COVID-19 BUSINESS SUPPORT - ISSUE 17

SME DIGEST

ADVICE FOR SMALL & MEDIUM SIZED ENTERPRISES

Edited by Adam Bernstein

CHANCELLOR'S SUMMER STATEMENT

THE CHANCELLOR SPEAKS

From the minute, this last March, that the government announced various programmes to protect jobs and the economy following coronavirus, it knew that it couldn't let UK plc and its employees walk towards a time limited cliff edge unattended.

By Adam Bernstein

For if nothing else, the formal ending of the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme at the end of October would have just kicked the problem down the road; we've already seen a wave of redundancies and a number of business failures – inaction would only have made the problem worse.

And so, just four months on the from the post-election March budget and three or so months before the next official budget, came the Chancellor's Summer Statement with spending of some £30bn. And while some of the policies had been 'pre-announced' – deliberately leaked – there were a few surprises.

The question is – will the announced programmes actually help?

Protecting jobs

There's no two ways about it, the Coronavirus Job Retention Scheme has generally worked as intended. However, with its end just three months away something else had to be put in place.

Two new sets of programmes were announced:

The first is the Jobs Retention Bonus which offers a cash payment of £1000 to employers for each employee that is kept on the books until at least the end of January 2021. To qualify, each employee must be paid at least £520 per month – a figure which is above the lower earnings limit. The monies will be paid to employers in February 2021. Quoted as costing a potential £9.4bn if applied to every worker that was furloughed, it may do the trick for lowly paid staff, but for those on any other rate of pay the effect may be questionable; £1000 is but a drop in the ocean of a salary when an employer is in trouble.

Also announced were a number of policies to help the under 25's. These included a £2bn fund to pay for six month work placements for 16-24 year olds on universal credit; £1000 grant for each 16-24 year old trainee taken on; £2000 for each under 25 year old apprentice taken on (reduced to £1500 for those over 25); £101m to fund studies for 18-19 year olds unable to find work; a job finding support service for those unable to find work after three months; and payments cover for national minimum wage for 25 hours a week. Again, will these policies be effective? Firms not in need of the cash will effectively bank it, but those in distress may not wish to either take on an additional head or 'replace' someone more expensive with cheaper and untrained labour.

The government is clearly hoping to keep people in work and off the dole queues with these programmes. While they carry cost, if they work, they'll be less expensive than having people on benefits ad infinitum. However, the reality may be quite different.

Troubled sectors

It's entirely clear that people-based sectors – restaurants, hotels, pubs and attractions – have been decimated by the pandemic and the steps taken to counter it. In an attempt to encourage the public to get out and spend VAT for those sectors will be cut to just 5% between 13 July to 12 January 2021. This will cover spend on food and non-alcoholic drinks as well as accommodation in hotels and B&Bs as well as attractions including theme parks and cinemas. But there is a problem – firms may not pass on the VAT cut, but instead, choose to use it to bolster their own balance sheet. Where this happens, the public may not be so receptive to the idea of dining out.

In addition to the VAT cut – just for Mondays to Wednesdays during the month of August – is the "Eat out to help out" scheme which will cover 50% of a diner's bill to a maximum of £10 a head. Again, only food and non-alcoholic drinks will be covered. Pubs that rely on alcohol sales (rather than food) and gyms will be upset at the lack of aid while others think it may be just a gimmick.

Homeowners and developers should be pleased with the removal of stamp duty on homes below £500,000 until 31 March 2021. But those buying a second house will still have to pay the extra 3%. Further, each household could be eligible for vouchers of upto £5000 to become more energy efficient. The programme plans to match spend on the basis of £2 for every £1 a household puts in; low-income households may be able to claim upto £10,000.

There is also to be £1bn of grants to public sector bodies for energy efficiency and £50m to improve energy efficiency in social housing. And more details on £5.6bn of previously announced infrastructure spending were given by the Chancellor. But with HS2 costing around £100bn, another £5.6bn may not go too far.

The moves – stamp duty and greater energy efficiency - should revitalise sales of products to developers and home buyers. Those selling carpets, insulation and solar panels, furniture and bedding to ground care products equipment, electrical items and other ancillary items should benefit leading to a trickle-down effect on the economy.

The devolved nations

It's notable that not all of the programmes will apply to all of the UK's nations. Scotland, because of devolution, won't benefit from the stamp duty cut, the energy efficiency vouchers, or the money for trainees. And Wales won't see the stamp duty cut either, but it will be given another £500m.

Overall

Coronavirus is an unmitigated disaster for the world, it's economies and people. Life will never be the same. And while governments – in particular the UK government – are trying their best, there has to be recognition that there is a limit to what they can do, no matter how unpalatable that is.

That said, will the programmes announced by the UK government work? It's highly questionable. £1000 is but a token gesture to an employee's expense, yet on the other hand, just as Roosevelt in 1930s American used governmental apparatus to create jobs through infrastructure spending, so the spending announced and stamp duty cut should kick start sectors of the UK economy, namely house building and house sales.

Lastly, there was nothing for freelancers or those who operate a small business through a limited company who take income purely through dividends; MPs in constituencies that recently turned blue may well be sweating, but so will those in traditionally conservative seats.