

Item: 20

Special General Meeting of the Council: 30 June 2020.

Coronavirus Response Fund.

Business Hardship Support Grants and Emergency Loan Scheme.

Review.

Report by Executive Director of Development and Infrastructure.

1. Purpose of Report

To provide an update on the initial financial support measures approved from the Council's Coronavirus Business Hardship Support Fund.

2. Recommendations

The Council is invited to note:

2.1.

That, on 16 April 2020, the Council established a Coronavirus Business Hardship Support Fund, with an opening balance of £5,000,000.

2.2.

That the Council has established two initial financial support measures drawing from the Coronavirus Business Hardship Support Fund during the response phase to the coronavirus pandemic

- Business Hardship Support Grant (BHSG), launched on 1 May 2020.
- Emergency Loan Scheme, launched 25 May 2020.

2.3.

That, as of 26 June 2020, the Economic Development service has processed 42 successful applications for the BHSG amounting to a total of £245,000.

2.4.

That, as a grant of last resort, officers have adopted a reactive approach to the assessment of applications to the BHSG scheme, subject to other Government funding schemes that continue to be launched.

2.5.

That, in addition to new Government grant schemes, significant variation in hardship cases and business circumstances have challenged officers to arrive at a consistent approach of assessment of applications to the BHSG scheme.

2.6.

That the Council is also administering the following Coronavirus support grant schemes on behalf of the Scottish Government.

- Coronavirus Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund.
- Newly Self-Employed Hardship fund.
- B&B Hardship fund (B&Bs with personal bank accounts).

2.7.

That intelligence and feedback from other forms of government funding support administered by Scottish Enterprise, South of Scotland Enterprise and Highlands and Islands Enterprise which have recently closed will provide further understanding of gaps and unmet need for assistance.

2.8.

That a recent business-led survey conducted across Orkney business sectors projects considerable job losses and the potential for significant company failure particularly focused towards the end of the furlough scheme in late summer.

2.9.

That, prior to formal establishment of the Business and Economy Response and Recovery Group (BERRG) and its Steering Group, a series of meetings with business and public agency representation has been scheduled to review current Government and Council support schemes and focus unmet requirements to support business survival and recovery.

2.10.

That, on 23 June 2020, the Council agreed:

- An additional grant for Orkney businesses that qualify for support from any of the Scottish Government funded Coronavirus Grant schemes administered by the Council or the Council's Coronavirus Business Hardship Support Grant scheme, equal to an additional 10% of sums paid or due to each business.
- To extend the 10% supplement to additional schemes of grant assistance that provide grant support to Orkney businesses, but not administered by the Council.
- That the 10% supplement to additional schemes of grant assistance should not be extended to the Coronavirus Job Retention Scheme, commonly known as the furlough scheme.

- That any Orkney business not eligible for the 10% supplement should be eligible for a support payment, up to a maximum sum of £500, redeemable against evidence of expenditure on protective screens or other public safety equipment purchased since 23 March 2020 in respect of individual properties, with multiple property owners qualifying for multiple payments.

2.11.

As, as at 26 June 2020, payments totalling £951,300 have been paid from the Coronavirus Business Hardship Support Fund comprising £245,000 in Business Hardship Support Grants and £706,300 paid under the 10% supplement noted at paragraph 2.10 above.

2.12.

That, following dialogue with business representation in late June 2020, the Executive Director of Development and Infrastructure, in consultation with the Chair and Vice Chair of the Development and Infrastructure Committee and the Head of Finance, will review the scope of existing grants mechanisms and the potential to make appropriate amendments and additional support available from the Coronavirus Business Hardship Support Fund towards urgent business restart and recovery measures.

It is recommended:

2.13.

That the Chief Executive, in consultation with the Chair and Vice Chair of the Development and Infrastructure Committee, the Executive Director of Development and Infrastructure and the Head of Finance, be authorised to finalise and approve amendments to the current BHSG scheme and the repurposing of existing grant measures during the recess period, namely 6 July to 7 August 2020 inclusive.

