

## London Chamber of Commerce and Industry's response to Treasury Committee's inquiry into the economic impact of coronavirus

### Introduction

1. London Chamber of Commerce and Industry (LCCI) is the capital's largest independent business advocacy organisation. We represent the interests of firms of all sizes, from micro-businesses and sole traders through to large, multi-national corporates, across a broad range of sectors in all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.
2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and London Assembly, Parliament, and media, as well as international audiences. Through business surveys and commissioned research, LCCI seeks to inform and shape debate on key business issues.

### To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?

3. By far and away the most successful and useful scheme for businesses has been the Coronavirus Job Retention Scheme (CJRS, or 'furlough' scheme). Figures from HMRC estimate that at its peak during the first national lockdown, 9.6 million workers were furloughed, with over three in five employers who were eligible for scheme making a claim.<sup>1</sup> It is now estimated, according to the latest figures from HMRC that the number of furloughed employments has fallen to 3.8 million (as of 31 December 2020).<sup>2</sup> The data show a gradual decrease in the number of furloughed employments since the May 2020 peak.
4. Separate figures from the Office for National Statistics suggest that 828,000 payroll employee jobs have been lost between February 2020 and December 2020.<sup>3</sup> The introduction of flexible furloughing and its continuation until at least April 2021 appears to have prevented businesses from turning to layoffs en masse. However, that is not to understate the impact of 828,000 jobs lost: but without the CJRS, the job losses would have been much higher.
5. In terms of reducing the risk of long-term unemployment, that will entirely depend on firms' ability to improve cashflow over the coming months. For sectors that continue to see reduced demand strictly because of Covid-19 measures, these jobs should return once the economy is able to open more fully over time – for example, in the leisure, travel and hospitality sectors. If revenues remain severely depressed, continued support will need to be offered by the Government to businesses, to prevent firms turning to cutting employment costs.
6. For other industries such as retail, Covid-19 restrictions have accelerated a shift to online spending. Whilst there are signs that a proportion of consumers still look to shop 'in-store', there may well be a reduced need for staffed retailers in the future. High street shops had already suffered in 2020, as seen with Debenhams and the Arcadia Group. Going forward, assistance will need to be given to workers in these sectors to re-skill for other industries or roles, should it be required.

<sup>1</sup> Coronavirus Job Retention Scheme: Evaluation Plan, HMRC,

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945335/The\\_Coronavirus\\_Job\\_Retention\\_Scheme\\_CJRS\\_Evaluation\\_Plan.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945335/The_Coronavirus_Job_Retention_Scheme_CJRS_Evaluation_Plan.pdf)

<sup>2</sup> Coronavirus Job Retention Scheme statistics: January 2021, HMRC, <https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-statistics-january-2021/coronavirus-job-retention-scheme-statistics-january-2021#employments-furloughed-over-time>

<sup>3</sup> Labour market overview, UK: January 2021, Office for National Statistics,

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/january2021>

7. Welcome support has been announced, such as the Kickstart scheme and other measures detailed in the Plan for Jobs, as well as the Restart scheme announced in the Spending Review. However, it is important that the Government ensures this support aids workers at all skill levels and age groups.

### To what extent are Government measures value for money for the taxpayer?

### How effective is the Government support to businesses and individuals across different regions and sectors? Does the effectiveness of the Government support vary across different regions?

8. There is no question that the entire UK economy has benefitted from flagship schemes such as the Coronavirus Job Retention Scheme (CJRS). In addition, targeted business rates relief for the retail, hospitality and leisure sectors have been useful in reducing some of the fixed costs that businesses face.
9. The support measures that have been made available to the aviation, travel and tourism sectors have been widely used. In terms of the Coronavirus Job Retention Scheme, it is estimated that 51% of workers in the aviation sector were on partial or full furlough leave in the two weeks prior to the second lockdown in England. Close to one-third of workers in industries such as hospitality & tourism and arts & heritage were on furlough prior to the second lockdown (28% and 31%, respectively).<sup>4</sup>
10. These have been the hardest hit sectors during the pandemic. As an example, London Heathrow is expecting just 22m passenger journeys in 2020 and 37m in 2021, a steep fall from the 81m passenger journeys in 2019.<sup>5</sup> A collapse in passenger demand led to a 61.3% fall in revenue and a £321m loss for Gatwick in the first half of 2020.<sup>6</sup> LCCI discussions with member businesses in the business travel sector saw reports of near-zero income since the pandemic began.
11. Grants have been made available to eligible businesses in these hardest hit sectors, such as travel and hospitality. These funds will have been useful to plug short-term holes in finances. In addition, the government-backed loan schemes have been accessed widely, with the Bounce Back Loan Scheme in particular proving popular for smaller businesses – figures from the Treasury suggest over £44 billion has been lent to businesses under the BBL scheme.<sup>7</sup>
12. Nevertheless, there have been gaps in support for these sectors. For example, while Northern Irish and Scottish airports received early support for business rates payments, the financial support announced in November aimed at addressing business rates liabilities for airports in England was long overdue, and this scheme will not open until the new year. Business rate bills are a significant cost for airports, who despite being able to access the furlough scheme have unfortunately had to turn to layoffs. The four major hub airports serving London – Heathrow, Gatwick, Stansted, and London City – have all either announced job losses or are intending to make further redundancies.
13. The business rates holiday for retail, hospitality and leisure has proven extremely useful for businesses in these sectors. However, too broad a brush may have been used – indeed, several high street retailers have announced they will return the business rates they had saved under the holiday to Treasury, because of strong performance since the pandemic. Meanwhile, the airports still had to make business rate payments despite seeing little demand for flights. The limited travel that has occurred over the past year will be further reduced following the announcement of changes to the UK's border policy for international arrivals. Whilst

