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Dear Michelle,

Thank you for your letter of 16 April following the Committee's call for views on the impact of COVID-19 on businesses, the economy and workers, and your subsequent informal virtual meeting. We welcome the scrutiny of the measures the Scottish Government has put in place so far and the opportunity to work together to identify any further action that is needed.

The Scottish Government has moved quickly to introduce a range of schemes and measures to support businesses and welcomes the initiatives being introduced by the UK Government. We also continue to listen to feedback, which is why we announced a further £220 million worth of measures on 15 April. This included extending both the Small Business Grant and Retail, Hospitality and Leisure Grant, specifically targeted at ratepayers with multiple properties - this will open for applications from 5 May. We also widened eligibility for the £10,000 Small Business Grant, for properties that may previously not have qualified, such as small sports clubs.

We have provided responses to the specific questions contained in your letter below.

## FUNDING

### **1. Publication of data on the allocation of COVID-19 business support funding**

The Scottish Government has regularly published information on COVID-19 business support funding<sup>1</sup>. In the Cabinet Secretary for the Economy, Fair Work and Culture's statement to the Scottish Parliament on 21 April, it was confirmed that, to date, measures with an estimated cost of over £2.2 billion have been committed to business support.

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<sup>1</sup> <https://www.gov.scot/publications/coronavirus-covid-19-support-for-businesses/>

This fulfils our commitment to pass on the business consequential received in respect of UK Government business support measures, the precise figure for which at the present date is £2,253 million.

The breakdown of business support measures is as follows:

<b>Business support measure</b>	<b>Estimated cost (£m)</b>
100% non-domestic rates relief for 2020-21 for retail, hospitality and tourism and airports	824.1
£10,000 grants for small businesses in receipt of the Small Business Bonus Scheme or Rural Relief (includes 75% grants for additional properties)	1,024.0
£25,000 grants for hospitality, leisure and retail properties with a rateable value between £18,000 and £51,000 (includes 75% grants for additional properties)	275.0
1.6% relief for all properties for 2020-21 (effectively freezing the poundage rate increase)	51.2
Newly Self-employed Hardship Fund	34.0
Pivotal Enterprises Resilience Fund	45.0
Creative, Tourism and Hospitality Enterprises and Hardship Fund	20.0
Grants provided to seafood processors (hardship fund)	10.0
Shellfish Growers and Trout Farmers Fund	3.0
Grants provided to fishermen	6.0
Fisheries vessels over 12m	3.5
<b>Total</b>	<b>2,295.8</b>

We recognise the value in proposing to Parliament a suitably early revision to the Budget (Scotland) Act 2020. Accordingly, the Cabinet Secretary for Finance is considering when to bring this forward and will advise Parliament in due course.

Since the first week of business support payments being made, we have published information at a Scotland-wide level, reflecting the number of awards made and the value of these awards. From week beginning 27 April, we will begin publishing information on our business support scheme by local authority. This information will be made available on gov.scot and updated on a weekly basis.

## **2. Breakdown of data on the allocation of COVID-19 funding**

We have been regularly publishing information on COVID-19 business support funding, including Scotland-wide information on the number of Small Business and Retail, Hospitality and Leisure Grants awarded and the value of these awards. From week beginning 27 April, we will begin publishing information on our business support scheme by local authority.

However, the Scottish Government does not currently collect information on grants awarded by economic sector. Grant funding has not been allocated on the basis of economic sectors, instead it was estimated on the basis of eligible property types identified through the Non-Domestic Rates valuation roll.

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As an example, we estimate that over 17,000 offices may qualify for the £10,000 Small Business Grant due to their Small Business Bonus Scheme eligibility, however we are not able to link those offices to Standard Industrial Classifications codes such as Finance or Construction.

Funding will ultimately be provided to local authorities on the basis of actual need rather than forecast eligibility.