3. Background

3.1.

The Council's Business Hardship Support Grant (BHSG) was launched on 1 May 2020 with applications invited from businesses that are ineligible for the Government's Coronavirus Business Support grant. The Business Hardship Support Grant Fund.

3.1.1.

Grants from the Business Hardship Support Grant Fund were initially restricted to:

- £5,000 per applicant for businesses employing 1 to 5 full time equivalent employees.
- £10,000 per applicant for businesses employing 6 to 10 full time equivalent employees.

- £15,000 per applicant for businesses employing 11 or more full time equivalent employees.

3.1.2.

The grant scheme is discretionary with no absolute entitlement to any grant award and is administered by the Economic Development Service

3.2.

In reviewing the BHSG scheme it is important that the context of the continuously shifting Government coronavirus funding is recognised, as the Council's BHSG was approved on the basis of a grant of last resort. The following summary of support measures illustrates the complex Coronavirus funding landscape, all factors that might impact on an application for BHSG support.

3.3.

The following Scottish Government schemes, administered by Scottish Enterprise, South of Scotland Enterprise and Highlands and Islands Enterprise, were launched on 1 May 2020:

- Coronavirus Creative, Tourism and Hospitality Enterprises Hardship Fund.
- Pivotal Enterprise Resilience Fund.

3.4.

Around that time, HMRC started contacting individuals categorised as self-employed to administer the UK Government's Coronavirus Self-Employment Income Support Scheme. This grant provides a variable grant based on their previous year's business profits.

3.5.

The Government also launched its Job Retention Scheme administered by HMRC to cover 80% (up to £2,500 per month) of the payroll costs, for employees on temporary leave ('furlough') due to coronavirus (COVID-19). This has recently been extended to October 2020, although with phased reducing levels of support.

3.6.

Since then the Council's Economic Development function was also required to administer the following Scottish Government funds:

- Coronavirus Newly Self-Employed Hardship Fund.
- Bed & Breakfast Hardship Fund (for B&B businesses operating with personal bank accounts).

3.6.1.

Successful applications for these schemes pay fixed grants of £2,000 and £3,000 respectively.

3.6.2.

The B&B Hardship Fund was launched on 15 June 2020 following the well-publicised lobbying of Government that highlighted perceived injustices of its other grants to accommodation providers who pay non-domestic rates, and/or the requirement to operate a business bank account. At time of writing questions regarding consistent assessment across the country remain to be addressed by the Scottish Government.

3.7.

The Council is also directly involved in the provision of the non-domestic rates related business reliefs, as follows:

3.7.1.

All non-domestic properties in Scotland will get a 1.6% rates relief. This relief effectively reverses the change in poundage for financial year 2020/21. Businesses do not need to apply for this relief – it will be routinely reflected in rates bills.

3.7.2.

In addition, retail, hospitality and leisure businesses will receive 100% rates relief during the 2020/21 tax year. To be eligible for this relief, a property has to be occupied. Properties that have closed temporarily due to the Government's COVID-19 advice are however treated as occupied.

3.7.3.

The Scottish Government Coronavirus Business Support scheme is a one-off grant of £10,000 available to small businesses who benefit from eligible rates relief, and a one-off grant of £25,000 for hospitality, leisure and retail businesses with properties that have a rateable value between £18,001 and £51,000.

3.7.4.

On 5 May 2020, a second phase of the Scottish Government Coronavirus Business Support Fund was opened specifically aimed at businesses with more than one property and which were previously eligible only for a single grant under the initial scheme. These businesses are now able to apply for grants at the rate of 75% in respect of each additional property.

3.7.5.

This fund was further extended in a third phase on 8 June 2020 for tenants or occupiers of premises such as shared office spaces, business incubators and shared industrial units for which the landlord is the registered rate payer. The tenant businesses which were previously ineligible for the Small Business Grant Scheme may now be eligible for a single, one-off £10,000 small business grant.

