the overall £500m envelope.

The Fund has been designed to ensure that it will be flexible, cross government and provide cross-sector support – including to social enterprises and charities. All sectors of the economy will be impacted so the fund focuses on viable enterprises which are severely impacted and face significant pressures despite other support

measures announced. The Fund aims to provide short term support to mitigate cash flow pressures not addressed by other support being offered by the UK Government, Welsh Government and DBW – thereby acting as last port of call to sustain a good business into 2021.

Of the £300m initially allocated to ERF, recognising the considerations outlined above, as well as employment factors, the Fund has been divided indicatively among business size categories as follows:

- £240m for micro businesses employing between 1 and 9 people and for small and medium enterprises (SMEs) employing between 10 and 249 people
- £60m (20%) for large businesses employing 250 people or more

Delivery of the Fund has required a significant repurposing of resources in the Welsh Government. Over 150 civil servants and contractors were redeployed at short notice, with bespoke training, to support the Economy and Transport Department in delivering the initial phase of the Fund. More will be repurposed to perform further additional verification checks over the course of the summer, and to ensure funding offers made to businesses have been used for the purposes intended and by businesses eligible for support. The speed at which the scheme was established, launched and delivered demonstrates the very best qualities of the agile civil and public service we have in Wales.

The emergency measures outlined above are in addition to those existing business support schemes delivered by the Welsh Government and DBW.

Business Wales

All of the above work is underpinned by our highly-regarded bilingual business advice and support platform and services, Business Wales. This was originally launched in January 2013 and refreshed in January 2016 - designed to make it easier for Welsh micro-businesses and SMEs including social enterprises, plus aspiring entrepreneurs of all ages, to access the information, advice and support they require to start and grow their businesses. The service is funded through a combination of EU and domestic investment.

Business Wales offers a combination of online, telephone, 1-2-many and 1-2-1 business support which is tailored according to client need and the different regions of Wales, dependant on local requirements. Business Wales provides a range of general business advice, information and signposting as well as specialist strands of advice such as equality & diversity; resource efficiency; international trade; skills; procurement; and mentoring. In addition to broadband exploitation and access to the Skills Gateway and Farming Connect.

In response to Covid-19, Business Wales has adapted its business model at pace to deliver a virtual and telephony advisory service. This includes a series of live webinars to address challenges around accessing finance, managing cashflow, digital capability and diversification, managing change to employment. The breadth of topics is being extended to reevaluate business models, alongside approaches to

embed wellbeing in our advisory support and engagement with business communities.

Section 4 - Governance and Accountability Considerations

The unprecedented speed with which the Welsh Government had to respond to Covid-19 meant judgments as to whether to support specific businesses had to be made at record pace, with the real potential for imperfect information being available at the point of decision. This presented a number of Accounting Officer issues, and required a change to our overall governance framework to ensure the use of public funds was still subject to appropriate considerations of regularity, propriety, feasibility and value for money in the extraordinary context of Covid-19.

In summary, in March our risk appetite for business support was specifically reviewed, especially around the need to manage delivering large scale interventions at pace with incomplete information. This culminated in a letter from the Principal Accounting Officer to Additional Accounting Officers on 30 March setting out what these risks are and what we should consider tolerating whilst still being mindful of the AO duties to put proportionate safeguards in place. Because of the speed at which we were responding (and given our aim to protect as many businesses as possible) an increased level of risk with regard to fraud and error - or to businesses not being able to survive despite Welsh Government support - was accepted. However, it was agreed that this would be mitigated as far as possible by using at least two point of verified ID data for example VAT.

Much of the support provided by the Welsh Government to business is in the form of grant funding. Guidance was issued in March from the Grants Centre of Excellence putting in place a revised operational framework. This enabled grant managers to respond with alacrity to organisations suffering as part of Covid-19 by varying grant terms and conditions for existing grants, considering payments in advance of need or payments in advance of all verification checks which we would expect to undertake in normal operating conditions for example. One of the recommendations from previous PAC and WAO reports has been the need for officials to better document decisions at the time the decision was made. A new decisions template and guidance was circulated to ensure the key rationale for decisions made at pace was properly captured.

Our business support schemes have also been developed with the aim of undertaking verification checks to ensure compliance with scheme rules by those who have received funding in slower time over the summer months.

ERF has been delivered via a fully digitised application process from end to end. We have also been able to link reports between the application system and Welsh Government's SAP finance system again to both maintain records and ensure end to end verification.

Our procurement rules have also been revised in Wales. In March the Minister for Finance approved the adoption of PPN2 in Wales. This enabled officials to urgently

review their contract portfolio and inform suppliers who they believe are at risk that they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended) until at least the end of June.

The procurement notice also enabled us to put in place the most appropriate payment measures to support supplier cash flow; this might include a range of approaches such as forward ordering, payment in advance/prepayment, interim payments and payment on order (not receipt). If the contract involves payment by results then payment should be on the basis of previous invoices (for example the average monthly payment over the previous three months).

There are checks built into this system. To qualify, suppliers should agree to act on an open book basis and make cost data available to the contracting authority during this period. They should continue to pay employees and flow down funding to their subcontractors. These changes aim to maintain cash flow in the supply chain and protect jobs.

Conclusion

In summary, Welsh Government has put in place and delivered, at pace and with appropriate protections and checks, a suite of extraordinary support measures in response to a crisis that is unprecedented in recent times. We are still in the midst of that crisis, and work to develop and refine our approach continues in this very dynamic situation.

