HM Treasury

Policy paper

Winter Economy Plan

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1. Introduction

Since the emergence of the COVID-19 pandemic, the government has taken swift action to save lives, limit the spread of the disease to avoid overwhelming the NHS and mitigate damage to the economy.

The steps taken to slow the spread of the virus required unprecedented restrictions on people's lives and on businesses' ability to operate. In response to those restrictions, the government took action to protect jobs and livelihoods and support businesses through the deepest global recession in decades.[1]

Since March, the government has helped to pay the wages of people in 9.6 million jobs across the country through the Coronavirus Jobs Retention Scheme (CJRS)[2], protecting jobs that might otherwise have been lost, and supported the livelihoods of 2.6 million self-employed workers.[3]

Businesses have received billions in loans, tax deferrals, Business Rate reliefs, and general and sector-specific grants.

And individuals and families have benefited from increased welfare payments, enhanced statutory sick pay, a stay on repossession proceedings and mortgage holidays.

As the spread of the virus slowed over the summer, the government began to reopen the economy and took further action to support the emerging recovery and to ensure compliance with COVID-secure guidelines.

Over 84,000 cafés and restaurants and through them the jobs of their employees were supported through the Eat Out to Help Out scheme.

Following the introduction of the temporary cut in Stamp Duty Land Tax (SDLT), house sales rose 15.6% in August – helping to protect nearly three quarters of a million jobs in the housing sector and wider supply chain.

The economy responded to the reopening and, supported by government interventions, grew by over 6% in June and July, with retail sales returning to their pre-COVID levels and over 95% of businesses trading in August.[4]

Across this period of lockdown and gradual reopening, the government has provided support for people, businesses and public services totalling an estimated £190 billion.[5]

The government has since pursued a strategy of local restrictions to tackle local outbreaks. As part of this, it has provided funding for greater action by local authorities and police to ensure compliance with COVID-secure guidelines, with higher penalties for non-compliance. From 28 September, people on lower incomes who are told to self-isolate through the Test & Trace system will receive a £500 payment.[6] Business affected by local restrictions can claim up to £500 for each week they are required to close.

But the recovery is fragile. The resurgence of the virus has demanded further action to minimise the harm from COVID-19 to people's health and wellbeing, while preserving the ability of people to work and businesses to trade, which are vital for minimising the harm to livelihoods.

The most recent measures to stem the virus are not a repeat of March's lockdown, but targeted interventions which, if followed, will prevent the need for more stringent measures, although the government reserves the right to go further. They are likely to be necessary for a more extended period, reflecting the fact that we will now have to live with the virus.

As restrictions have changed, government support has evolved. Its goal remains to protect people's jobs and livelihoods, but as the path of the virus and the threat to the economy become clearer, government action needs to support jobs and businesses while at the same time allowing the economy to adapt to the new 'normal'.

It will not be possible to preserve every job or business indefinitely, nor stand in the way of the economy adapting and people finding new jobs, or starting new businesses. But the steps the government is taking will help protect jobs, support businesses through uncertain times, and prepare them for recovery.

The government is therefore introducing a package of targeted measures in response to the current economic context that will enable businesses to protect jobs and manage their finances in the face of reduced or uncertain demand with:

- support for businesses to bring people back to work and save jobs with a new Job Support Scheme and an extension to the Self-Employed Income Support Scheme (SEISS)
- help for the hospitality and tourism sectors through a continuation of the reduction in VAT
- support for over 1 million businesses to relieve pressure on their finances and cashflow through an extension to the application period for four government-backed loans schemes, and changes to the terms of repayment for Bounce Back Loans (BBLS) and Coronavirus Business Interruption Loans (CBILS)
- new payment schemes to ease the burden of paying deferred VAT and Self-Assessment tax liabilities.

The government is also confirming that since July a further £24.3 billion has been invested in enabling public services to respond to the virus.

2. Economic context

Since its emergence, the COVID-19 pandemic has had a severe impact on the UK economy. The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April – the first full month of national lockdown – was around 25% below the level recorded in February.[7]

Consumer spending fell, with social consumption (spending on restaurants, travel and entertainment etc., typically worth around a fifth of total consumption,[8]) falling by around 80% at its lowest point.[9] Around a quarter of firms stopped trading.[10]

In the early stages of the crisis the government took action to mitigate the worst economic impacts. Despite this, in common with many other countries, the initial impact of the outbreak was severe; activity stalled across large sections of the economy, consumer and business confidence fell and jobs were lost.