3.8.

In addition, other more specific Government grants have become available, and relevant to Orkney businesses such as:

- Third Sector Resilience Fund.
- Sea Fisheries Hardship Fund.
- Seafood Business Resilience Fund.

3.9.

In addition to grant funding the UK Government announced two significant loan mechanisms

- Coronavirus Business Interruption Loan.
- Coronavirus Bounce Back Loan schemes.

3.9.1.

These are recognised as favourable loan schemes that would be expected to be applied for before applying to the Council for its Emergency Loan Scheme that launched on 25 May 2020.

3.10.

Some Government grant schemes have already notified closing dates as follows

- Coronavirus Creative, Tourism and Hospitality Enterprises Hardship Fund – 18 May 2020.
- Pivotal Enterprise Resilience Fund – 18 May 2020.
- Coronavirus Small Business Support grant – 10 July 2020.

3.10.1.

Although formally closed on 18 May 2020, at time of writing, some grant approvals have still to be notified to applicants. Public disclosure of the Government grant approvals is expected in the coming weeks.

3.11.

At the Special General Meeting held on 23 June 2020, the Council agreed:

- An additional grant for Orkney businesses that qualify for support from any of the Scottish Government funded Coronavirus Grant schemes administered by the Council or the Council's Coronavirus Business Hardship Support Grant scheme, equal to an additional 10% of sums paid or due to each business.
- To extend the 10% supplement to additional schemes of grant assistance that provide grant support to Orkney businesses, but not administered by the Council.
- The 10% supplement to additional schemes of grant assistance should not be extended to the Coronavirus Job Retention Scheme, commonly known as the furlough scheme.

- Any Orkney business not eligible for the 10% supplement, should be eligible for a support payment, up to a maximum sum of £500, redeemable against evidence of expenditure on protective screens or other public safety equipment purchased since 23 March 2020 in respect of individual properties, with multiple property owners qualifying for multiple payments.

3.12.

The effect of the Council decision noted above means that BHSG awards will be paid as grants of £5,500, £11,000 and £16,500, subject to FTE category.

3.13.

In summary the above reflects a dramatically changing landscape of grant, furloughing and loan measures that potentially impacts on any given individual business hardship case. This brings significant challenge to officers seeking a consistent approach to interpreting assessment criteria based on the initial principles of the BHSG.

4. Review

4.1.

Since the Council's Business Hardship Support Grant (BHSG) was launched on 1 May 2020, awards totalling £245,000 have been paid to 42 businesses. Of these, most have been awarded the minimum grant of £5,000, two have been awarded grants of £10,000 and three of £15,000 reflecting businesses of 6-10 and 11 or more FTEs respectively. The following table categories the total enquiries to date.

	Initial Eligibility Checkers	BHSG Applications
Total Received	176	65
Yes/approved	87	41
No/rejected	31	8
Applicant to revert *	41	-
Void (Duplicate)	10	-
Referred to Head of Service	-	0
Still to be determined	7	16

*Applicants guided to other/new forms of Government funding in first instance. Due to the parallel launch of the Scottish Government's grants noted at section 3.3, and the approved principle that the BHSG be considered a grant of last resort, applicants potentially eligible for these grants were asked to explore an outcome decision before taking their BHSG case further forward. This is reflected in the relatively high number of 41 applications to revert.

4.2.

The following table summarises applications and awards for Scottish Government funds administered by Economic Development.

Grant	Applications	Awarded	Total (£)
Newly Self-Employed Hardship Fund	46	21	42,000
B&B hardship fund	8	2	6,000

4.2.1.

The B&B hardship fund was launched on 15 June 2020 and there remain some questions on eligibility that need to be resolved with Scottish Government.

4.3.

As at 26 June 2020, the Council's Finance Service, with assistance from Internal Audit, had processed and paid 646 Scottish Government Coronavirus Business Support grants totalling £6,852,500 as summarised over the three phases in the following table.