- i. As noted above, the available data on business grant schemes do not allow us to identify how much funding has been allocated to specific economic sectors.
- ii. As the available data on business grant schemes do not allow us to identify how much funding has been allocated to specific economic sectors we are not able to provide the information requested.
- iii. Data published to date have presented the information at a Scotland-wide level. From week beginning 27 April we will be publishing information at a local authority level.
- iv. Measuring rejections consistently across Scotland is challenging due to variations in the billing software used by local authorities. Through engagement with local authorities we understand, for example, that some applicants have been rejected because they simply are not eligible but others may be rejected for administrative or counter-fraud reasons, for instance incomplete applications which miss vital information such as bank details. Through their billing software and to more quickly facilitate a payment, some local authorities choose not to “reject” applications where they are missing information but rather ask the applicant to update their information online. For other local authorities, it is more efficient to “reject” on this basis, but then directly feed back and ask the applicant to resubmit their form. We are working with local authorities to best represent the number of rejected applications and can update the committee when this information is available.
- v. To date the consequentials in respect of UK Government COVID-19 business support measures total £2,253 million (out of total consequentials now amounting to £3,520 million), and the estimated cost of the Scottish Government’s COVID-19 business support measures totals £2,296 million. The balance is met from other Scottish Government funding, which is being generated by budget management processes reflecting revised cost estimates and reprioritisation elsewhere in the Scottish Budget. Details will be presented to Parliament at the next budget revision.

## POLICY RATIONALE

### **3. Evidence and legal basis to support the awarding of the Small Business Grant at 75% for subsequent properties, rather than 100% for each property.**

The Scottish Government has always been explicit that we are passing on every penny of the UK Government’s consequential funding that has come for business support to Scotland. We have also been clear that we would take the right decisions for the Scottish economy whilst being mindful of delivering value for money.

In a number of policies we have sought to balance the needs of the broader economy with those of the retail, hospitality and leisure (RHL) sectors.

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For 2020-21, we are delivering a 1.6% universal relief for non-domestic rates (NDR) and 100% NDR relief for properties in the RHL and airport sectors through the Non-Domestic Rates (Coronavirus Reliefs) (Scotland) Regulations 2020,<sup>2</sup> laid on 26 March 2020. The two business grant schemes are being delivered administratively, with grant funding made available to claimants through powers conferred by Sections 126 and 127 of the Housing Grants, Construction and Regeneration Act 1996.<sup>3</sup>

With regards to the policy of awarding the Small Business Grant at 75% for second or subsequent eligible properties, we have chosen to go beyond the UK Government for the vast majority of the economy.

In England, we believe that very few properties beyond the RHL sectors will actually receive any grant for multiple properties due to restrictions in the design of the Small Business Rates Relief compared to the more generous Small Business Bonus Scheme in Scotland. We estimate that around 5,500 properties in the broader economy will benefit from a £7,500 grant in Scotland but would receive nothing in England. Meanwhile, around 3,500 RHL properties would receive £7,500 in Scotland compared with £10,000 in England. These figures demonstrate that, on balance, more properties will gain more in Scotland.

While we do provide slightly less grant support to the RHL sectors with multiple properties through the grant schemes than in England, properties in the RHL sectors will also benefit from 100% rates relief in 2020-21. This is a substantial saving for many businesses, on top of the potential wage savings through the UK Government's furlough scheme. In sharp contrast, there are many businesses outside the RHL sectors who are not getting any rates relief or grant funding. The Scottish Government has sought to ensure as much fairness at a time when businesses in many sectors, across the country, are grappling with the impact of Covid-19.

The 75% grant figure for second or subsequent eligible properties was chosen as a fairer means of allocating funding and ensuring there are resources to provide broader support for the economy. We also believe it more accurately reflects the realities of operating multiple properties for the majority of businesses. For example, a 75% grant will reflect the greater efficiency and lower overhead and operating costs for a business operating across multiple sites.

## **GAPS**

### **4. Identifying and rectifying gaps in the assistance being offered to businesses**

Scottish Government officials continue to work on and review the business support offering, with the awareness that businesses' needs and the nature of support required are changing as the pandemic and resulting containment measures evolve. This includes mapping the changing support environment and identifying gaps in provision. There are regular COVID-19 response meetings bringing together our economic development and sectoral support agencies, where business intelligence and sectoral/regional experience is discussed, including potential gaps in support. Scottish Government officials join these calls to ensure that this intelligence is passed to policy teams and to Ministers by way of daily briefings and submissions.