As restrictions on economic activity were eased, the government announced a package of measures to support, protect and create jobs, including by supporting employers in the hard-hit hospitality and accommodation sectors.[11]

The economy returned to growth in May, growing by 2.4% from April's low. Following the easing of restrictions, it grew further in June (8.7%) and July (6.6%).[12] Retail sales are now 2.8% higher than a year earlier,[13] and over 95% of businesses were trading in August.[14]

However, despite some growth over the summer months, the ONS estimates that GDP in July was still nearly 12% below the level recorded in February.[15] There have also been large shifts in the composition of spending over this time, leading to an uneven recovery across sectors.[16]

In this challenging and uncertain context there remains an ongoing risk to employment. The Office for Budget Responsibility (OBR) has said that the damage to the economy would have been much worse without the government's economic interventions,[17] but in spite of these, between March and August the number of people in employment fell by 695,000,[18] with a large fall in the number of young people (those aged 16 – 24) in employment.[19] The number of job vacancies was around 40% lower than the same time last year in August.[20]

Following a resurgence in the virus, the government set out measures to combat the spread of COVID-19 over the winter that will impose constraints on people and businesses.[21] This will in turn affect economic activity, particularly in sectors of the economy directly affected by the measures.

The government's economic response seeks to protect jobs and livelihoods in those areas of the economy that are most affected in the short term. This targeted and temporary support will continue to promote as rapid a recovery as possible once restrictions are lifted, minimising structural damage to the economy and public finances.

The work of the last ten years in bringing borrowing and debt back under control has meant that the UK has been well-equipped to respond to the challenges posed by COVID-19. The targeted and temporary policy support announced by the government has led to a significant but necessary increase in short-term borrowing and higher debt. Borrowing costs continue to be very low, so the costs of servicing this debt are affordable and sustainable. The government is committed to fiscal sustainability and ensuring the long-term health of the public finances.

3. Policy decisions

The following measures will apply across the UK. COVID-19 has shown how the UK government can work strategically and at scale to save jobs and support communities throughout the UK, working alongside the devolved administrations, to keep every citizen safe and supported no matter where they live in the UK. The government continues to take this approach as the country recovers from the economic aftermath of the pandemic and drive growth across the UK.

3.1 Further support for employment

A number of the government's interventions to support jobs and employment – including the Coronavirus Jobs Retention Scheme (CJRS) and the Self-employed Income Support Scheme (SEISS) are due to come to a close over the autumn, while other schemes – such as the Jobs Retention Bonus and employment support including Kickstart Scheme – begin to take effect.

The government's aim through all of these schemes has been to prevent skills from fading, maintain strong employment relationships between workers and firms, and support the self-employed. The new schemes the government is introducing will reinforce that objective, while ensuring that businesses can adapt and evolve to the prolonged challenge of COVID-19. Further technical details of the schemes will be available on gov.uk.

Job Support Scheme – To support viable UK employers who face lower demand due to COVID-19, and to keep their employees attached to the workforce, the government will be introducing a new Job Support Scheme from 1 November 2020. Employees will need to work a minimum of 33% of their usual hours. For every hour not worked the employer and the government will each pay one third of the employee's usual pay, and the government contribution will be capped at £697.92 per month. Employees using the scheme will receive at least 77% of their pay, where the government contribution has not been capped. The employer will be reimbursed in arrears for the government contribution. The employee must not be on a redundancy notice. The scheme will run for six months from 1 November 2020 and is open to all employers with a UK bank account and a UK PAYE scheme. All Small and Medium-Sized Enterprises (SMEs) will be eligible; large businesses will be required to demonstrate that their business has been adversely affected by COVID-19, and the government expects that large employers will not be making capital distributions (such as dividends), while using the scheme.

SEISS Grant Extension – The government recognises the continued impact that COVID-19 has had on the self-employed and has taken action to provide support. The SEISS Grant Extension provides critical support to the self-employed. The grant will be limited to self-employed individuals who are currently eligible for the SEISS and are actively continuing to trade but are facing reduced demand due to COVID-19. The scheme will last for 6 months, from November 2020 to April 2021.

The extension will be in the form of two taxable grants. The first grant will cover a three-month period from the start of November until the end of January. This initial grant will cover 20%of average monthly trading profits, paid out in a single instalment covering 3 months' worth of profits, and capped at £1,875 in total. The second grant will cover a three-month period from the start of February until the end of April. The government will review the level of the second grant and set this in due course.

3.2 Easing the burdens on business

Since March the government has implemented a series of measures to reduce pressure on business finances, allowing firms to manage their costs over a period of reduced demand, and protect jobs. As part of this the government has spent over £13 billion in business and sector-specific grants.

Extending the temporary VAT reduced rate for hospitality and tourism – To continue supporting the cashflow and viability of over 150,000 UK businesses[22] and to protect 2.4 million jobs,[23] the government is extending the temporary reduced rate of VAT (5%) from 12 January to 31 March 2021. This will continue to apply to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises, supplies of accommodation and admission to attractions across the UK.