Phase.	Small Business Support Grant.	Number of grants awarded.	Value of grants awarded.
1.	1. Small Business £10,000.	505.	£5,050,000.
	2. Retail, Hospitality and Leisure £25,000.	40.	£1,000,000.
2.	1. Small Business £7,500.	97.	£727,500.
	2. Retail, Hospitality and Leisure £18,750.	4.	£75,000.
3.	Tenants who are not the named ratepayer on Non-Domestic Rates bill	0	£0
	Total for both grants.	646.	£ 6,852,500.

4.4.

When the BHSG was originally conceived in the run up to launch on 1 May 2020 the main Government grant schemes were relatively blunt instruments that have since been amended or supplemented with the subsequent launch of new support measures. At the time of approval, the only explicit exclusion to BHSG eligibility was the Government's Small Business Support grant. Whilst this has been extended with two additional phases as noted above, other grant schemes such as the Creative, Tourism and Hospitality Hardship fund and the Pivotal Enterprise Resilience Fund were subsequently launched that do not exclude applicants from also applying to the Council's BSHG.

4.5.

Despite confirmation from successful applicants suggesting that awards are offering the financial protection against permanent business closure as intended it remains hard, particularly with many of the smaller businesses, to distinguish between business hardship and personal hardship. A key principle of the BHSG is that it was not intended to replace lost income, however many applications continue to be submitted effectively seeking this.

4.6.

New and additional challenges to interpretation of grant criteria continue to surface such as

- Justification of full-time equivalency.
- Timing with other grant mechanisms.
- Business hardship versus personal hardship.
- Evidencing tourist accommodation as per guidance.
- Interpretation of Covid related costs.
- Demonstrating need for funding from cash flow projections.
- Interpretation of unavoidable costs.

4.7.

Although two applications for the Council's Emergency Loan Scheme have been received, only one has a full submission package enabling officer assessment to progress. It is thus too early to review this scheme although it is understood that businesses and local professional service companies have reviewed guidelines and it is expected that views will be fed back during the ongoing consultation of the BERRG.

5. Potential amendment to grant criteria

5.1.

One of the original intentions behind launching the BHSG was to locally address gaps in Government support funding. However, during the 7 weeks that the scheme has been open these gaps have progressively been closed in degrees. This does not mean all businesses are now secure, in fact more sinisterly there is a growing sense that the worst is still to come for some areas of the economy.

5.2.

As businesses plan for recovery, in particular at the point that furloughing of staff comes to an end, difficult decisions are expected that are likely to result in redundancy and significant job loss later in the Summer. The fact that retail and tourism or the social economy will remain most impacted for the longest time, reflecting the concept of three consecutive winters, is recognised by the Government and its agencies but as yet it is unclear if further measures will be announced.

5.3.

The expectation of future challenges has recently been reported in the press following a business-led survey that was also reported to the Council in consideration of the Business and Economy Response and Recovery Group (BERRG) and its steering group structure.

5.4.

Prior to formal establishment of the BERRG and its Steering Group, a series of meetings with business and public agency representation has been scheduled during late June to review current government and council support schemes and focus on unmet requirements to support business survival and recovery.

5.5.

Full details of the other Government hardship schemes are expected to be published which will help understand residual gaps and potential further support needs. Anecdotal feedback suggests great variation in the 'need' cases across the applications submitted with significant numbers of rejections or indeed low levels of awards based on cash flow projections in applications that did not support higher level of grant approval.

5.6.

Discussion with Highlands and Islands Enterprise and Business Gateway Officers on considering financial needs for ongoing rescue and recovery identified the option to consider specialist advice within a more rounded and potentially bespoke approach for businesses where there are risks of significant job losses. Such cases are likely to be identified in the coming weeks and months when businesses attempt to return to work and bring back staff from furloughing. Some businesses, whilst negatively impacted by lockdown, will be able to start trading relatively soon thereby generating revenue to pay staff whilst other larger employers are likely to struggle with the

significant risk and expectation of redundancies. As lockdown relaxations are already being prepared for, different parts and sectors of the economy are expected to recover at different times, at different rates, and to varying degrees.

