SQUAREONELAW

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horse Guards Rd
Westminster
London SW1A 2HQ

Our Ref: IMG/MB
Your Ref:
DDI: 0191 250 8501
Mobile: 07771 571 600
Int: +44 191 212 5600
DX: 62566 Jesmond
Email: ian.gilthorpe@squareonelaw.com

Date: 19 June 2020

Dear Chancellor

Government initiative suggestions from business leaders

In advance of an economic statement from you, which has been trailed in the media, I wanted the opportunity to tell you about a number of things North East businesses would consider to be positive ideas for the future. I attach a list of suggestions that could make a real difference to businesses which want to maintain the viability of their operation and grow.

Since the start of lockdown, Square One Law together with Recognition PR, has been running a weekly business fellowship forum to discuss evolving issues and opportunities as well as providing support in those sessions to over 200 business leaders. In addition, my own firm has contacted 1800 business people in the North East to ask them what they would want the Government to do next. Our work during the crisis has involved providing support to the wider business community and often we have been working with companies despite their inability to pay, because it was the right thing to do.

What was impressive from the early days of the present crisis was the fact that HMT would launch initiatives because of the urgency of the situation; if they weren't perfect on day one they were refined, but the willingness to launch instilled confidence that the support would be there. It seems to me that the second wave of COVID-19 will actually be "economic impact" with grave threats to many businesses and employment. I believe what is now required, once again, is pace. We need a similarly decisive and risked-based approach from HMT as a matter of urgency so we can boost the economy to try to mitigate the effect of COVID-19 and relaunch. The best way of creating these initiatives is to empower entrepreneurs and entrepreneurial businesses as they are used to taking advantage of opportunities and can act in a much more agile way than government.

We all know that many companies will fail on this upturn. Many have incurred debt to fund the lockdown period and are unable to raise debt to fund a return to continuity and as a result, without capital injections into their businesses, many employees on furlough will simply transfer from one form of Government support to Universal Credit - again, at the cost of Government

We want to help the country, in particular our region, to not simply survive this crisis but to find a way to move forward and thrive. Recognising that the Government's post-election agenda was to tackle levels of regional inequality, which are worse than some other OECD countries, we have reached out to our North-East and wider network and we have made some suggestions of initiatives for consideration.

I hope you find these helpful.

Yours sincerely

Ian Gilthorpe
Senior Partner
Square One Law

APPENDIX 1

SUGGESTIONS FOR HMT

- Cash is key – any continuing support for business should require strict adherence to the late payment code so we can get cash flowing down to lower tier suppliers.
- The Government backed credit insurance scheme was a good concept, but very limited in scope. This should be extended more generally as the availability of credit is critical to supporting the recovery as well as individual company's ecosystems - even strong pre-COVID accounts and balance sheets often mean little in the post COVID era.
- Prioritise public support for early stage private VC projects. Allocating capital for equity investment reaches businesses fast and so can translate cash into jobs. Mitigate risk to the public purse by investments being conditional on private investors leading the project who will risk their own capital. In the North East this could best be delivered through the existing and successful North East Finance Programme, so £500m public contribution would be matched by £500m of private finance resulting in £1bn of capital being available for investment.
- Increase EIS relief to 50% of income tax (plus 20% CGT relief) to attract more private money into the high-risk VC arena. This initiative could be time limited and could be national or regional, the latter to support the levelling off agenda.
- A temporary suspension of CGT would release a flood of investment. Anyone with CGT liabilities would sell to avoid CGT and would then need to reinvest, so instead of sleeping equity investments there would be new funds available for new projects. The cost to HMT will seem to be marginal when compared to the value of the pickup in activity as most capital gains are not realised.
- EU State aid Rules restrict VCT investments in companies over seven years old (or ten years old for 'knowledge intensive' companies) and there is a funding gap that needs to be filled for funding small companies that fall outside the VCT Rules either on a age basis or qualifying trade basis, but do play a valuable role in the economy in terms of employment innovation and role in society.
    - Remove/raise restrictions on VCT investments and if necessary, obtain a temporary waiver from State aid rules. This would bring a flood of capital into the market for the type of businesses that require more capital not debt.
    - Additionally, this could be filled by successor funds to VCTs not subject to EU Rules post Brexit with a much broader remit focussed on making investments in growing companies across the UK, unrestricted by age and activity. This new form of fund ("Growth VCT") could be subject to lower tax incentives than VCTs, reflecting the lower risk profile of not being restricted to early stage companies and would be attractive to investors and perpetuate the existing public/private partnerships.
- Loan support linked to job creation/retention. Previously at times of economic stress, where firms required additional funding to support growth where pure debt was not the answer, hybrid solutions linked to job creation/retention have proved to be successful. One such scheme which was particularly important in the North East at a time of great structural change to the local economy as the coal, steel and shipbuilding industries were closing was the European Coal and Steel Commission (ECSC) support programme. This linked job

creation/retention to a rebate which reduced the amount of debt funding which was required to be repaid if certain job creation/retention metrics were met. Like CBILS there was also a partial guarantee to the Lender. Such an arrangement could help off-set the costs of Universal Credit and boost tax revenues if jobs are retained and new ones created as opposed to unemployment and hence the welfare bill simply rising.

- HMT need to push hard on other Government departments, local authorities and other public bodies to accelerate those infrastructure projects in the pipeline, now providing bridging finance where necessary, shortening consultation periods, easing planning, accepting more risk, etc.
- Invest in the UK's digital infrastructure. Push ahead with Freeports in regions like the North East and Green Agenda projects. Push the Northern Powerhouse – East to West rail links, for example, are much more important than North to London (HS2) at this time.
- Local content to be formally addressed and not just talked about and instead made part of the business case. Also there have been many cases demonstrating the need to re-shore supply chain capability and where the vulnerability of our overseas supply chain model has been exposed with resultant harsh consequences on our businesses when this is not available.
- Apply lower rates of VAT to support local production of consumer goods, along with simulating efforts from the regions to 'produce locally' and bring overseas activity in areas such as processing, manufacturing and assembly to the UK.
- Look again at the transformational effect of 100% Tax Allowances in the first year of development first tried by Geoffrey Howe's initiatives for small industrial units up to 2500 sq. ft and subsequently used in Enterprise Zones. In this region it enabled developments such as Newcastle Business Park, Doxford International Business Park in Sunderland and the Metro Centre in Gateshead to be developed along with other areas. This would be tax-based funding for property which requires little administration and no up-front public costs, providing quick turnaround and velocity of money. The cost for Government is deferred and it would provide employment rather than unemployment, taxable profits, VAT on materials and rates in perpetuity all creating an instant return to set against the loss of tax. By all means look at amending the criteria but once the Zone has been set the entrepreneurs will decide whether they are prepared to take the risk as they know the funding is available. Also consider abolishing retail rates and moving to other forms of taxation to make up the shortfall.
- Creation of enterprise like-zones where companies are incentivised to refurbish buildings with reduced embedded carbon and carbon in use to therefore assist Government with its carbon reduction targets. A Government payment is made to incentivise success and compensate for the circa 15% extra cost of refurbishment. This would also be an opportunity for the UK to provide leadership into the development of sustainable technology and could also be linked to the use of local supply chains.
- Providing adequate funding for social housing providers to build net zero carbon homes now! Heating domestic houses alone accounts for 13% of the UK's emissions so incentivising reduced carbon will promote new jobs, new skills and improve housing stock for the benefit of society as well as helping the UK achieve its carbon reduction targets.