<sup>4</sup> ONS Business insights and impacts on the UK: 19 November 2020

<sup>5</sup> Heathrow is no longer Europe's biggest airport - Results for the 9 months ended 30th September 2020, Heathrow, <https://mediacentre.heathrow.com/pressrelease/details/81/News-1/12582>

<sup>6</sup> Gatwick publishes half yearly results, as airport takes further steps to protect its future resilience against the economic impact of COVID-19, Gatwick, [http://mediacentre.gatwickairport.com/press-releases/all/2020\\_08\\_28\\_half\\_yearly\\_results.aspx](http://mediacentre.gatwickairport.com/press-releases/all/2020_08_28_half_yearly_results.aspx)

<sup>7</sup> HM Treasury coronavirus (COVID-19) business loan scheme statistics, GOV.UK, <https://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics>

LCCI recognises that the aims of the new measures around mandatory hotel quarantine are vital for keeping transmission of new variants down, airports will need financial support to sustain themselves.

14. Despite the aid mentioned in paragraph 13 for retail, hospitality and leisure firms, it is important to note that many businesses in the hospitality sector, particularly in London's Central Activities Zone, have either been unable to reopen or unable to make any profit as a result of restrictions and a drop in footfall.<sup>8</sup> The Government should look to extend the business rates holiday and the VAT cut beyond March 2021 to avoid a potential cliff-edge for hospitality businesses.
15. The Self-Employment Income Support Scheme, set up as a form of support for self-employed workers akin to the Job Retention Scheme, has proved widely used as well. However, the Institute for Fiscal Studies found that 18% of workers who earned at least half of their income from self-employment were ineligible for the scheme. This rises to 38% for individuals who earn any income from self-employment.<sup>9</sup> Whilst the Government has made assurances that those ineligible for SEISS can access enhanced benefits under Universal Credit, there are still large gaps in the amount people can access.

**What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?**

16. A second national lockdown for England saw the need for an introduction of grants for businesses forced to close. The third national lockdown in January 2021 has only widened further the net of businesses that must close.
17. The NatWest London PMI for November 2020 showed that private sector activity fell back into contractionary territory during the second lockdown.<sup>10</sup> Businesses noted a second successive drop in new business activity in November according to NatWest, while job cuts accelerated for the time since July.
18. As a member of the accredited Chamber of Commerce network, London Chamber of Commerce and Industry runs a Quarterly Economic Survey. The survey looks at a number of business conditions, such as domestic and export demand, employment, price pressures and cashflow. The latest survey data for Q4<sup>11</sup> showed a small pick-up in domestic demand over the quarter, but for 45% of firms' domestic sales are still falling. In addition, 49% reported a decline in cashflow, and 22% had cut jobs.<sup>12</sup>
19. The tiered system that has been introduced since October 2020 meant that sectors linked to hospitality, tourism, travel, and other activities remain under strain. The recent move of London into the Very High tier of Covid-19 restrictions – Tier 3 – has led to several trade bodies warning of job losses in the thousands for the hospitality industry.<sup>13</sup>
20. Additional polling conducted for LCCI by Savanta ComRes showed that in Q4, 60% of firms said further lockdowns / the continuation of tightened restrictions was the biggest threat to their survival in 2021.<sup>14</sup>
21. If the Government is forced to use intermittent lockdowns, it must ensure that sufficient financial support is available to businesses. For those that are forced to close, more must be offered via the Local Restrictions Grant Funds, which currently see a maximum of £1,500 every 14 days for businesses in Tier 3 or closed