Extension of access to finance schemes – The government is extending four temporary loan schemes, which have helped over a million businesses to date, to 30 November 2020 for new applications:

- Bounce Back Loan Scheme (BBLS) – BBLS has provided £38 billion of finance through more than a million loans to UK-based small businesses,[24] many of which had not previously borrowed. Loans are between £2,000 and £50,000, capped at 25% of turnover, with a 100% government guarantee to the lender to provide them with the confidence they need to support the smallest businesses. The borrower does not have to make any repayments for the first twelve months, with the government covering the first twelve months' interest payments. Under the new Pay as you Grow options (see below), Bounce Back Loan borrowers will all be offered the choice of more time and greater flexibility for their repayments.
- Coronavirus Business Interruption Loan Scheme (CBILS) – CBILS has provided over 66,000 loan facilities worth £15.5 billion to eligible UK-based businesses with turnover under £45 million.[25] The scheme provides loans of up to £5 million with an 80% government guarantee to the lender, giving lenders the confidence to provide finance to SMEs. The government does not charge businesses for this guarantee and also covers the first twelve months of interest payments and fees.
- Coronavirus Large Business Interruption Loan Scheme (CLBILS) – CLBILS has provided more than 566 facilities worth over £3.8 billion to eligible UK-based businesses with turnover above £45 million.[26] The scheme provides loans of up to £200 million (to a maximum of 25% of turnover), with an 80% government guarantee to the lender, which is more generous than equivalent schemes in many other countries.
- Future Fund – Our investment scheme for innovative and fast-growing UK-based businesses, has provided loans ranging from £125,000 to £5 million which are subject to at least equal matching from private investors. Over 700 convertible loans worth £720 million have been approved.[27] Businesses that have already accessed a Future Fund convertible loan cannot apply for another one.

Support also continues through the COVID-19 Corporate Financing Facility which will remain open until 22 March 2021. Where a company has exhausted all other options, and is of strategic importance to the UK, the government may also consider providing bespoke financial support.

Pay as you Grow – The government will give all businesses that borrowed under the BBLS the option to repay their loan over a period of up to ten years. This will reduce their average monthly repayments on the loan by almost half. UK businesses will also have the option to move temporarily to interest-only payments for periods of up to six months (an option which they can use up to three times), or to pause their repayments entirely for up to six months (an option they can use once and only after having made six payments). These changes will provide greater flexibility to repay these loans over a longer period and in a way that better suits businesses' individual circumstances.

CBILS loan extension – The government intends to allow CBILS lenders to extend the term of a loan up to ten years, providing additional flexibility for UK-based SMEs who may otherwise be unable to repay their loans.

VAT deferral 'New Payment Scheme' – The government will give businesses which deferred VAT due in March to June 2020 the option to spread their payments over the financial year 2021-2022. Over half a million businesses deferred VAT payments,[28] a cash injection of £30 billion into the UK economy when it needed it most. Rather than paying in full at the end of March 2021, businesses will be able to choose to make 11 equal instalments over 2021-22. All businesses which took advantage of the VAT deferral can use the New Payment Scheme. Businesses will need to opt in, but all are eligible. HMRC will put in place an opt-in process in early 2021.

Enhanced Time to Pay for Self-Assessment taxpayers – The government will give the self-employed and other taxpayers more time to pay taxes due in January 2021, building on the Self-Assessment deferral provided in July 2020. Taxpayers with up to £30,000 of Self-Assessment liabilities due will be able to use HMRC's self-service Time to Pay facility to secure a plan to pay over an additional 12 months. This means that Self-Assessment liabilities due in July 2020 will not need to be paid in full until January 2022. Any Self-Assessment taxpayer not able to pay their tax bill on time, including those who cannot use the online service, can continue to use HMRC's Time to Pay Self-Assessment helpline to agree a payment plan.

3.3 Support for public services

The Chancellor pledged to provide the NHS and other public services the support they need to respond to COVID-19. Delivering on this pledge, HM Treasury has so far approved £68.7 billion of additional expenditure on public services for the immediate response to COVID-19, including £24.3 billion since the Plan for Jobs in July. This includes:

- £16.4 billion further support for health services, including:
  - A further £8.9 billion of spending to support capacity and services in the NHS;
  - Over £5 billion for vaccines, including domestic vaccines R&D and manufacturing;
  - Over £2 billion additional funding for the government's Test, Trace, Contain and Enable programme to support the unlocking of the economy. This includes £1.5 billion for preparations for mass testing.
- Over £2 billion additional funding for local government in England, including the more than £500 million increase to support infection control in care homes;
- £60 million for enforcement and compliance, including COVID-19 Marshals;
- And £5.8 billion across other public services, including targeted support for essential public transport and funding for the Department of Work and Pensions, HMRC, Home Office, and Ministry of Justice to support responses to the impacts of COVID-19.

In addition to funding certain health services on a UK-wide basis, HM Treasury made an unprecedented upfront commitment to the devolved administrations, guaranteeing they would receive at least £12.7 billion in additional funding this year on top of their Budget 2020 funding. This comprises £6.5 billion for the Scottish Government, £4 billion for the Welsh Government, and £2.2 billion for the Northern Ireland Executive. This gives Scotland, Wales and Northern Ireland the budget certainty for their coronavirus response in the months ahead.

The country has moved into a different phase in our response to COVID-19 and the government's response has evolved. HM Treasury will continue to deliver on the Chancellor's pledge by working with departments to ensure public services receive the funding they need to respond to COVID-19 pressures.

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