<sup>2</sup> <http://www.legislation.gov.uk/ssi/2020/101/contents/made>

<sup>3</sup> <http://www.legislation.gov.uk/ukpga/1996/53/contents>

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In addition, we seek expert external views on a regular basis: we maintain conversations with the main business consultancy organisations, the leading business representative organisations, enterprise agencies, and daily dialogue with COSLA and SOLACE to understand local concerns and issues, including around business support. We are also engaging with colleagues across UK Government departments.

Our mapping of the various business support schemes suggests the key gaps that remain are:

- Newer businesses who have insufficient financial history.
- Larger businesses requiring loans higher than £50 million that do not have an investment grade rating.
- Self-employed people who either started their business in the past year, have profits above £50,000, have income from other sources which accounts for over half their total income, or are company owner-managers who largely pay themselves in dividends.
- Higher risk businesses, including those most adversely affected by COVID-19 that may be unable to secure debt at affordable rates.
- Companies facing imminent pressure on cashflows, which are finding it difficult to obtain bridging finance until government-backed support is available.

In addition, gaps in the Job Retention Scheme exist for:

- Employees who have been made redundant before or after the cut-off date.
- Seasonal workers who would have been in employment but were not on payroll before the cut-off date.
- Those who resigned from their job due to health risks of COVID-19.
- Employees who continue to work but on reduced pay or hours, including those that have had to reduce their hours due to childcare responsibilities.
- Employees whose employers choose not to use the scheme.
- Workers on low pay whose earnings are reduced to 80% and are not topped up by their employers.
- Workers not on PAYE payroll.

On 17 April we wrote jointly to the Chancellor of the Exchequer to raise issues, including access to Scottish take-up data, around the UK Government Job Retention Scheme, Coronavirus Business Interruption Loans, and support for the self-employed. Scottish Ministers are in regular contact with their UK counterparts and will continue to raise issues with the UK Government across a range of fora.

Working closely with colleagues in HMRC and the British Business Bank, our analysts are monitoring available data on applications and approvals of the UK Government support schemes to assess where gaps remain, however data are not yet available for all schemes nor for the devolved administrations.

We are committed to supporting business through this crisis and will continue to seek to take action to identify and bridge gaps in support, whether that be through seeking adjustments to UK-wide schemes which do not meet Scotland's needs, or by responding to these gaps – as we have done – by bringing in our own additional support.

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The additional £220 million of grant support we announced on 15 April will help to address some of the gaps in support for newly self-employed people and businesses who are ineligible for other Scottish Government or UK Government schemes.

## **5. Ensuring that businesses across Scotland are treated consistently**

Local authorities are instructed to administer grant funding schemes in accordance with a Scottish Government guidance document,<sup>4</sup> which outlines the parameters of the business grant schemes and the criteria an applicant and their property/ies must satisfy to be eligible.

The Scottish Government always acknowledged that, due to the breadth of businesses falling within the scope of this fund, these guidelines could not comprehensively instruct local authorities for every individual case. As such, they allow local authorities a degree of discretion, enabling them to utilise local knowledge to determine cases which accord with the overall objectives of the scheme, if not the letter.

We also acknowledged that it will not immediately be apparent how the scheme guidelines apply to certain cases. Local authorities are asked to set aside these cases to raise with the Scottish Government. Some are very idiosyncratic and in such instances we are content that local decision making should prevail. However, it is clear that many of the issues raised are common across local authorities. These general themes (distinct from individual case issues) are discussed on a weekly basis among a project group comprising a number of local authority directors of finance and heads of revenue services, along with Scottish Government and COSLA officials, and a common approach is agreed.

The Scottish Government curates a log of these discussions and circulates it weekly to local authorities via COSLA and, using the Institute of Revenues Rating and Valuation Home (IRRV) networks, directly to the team in each local authority administering the business grants.

The local discretion afforded by the guidance will naturally create some variation in approach across local authorities. However, our direct contacts with all local authorities, facilitated by both COSLA and the IRRV, are intended to provide a degree of consistency on how this discretion can be applied. The Cabinet Secretary for Finance has written to all Chief Executives asking them to provide grant funding in keeping with the spirit of the guidance which is to support as many businesses as possible.