<sup>8</sup> Our Manifesto, Central London Alliance, <https://www.centrallondonalliance.com/manifesto.html>

<sup>9</sup> Self-employment income support and the second national lockdown, Institute for Fiscal Studies, <https://www.ifs.org.uk/publications/15157>

<sup>10</sup> <https://media.natwestbusinesshub.com/plUYpYteRwVVSzchduey>

<sup>11</sup> Capital 500: London Quarterly Economic Survey, Q4 2020, <https://www.londonchamber.co.uk/LCCI/media/media/QES4-report-2020.pdf>

<sup>12</sup> The fieldwork for the Q4 2020 Quarterly Economic Survey was conducted by Savanta ComRes between 6<sup>th</sup> November and 6<sup>th</sup> December 2020, polling 507 businesses in London varied across business size and sector.

<sup>13</sup> London's move to tier 3 'will put thousands of hospitality jobs at risk', The Guardian, 14 December 2020,

<https://www.theguardian.com/business/2020/dec/14/london-move-to-tier-3-will-put-thousands-of-hospitality-jobs-at-risk>

<sup>14</sup> **Note: this data is not for wider sharing beyond this document, without the permission of London Chamber of Commerce and Industry.**

under national lockdown rules. This is not enough to sustain businesses, who still have substantial fixed costs that they need to manage.

22. The introduction of new grants, which could reach up to £9,000 in value per business, were welcome following the announcement on the new national lockdown in January. However, the issue around fixed costs remains, especially considering that the Government does not intend to ease any of the current lockdown measures until at least 8<sup>th</sup> March 2021.<sup>15</sup> The Chancellor must recognise that additional grants will be needed to support firms.
23. The Government should also look to extend the business rates holiday in its current form to the next financial year. This will provide some form of certainty for firms as a cost that they do not have to manage. It should go without saying that for as long as national lockdowns are required, the Government must not look to end the Job Retention Scheme. The proposed successor – the Job Support Scheme – represented a significant reduction in terms of the support for businesses. The Chancellor rightly pivoted away from that scheme earlier this year, but must not return to it in the future. If there are to be reductions in the subsidy from Government, they must come alongside an opportunity for businesses to bring in revenue.
24. In his upcoming Budget, the Chancellor should also commit to extending the deferral of other tax liabilities currently in place until the end of 2021.
25. Sectors linked to the night-time economy are facing an extended period of no income. The Chancellor must put in place targeted support for the night-time economy, beyond the current offering for nightclubs, to ensure this vital industry can bounce back when the time is right.
26. Beyond financial support, the Government absolutely must ensure that the Test and Trace system is properly functioning, to reduce the need for national lockdowns. Businesses have been let down by the Government with regards to this system. In addition, the Government must work quickly to vaccinate the population, to open the economy more quickly.

### **What changes to the economy are now permanent?**

27. Nearly all businesses across the UK were forced to operate some form of remote working once the first national lockdown was imposed. A survey by the Institute of Directors suggest that 74% of firms planned to maintain the increase in working from home once the threat of the pandemic is quelled.<sup>16</sup> More than half of the respondents intended to reducing their long-term workplace occupancy.
28. Additional polling conducted for LCCI by Savanta ComRes showed that 13% of firms would shift completely to working from home, with 9% of businesses stating that they had already closed their physical premises.<sup>17</sup>

### **How large a problem is corporate indebtedness? How effectively did the financial sector give assistance to businesses?**

29. The financial sector's response to the pandemic was initially found wanting. The Government set up the Coronavirus Business Interruption Loan Scheme (CBILS), which would see loans offered through accredited lenders with government backing of 80% of the liability. This was set up to give firms access to finance, whilst reassuring banks that they would not be opening themselves to widespread default.

<sup>15</sup> Boris Johnson hopes schools in England will reopen from 8 March, The Guardian, <https://www.theguardian.com/world/2021/jan/27/englands-schools-will-not-reopen-straight-after-half-term-says-pm>

<sup>16</sup> Home working here to stay, study of businesses suggests, BBC News, 5 October 2020, <https://www.bbc.com/news/business-54413214>

<sup>17</sup> LCCI polling shows covid-19 impact on London business, LCCI, <https://www.londonchamber.co.uk/news/press-releases/lcci-polling-shows-covid-19-impact-on-london-busin/>

