

# Rishi Sunak's pledges sow hope — and confusion

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Entrepreneur Carolyn Pearson learnt about the 'creeping death' of the coronavirus from clients with links to China



It has been a testing six months for Carolyn Pearson. She has got divorced, bought a house and had an autoimmune condition diagnosed. She has also seen her business, Maiden Voyage, devastated by the coronavirus pandemic.

The company provides safety training to business travellers. Pearson saw the coronavirus approaching like “creeping death” through stories told by clients returning from China. Some have stayed with Maiden Voyage’s online tutorials, but the business faces a fight for survival until worldwide travel bans are lifted.

On Friday, there was a ray of hope. The chancellor, Rishi Sunak, outlined plans for the government to pay up to 80% of employees’ wages, to a maximum of £2,500 a month, in a move he described as “unprecedented in the history of the British state”.

Alongside a guarantee to underwrite £330bn of loans to business, the job retention scheme could provide the financial firepower to combat the grave threat to the economy.

“The government has stepped up,” said Pearson, 55, who employs three full-time staff in Leeds. “This is going to protect jobs. I feel a lot more optimistic than I did.”

That positivity is tinged with doubt, however. The scheme will not be operational for weeks, which means more stress — perhaps terminal — for companies that already have extreme cashflow problems.

More broadly, the urgent measures to spread liquidity and confidence through the economy — including the emergency loan initiative, due to start this week — have caused as much confusion as hope among bosses, adding to anxiety.

With several of the government measures, it is unclear how the funds will be distributed. For the loans and business grants, company owners say they do not know where to turn — to banks, the government or their local council. A mass marketing campaign will be launched this week in an effort to provide clarity, but with cash running out fast, it may not come soon enough.

To add to the tension, Whitehall is nearing full capacity. The job retention scheme is to be handled by HM Revenue & Customs, already overwhelmed with requests from companies to extend deadlines for paying taxes and other duty under an arrangement known as time to pay. Last week, HMRC was forced to reduce its helpline hours because of a shortage of advisers.

Even so, the government cannot be accused of holding back. The bill for the job retention scheme could be as much as £45bn for three months, according to Kevin Doran, chief investment officer at the broker AJ Bell. “It’s not only a bazooka, it’s potentially unlimited ammunition,” he said.

The move came at the end of a week in which the Bank of England cut rates to a historic low of 0.1% — the second emergency cut in a fortnight — and introduced measures intended to help keep money rolling around the system.

Sunak is also deferring VAT until June, and is providing £7bn of welfare support and £1bn for people with rent to pay.

While the interventions will not stop unemployment ballooning, the rise could be lower than feared, according to Paul Dales, chief UK economist at Capital Economics. He had feared that 1.5 million people might lose their jobs, taking unemployment back to the 8% level last seen during the 2008 banking crisis, but now he thinks unemployment could increase by 700,000. That is still a rate of 6%.

Some employers that were gearing up to make job cuts said the measures would help them retain staff. Pure Spa & Beauty is based in Edinburgh and operates spas around the UK. The company, which employs more than 200, has seen bookings plunge as the virus has spread and the country has been put into lockdown. It was expecting revenue of about £100,000 the week after Mother’s Day, one of the busiest of the year, but that projection has been cut to £12,000.

Staff had been put onto zero-hours contracts and had their hours reduced. The next step would have been redundancies. However, the job retention scheme offers hope. “It looks like it could be a great help,” said Michael Lumsden, Pure’s director.

Lumsden, 59, said he was more concerned about muddled messaging around the financing deals available for businesses.

The Scottish government announced last week a grant of up to £25,000 for hospitality, leisure and retail companies with a rateable value of £18,000-£51,000. It was assumed that would apply to six of Pure’s sites, which fall into that rates bracket. However, it turned out to be one grant for the whole company. The £25,000 will not even cover Pure’s payroll for three days.

This typifies the confusion that has accompanied the announcements of huge state support programmes.

Clearing banks, some of which were bailed out in 2008 and exposed for their gross mistreatment of small businesses, will have a vital role. The main high street banks will make the loans, with the government covering up to 80% of companies' losses.

With bosses at many of the big lenders promising a new era, critics say now is the time for them to stand up and be counted. "If banks are going to be the vehicle for ensuring that businesses can access this £330bn, they need to step up pretty quickly and support businesses in the way they were supported by the government in the financial crisis," said Rachel Reeves, the Labour MP who chairs the Commons business, energy and industrial strategy committee. "If businesses are going to get through, they'll need banks to be supportive and rapid in their response."

The aim of the government intervention is to encourage banks to keep the lending taps on. The Financial Conduct Authority has reminded lenders that its rules allow scope for forbearance for customers in default or arrears, while the Bank of England has restarted a term funding scheme, originally introduced during the turbulent times after the 2016 Brexit referendum, to provide cheaper funding to the banking sector.

To help bigger businesses with good credit ratings, the Bank will vacuum up commercial paper — a short-term form of financing. The Association of Corporate Treasurers (ACT), which represents the executives who have the job of keeping cash flowing, wants this to go further.

It said commercial paper-buying should include small companies and those with riskier credit ratings. It is also calling for a revolving credit facility worth billions that would help big companies pay their smaller suppliers on time.

"A pandemic is the worst of the worst because it touches on everything. It's not just that the markets are going down like they did in the financial crisis, it's that people are worried about their loved ones dying," said Caroline Stockmann, the ACT's chief executive.

Whether the enormous rescue programmes work as intended remains to be seen, but they at least provide hope for businesses of all sizes — whereas Britain's near five million self-employed workers have so far been ignored, campaigners say.

"Why have the self-employed been excluded from the plans to pay 80% of wages?" asked Mike Cherry, chairman of the Federation of Small Businesses.

There are concerns about the cost of the job retention scheme, despite Sunak's repeated promises to do "whatever it takes". AJ Bell's Doran warned that unless the virus is contained within 12 weeks, as Boris Johnson hopes, the bill could spiral. "We're suddenly in three-figure billions," he said.

The UK needs the confidence of foreign investors for any bond issuance as some 25% of gilts are funded overseas. The new £200bn of quantitative easing by the Bank should ease some of the pressure.

Sunak expects to fund the payroll scheme in the usual way, via the government's Debt Management Office. "This is an open-ended gamble," said Doran.