Annex1

Annex: summary of the schemes currently available (28 May 2020)

Job Retention Scheme

Employers can claim online for a grant for 80% of their furloughed employees' salaries, up to a maximum of £2,500 per employee per month, plus the associated Employer National Insurance contributions and minimum automatic enrolment employer pension contributions on that wage.

Self-Employment Income Support Scheme

The Self-employment Income Support Scheme (SEISS) will support self-employed individuals (including members of partnerships) who have lost income due to coronavirus (COVID-19). The scheme allows self-employed individuals to claim a taxable grant worth 80% of their trading profits up to a maximum of £2,500 per month

HMRC will contact those who are eligible for the scheme and invite them to apply online.

Business Interruption Loan Scheme

The Coronavirus Business Interruption Loan Scheme (CBILS) is available via one of 40 accredited finance providers and supports small and medium-sized enterprises (SMEs) (with an annual turnover of up to £45 million) to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to six years.

The UK Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees for smaller businesses to benefit from no upfront costs and lower initial repayments.

The UK Government provides lenders with a guarantee of 80% on each loan (subject to pre-lender cap on claims) to give lenders further confidence in continuing to provide finance to SMEs. The scheme is being delivered through commercial lenders, backed by the government-owned British Business Bank.

Large Business Interruption Loan Scheme

The Coronavirus Large Business Interruption Loan Scheme (CLBILS) provides a government guarantee of 80% to enable banks to make loans of up to £25 million to firms with an annual turnover of between £45 million and £500 million that would be otherwise unable to access the finance they need.

This is intended to give banks the confidence to lend to many more businesses which are impacted by coronavirus. Facilities backed by a guarantee under CLBILS will be offered at commercial rates of interest. The scheme is available through a series of accredited lenders.

This scheme allows lenders to specifically support businesses that were viable before the Covid-19 outbreak but now face significant cash flow difficulties that would otherwise make their business unviable in the short term.

The scheme will support a wide range of businesses to access finance products including short term loans, overdrafts, invoice finance and asset finance. To be eligible, the business must:

- Be UK-based in its business activity.
- Have an annual turnover between £45 million and £500 million.
- Be unable to secure regular commercial financing.
- Have a borrowing proposal which the lender:
 - o Would consider viable, were it not for the Covid-19 pandemic.
 - o Believes will enable the business to trade out of any short-term to medium-term difficulty.

Businesses from any sector can apply, except for the following:

- Banks and building societies.
- Insurers and reinsurers (but not insurance brokers).
- Public-sector organisations, including state-funded primary and secondary schools.

COVID-19 Corporate Financing Facility

Under the Covid-19 Corporate Financing Facility, the Bank of England will buy short-term debt from larger companies. This will support companies that been affected by a short-term funding squeeze and allow them to finance their short-term liabilities. It will also support corporate finance markets overall and ease the supply of credit to all firms.

Innovative Firms

A £1.25 billion package to protect firms driving innovation in UK. Support includes:

- £500 million Future Fund for high-growth companies impacted by the crisis, made up of funding from government and the private sector.
- £750 million of grants and loans to support SMEs focusing on research and development.

The Future Fund, delivered in partnership with the British Business Bank, will be launching in May and will provide UK-based companies with between £125,000 and £5 million from the government, with private investors at least matching the government commitment. These loans will automatically convert into equity on the company's next qualifying funding round, or at the end of the loan if they are not repaid.

To be eligible, a business must be an unlisted UK registered company that has previously raised at least £250,000 in equity investment from third party investors in the last five years.

The UK Government is committing an initial £250 million in funding towards the scheme which will initially be open until the end of September.

The £750 million of targeted support for the most R&D intensive SMEs will be available through Innovate UK's grants and loan scheme.

Self-Assessment Payment Deferral

Businesses due to pay a self-assessment payment on account by 31 July 2020 and where the coronavirus causes difficulty in making payment by that date may defer payment until January 2021. Businesses do not need to be self-employed to be eligible for the deferral.

This is an automatic offer with no applications required. No penalties or interest for late payment will be charged if payments are deferred until 31 January 2021.

Time to Pay

All businesses and self-employed people in financial distress and with outstanding tax liabilities may be eligible to receive support with their tax affairs through HMRC's Time To Pay service. Arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities.

VAT Deferral

This is available to all UK VAT-registered businesses. Payments can be deferred for three months.

UK's Insolvency Framework

It is planned that new restructuring tools that mirror the USA's Chapter 11 procedure, a well-established model adopted by countries around the world, will be added to the UK's Insolvency Framework. This includes:

- A moratorium for companies giving them breathing space for from creditors enforcing their debts for a period of time whilst they seek a rescue or restructure.
- Protection of their supplies to enable them to continue trading during the moratorium.
- A new restructuring plan, binding creditors to that plan.

The proposals also include key safeguards for creditors and suppliers to ensure they are paid, while existing laws against fraudulent trading and the threat of director disqualification will continue to act as an effective deterrent against reckless misuse of these new measures.

Statutory Sick Pay Rebate Scheme

The Coronavirus Statutory Sick Pay (SSP) Rebate Scheme will repay employers the current rate of SSP that they pay to current or former employees for periods of sickness starting on or after 13 March 2020.

Bounce Back Loan Scheme

From 4 May 2020, businesses will be able to access loans of between £2,000 and £50,000. Businesses will be able to apply for these new Bounce Back Loans for 25% of their turnover, with the government paying the interest for the first twelve months. Loan terms will be up to six years with no repayments due during the first 12 months.

The UK government will support lending by guaranteeing, to the lender, 100% of the loan.