30. However, uptake of loans under the CBILS was slow from the outset, with banks still forcing companies to go above and beyond in their applications. The Government had already provided a sizeable guarantee, but lenders were still being too cautious. The scheme was also designed to allow a form of 'shopping around' for customers, but many lenders stated that they would not offer loans under CBILS to new customers.
31. As a result, the Government announced the Bounce Back Loan Scheme (BBLs), which were 100% state-backed loans offered through accredited lenders, up to £50,000. The required documentation was significantly reduced, allowing many more firms to access emergency financing. Since the introduction of both CBILS and BBLs, the Government has made amendments to loan repayments.
32. Nevertheless, the financial sector's initial response could have been more supportive to aid businesses.
33. Whilst access to finance under CBILS, BBLs, and the scheme for larger firms, these funds are in form of loans. The National Audit Office estimated in October that the Government could face a loss of between £15 billion and £26 billion under the Bounce Back Loan Scheme, through businesses not being to repay the loans and fraud.<sup>18</sup>
34. Work undertaken by TheCityUK has seen a Recapitalisation Group set up, which is looking into the potential ways of dealing with projected £35 billion of unsustainable debt from Covid-19 loans.<sup>19</sup> The Recapitalisation Group has recommended to the Bank of England and the Government that steps are undertaken to find more sustainable repayment methods for SMEs, which protect the taxpayer from widespread defaults. These include plans to allow firms to repay only what they can afford, and converting government-backed loans into subordinated debt.<sup>20</sup>

**What improvements can be made to institutions to ensure that responses to crises like these are more robust in the future and policy makers have the data they need? What further analysis should the Government do and make transparent?**

35. What remains apparent is that business banking is under-resourced in the UK financial sector, with businesses struggling to open accounts even now. Financial institutions should be encouraged to lend to productive sectors of the economy, instead of focussing on consumer credit for income. Small businesses, start-ups, scale-ups, established firms – all businesses need access to finance to fund expansion. In addition, a stronger relationship between the financial sector and private non-financial business would provide a clearer understanding of potential vulnerable industries, should a similar crisis to the Covid-19 pandemic occur in the future.
36. Furthermore, more must be done to understand the business landscape. Councils have been reliant upon the business rates system as a way of identifying potential recipients of grants. However, if more firms do intend to embrace flexible working and give up permanent office addresses, this will lead to businesses being left behind when it comes to support. This has been the case for example for firms working in shared office spaces. A better understanding of the business landscape will aid the Government's response.
37. The Government was slow to release data substantiating decisions on allocating regional restrictions, and questions remain about the evidence underpinning measures affecting business operations such as implementing a hospitality curfew and requiring certain venues to close. Greater transparency would build trust in the Government's decision-making.

<sup>18</sup> Investigation into the Bounce Back Loan Scheme, National Audit Office, <https://www.nao.org.uk/press-release/investigation-into-the-bounce-back-loan-scheme/#:~:text=Today%20the%20National%20Audit%20Office,repay%20the%20loans%20and%20fraud>

<sup>19</sup> Recapitalisation, TheCityUK, <https://www.thecityuk.com/home/covid-19-update/ Recapitalisation/>

<sup>20</sup> Supporting UK Economic Recovery: Recapitalising businesses post Covid-19, <https://www.thecityuk.com/assets/2020/Reports/2d5179dbfb/Supporting-UK-economic-recovery-recapitalising-businesses-post-Covid-19-v2.pdf>

38. Ensuring the UK is more resilient to a crisis of this type in the future is vital. In London's case, the cessation in commuter travel and inbound overseas travellers has put firms in the city's Central Activities Zone in a perilous position. The Government should recognise that urban areas of low residential, high office density rely on commuters and tourists to survive, and should a scenario arise in the future where these groups cannot make journeys into the centre, ensure financial support is made available.
39. London's transport network has suffered under the pandemic, with Transport for London forced to request emergency funding from the Government. Steps must be taken to make TfL's funding model more resilient, by reducing the reliance on farebox income. London's transport network will also need upgrades in the future, to ensure it provides an efficient service.

#### **What are the productivity challenges in the wake of the coronavirus crisis?**

40. Polling undertaken by Savanta ComRes for LCCI shows that 47% of businesses who used increased remote working since the pandemic began, feel they are less productive than before. Only 20% of firms said they were more productive.<sup>21</sup>
41. Over a third of businesses (35%) who have increased their use of working from home said that ensuring employees were being productive was a challenge. In addition, 22% said that poor internet connections for employees had been an issue during the pandemic.<sup>22</sup>

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<sup>21</sup> **Note: this data is not for wider sharing beyond this document, without the permission of London Chamber of Commerce and Industry.**

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