## **RESTRICTIONS ON ECONOMIC ACTIVITY**

### **6. Consulting businesses on the ongoing review of the regulations and the guidance**

Scottish Ministers have remained in regular contact with business leaders, trade unions and employer representative bodies throughout the COVID-19 crisis. While not in specific consultation regarding the regulations and guidance, the Scottish Government is involved in extensive and on-going dialogue with business. This includes but is not limited to a biweekly call, which the Cabinet Secretary for the Economy, Fair Work and Culture participates in, with the major business representative organisations. It has included, and continues to include, discussion around the regulations and business guidance.

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<sup>4</sup> <https://www.gov.scot/publications/local-government-finance-circular-5-2020-covid-19-grant-funding-schemes/>

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The reset phase that we are now entering involves preparation to know what a safe restart will look like sector-by-sector across the economy and what needs to be done to help businesses deliver it in a safe and orderly way. Together with industry sector leads and trade unions, the Scottish Government will develop sector-by-sector guidance to give assurance and confidence as closed businesses - at some point - reopen and restart economic activity. However, that will happen only when scientific and health advice supports it.

An example of this approach, as the Cabinet Secretary for the Economy, Fair Work and Culture stated recently in Parliament, is the cross-industry group formed by the Minister for Local Government, Housing and Planning and the construction leadership forum to address the wider issues that are needed to get the industry started again following lockdown.

These discussions will be informed by the Scottish Government's Framework for Decision Making, which was published on 23 April 2020<sup>5</sup>.

## **DIVERGENCE IN GUIDANCE**

### **7. Possible steps to address this issue**

The Scottish Government recognises the desire from many business to have consistency across the UK, but we must be sure that any approaches work for Scotland and, where the evidence indicates it is necessary, that we continue to take distinctive decisions for Scotland.

The Scottish Government's position will continue to be led by public health considerations. Our published guidance is very clear, and we will continue to work closely with the UK Government and the other devolved administrations as we develop our response to this crisis, including to ensure that any possibilities for confusion are limited. Our approach in Scotland will be closely aligned to our Purpose, our National Outcomes, and our guiding values, including kindness, compassion, openness and transparency, as set out in the Scottish Government's Framework for Decision Making.

## **SUPPORT FROM BANKS**

### **8. What conversations has the Scottish Government had with the banking sector and the UK Government to ensure that the Coronavirus Business Interruption Loan Schemes are available and accessible to businesses without penal interest rates?**

We have regular discussions with the banks on their response to this crisis and the business support measures put in place such as the Coronavirus Business Interruption Loan Scheme (CBILS). We are keen to monitor the performance of the Scheme and to have a clear understanding of the impact it is having on Scottish businesses. We continue to press UK Ministers to release Scottish specific data to support this effort. The Scheme has come under much criticism and, while we accept that it is not easy to design and introduce a new product at such an unprecedented pace, many businesses need assistance quickly if they are to survive. It is vital, therefore, that any issues with the Scheme are ironed out as quickly as possible and that the UK Government is prepared to adapt at pace, learning from the best international practice.

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<sup>5</sup> <https://www.gov.scot/publications/coronavirus-covid-19-framework-decision-making/>

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While the regulation of financial services is reserved to the UK Government, we will continue to challenge both the banks and the UK Government if the issues with CBILS persist. The reality is that, while the statistics have improved markedly in the last week, fewer than half of applications have resulted in the extension of finance and only a small proportion of the overall business base has accessed the scheme. It is an inbuilt feature of CBILS that banks must consider the commercial viability of businesses to trade their way out of short to medium-term difficulty and that assessment of risk will narrow the number of businesses able to access finance on attractive terms. The UK Government must be responsive to these facts and demonstrate flexibility. The banks must also ensure that they are acting in the spirit of the scheme and do everything they reasonably can to support businesses through this crisis.

The partnership that has been established with the banks is key to Scotland's economic future and we will continue to work with the sector to drive improvement and to plan the restart and recovery of Scotland's economy.