5.7.

Despite Scottish Government updates along the recovery routemap Orkney, as an island economy, has significant differences to consider and plan for. The impact of restrictions and physical distancing on transport is yet to be modelled and the two metre restriction will be subject to change. How this will impact on business confidence and what costs will be required to respond safely are still largely to be determined. The confidence of both visitors, and local communities in welcoming them, remain uncertain making reopening planning extremely challenging. The tourism membership group, Destination Orkney, is currently conducting a survey of its membership to explore confidence and other related issues.

5.8.

In the report that supported the decision of the Council to approve the BSHG, the option to consider repurposing existing Economic Development grants was included. Whilst no explicit recommendation or decision was taken to progress that during the Covid-19 response phase, use of such development support will increasingly become pertinent during the recovery phase as noted in above. Since businesses will be required to transition into, and flourish within, a changed local and national economy, officers are considering options to flex existing criteria whilst recognising the significantly reduced annual Economic Development Grant budget. Options to discretionally and temporarily relax existing scheme guidelines and potentially draw grant from the Coronavirus Business Hardship Support Fund during recovery might be an option to consider to offer support such as:

- Increase maximum grant available under Flexible Business Development Grant from £5,000 up to £10,000 at 50% of eligible costs.
- Include new funding criteria to include support for investing in changes towards new and efficient working practices and other recovery developments.
- Relaxation of key industry sector requirements where justification to save jobs is given.

5.9.

The challenge remains of focussing limited financial budget towards securing the highest impact and survival of as many key Orkney businesses as possible during a time of intense uncertainty. Some businesses will not survive, some will choose not to re-open and others will still require bespoke support in order to remain solvent and protect jobs. The assessment and allocation of a 'one to many' grant approach has proven to be more time consuming than anticipated requiring constant checking with changing Government schemes and a more bespoke approach to addressing the needs of key Orkney employers at risk warrants further consideration.

6. Resources

The Council's Finance, Internal Audit and Economic Development services have responded to accommodate the various hardship grant administration duties whilst regular service activities also require to be delivered. Although the unforeseen complications of assessment and navigating new and evolving Government schemes remain challenging, the option to potentially refocus on more bespoke rescue packages with increased assessment activity per application might not necessarily be significantly more time than already expended on Small Business Support Grants and BHSGs once many businesses resume trading in the coming weeks.

7. Corporate Governance

This report relates to the Council's response to the economic challenges arising from the Covid-19 pandemic. Efforts to support the Orkney Economy through the pandemic are considered in line with the Council Plan priorities.

8. Financial Implications

8.1.

The financial implications are largely contained in the body of the report.

8.2.

The Council has established a Coronavirus Business Hardship Support Fund with an opening balance of £5,000,000.

8.3.

As of 26 June 2020, payments totalling £951,300 have been paid from the fund consisting of £245,000 in Business Hardship Support Grants and £706,300 paid under the additional 10% grant for Orkney businesses that qualified for support from any of the Scottish Government funded Coronavirus Grant schemes administered by the Council or the Council's Coronavirus Business Hardship Support Grant scheme. There has currently been no Emergency Loans approved.

8.4.

Any future costs or funding commitments arising from the work of the Business and Economy Response and Recovery structure, including those arising from the Recovery Action Plan, are also expected to be drawn from Council's Coronavirus Business Support Fund with regular update reports to the Council.

9. Legal Aspects

9.1.

Section 95 of the Local Government (Scotland) Act 1973, as amended, obliges the Council to make arrangements for the proper administration of its financial affairs.

9.2.

In terms of Section 20 of the Local Government in Scotland Act 2003, the Council has power to do anything which it considers is likely to promote or improve the well-being of its area and persons within it, or either of these. This includes power to give financial assistance.

10. Contact Officers

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