## ENTERPRISE AGENCIES AND SNIB

### **9. Additional activities being undertaken by the enterprise agencies to support businesses during the COVID-19 pandemic and additional funds being provided to support this work. In particular, the support being given to businesses to support e-commerce, which could help some businesses to continue to operate during the lockdown.**

A collaborative multi-agency response to COVID-19 is being delivered by the enterprise and skills agencies (Scottish Enterprise, Highland and Islands Enterprise, South of Scotland Enterprise, Skills Development Scotland, Scottish Funding Council), in conjunction with Business Gateway, local authorities and the Scottish Government. This includes working together to ensure that support is tailored to meet the needs of businesses and communities across Scotland, recognising that each area is different. As part of this, Highlands and Islands Enterprise and South of Scotland Enterprise are working closely with communities in some of the most rural and fragile areas to ensure that they are accessing the support they need.

It should also be noted that the Scottish Government's interest-free Digital Development Loan, which supports businesses to increase their digital capability, remains operational. This £12 million fund allows businesses to access flexible finance of up to £100,000 and can be used to support e-commerce and other methods of using digital to maintain productive capacity.

On Access to Finance support, the Scottish Investment Bank (SIB) team at Scottish Enterprise is engaging with a wide cohort of businesses. This includes financial readiness and enquiry handling. SIB is using company, banking, co-investors, other funders, contacts at the British Business Bank and the devolved administrations, as well as its extensive partner network, to provide constructive, real time and balanced feedback on the funding issues companies are experiencing.

In March, the Scottish Government allocated £300,000 additional funding to Scottish Enterprise to support the enterprise agencies to deliver the *Find Business Support* website and a helpline to support businesses through the COVID-19 crisis.

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Our enterprise agencies are also supporting two initiatives hosted by Scottish Enterprise. *Contact* will see the monitoring of existing social media accounts and aims to respond to queries made via these channels in 24 hours, and *Peer to Peer* is a new platform that will allow businesses to link up with one another in a bid to build an online community that will help resolve problems such as supply chain issues.

Highlands and Islands Enterprise have also moved much of their support to businesses to an online platform. An example of this is that Xponorth, Scotland's largest business to business creative industries event, is now operating digitally with a series of webinars and virtual events, alongside regularly updated information and advice available online. Similarly they have refocused online activities under the Northern Innovation Hub to provide webinars, advice and support to businesses. HIE is also looking to put in place a programme of specialist advice for businesses focusing on support to redefine their strategy in the new world.

Scottish Enterprise is continuing to help businesses in developing their eCommerce capabilities through both their own sites and through the use of Marketplaces and how they can use digital marketing to attract customers and make more sales. They are working closely with their Business Gateway partners in the development of eCommerce content for their Digital Boost webinar programme.

Our enterprise agencies are also working with Scottish Development International colleagues to take their plan of significant eCommerce activity, due this summer into autumn, and move this to online delivery.

**10. Which funding streams will be used to provide this business support and which elements of the 2020/2021 budget, set aside for Scottish Enterprise and the establishment of the SNIB, are being used for emergency assistance?**

As noted above, to date the consequentials in respect of UK Government COVID-19 business support measures total £2,253 million and the estimated cost of the Scottish Government's COVID-19 business support measures totals £2,296 million. The balance is met from other Scottish Government funding, which is being generated by budget management processes reflecting revised cost estimates and reprioritisation elsewhere in the Scottish Budget. Details will be presented to Parliament at the next budget revision.

**IMPACT ON THE ECONOMY GOING FORWARD**

**11. How much funding is the Scottish Government looking to set aside in this year's budget to support the recovery of the economy?**

In the statement on the economy to Parliament on 21 April, the Cabinet Secretary for the Economy, Fair Work and Culture outlined the Scottish Government's four-step economic plan, comprising response, reset, restart and recover, and noted the focus to date on the response stage, including the commitment to business support measures with an estimated cost of over £2.2 billion. As noted above, the balance of costs above consequentials is met from other Scottish Government funding, which is being generated by budget management processes reflecting revised cost estimates and reprioritisation elsewhere in the Scottish Budget. Details will be presented to Parliament at the next budget revision.

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We would be happy to keep the Committee updated as the plan and further associated costs are developed.

Thank you again for your interest and please let us know if you have any further questions. We are of course happy to keep you informed as we continue our work in ensuring our economy can recover quickly.

We are copying this letter to the Finance and Constitution Committee also, for information.

Kind regards  
Fiona Hyslop

**FIONA HYSLOP**



**KATE FORBES**

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