The Costs of Coronavirus

By Caroline Elsom, Senior Researcher

Introduction

The coronavirus crisis has transformed the political, economic and fiscal landscape. The Government has acted swiftly to save lives and protect the economy. Inevitably, this will have significant ongoing costs, both directly in terms of extra spending and indirectly in terms of lost tax revenue due to the economic shock.

Since the Budget on March 11, there has been an almost daily drumbeat of fresh announcements and interventions – most significantly, the decision on March 23 to put the economy into lockdown, and then most recently to extend its duration for at least another three weeks.

Under such circumstances, it is vital that we have a full picture of the costs incurred by government, not least to assess the scale of the rebuilding work that will be needed afterwards. A team at the Centre for Policy Studies, led by Senior Researcher Caroline Elsom, has therefore been collating and quantifying the impact of the various measures over the coming year, and will continue to do so as the crisis develops.

It is important to stress that this project does not seek to criticise the level of spending that has been necessary, or may become necessary as the pandemic continues: it is clear to everyone that extraordinary times require extraordinary measures. Instead, it seeks to build a richer picture of the true cost that the Government is taking on during this crisis, as this will be key to designing policy that can steer the country through the crisis and into recovery.

The list below has involved modelling the take-up of new schemes available to businesses and individuals, as well as spending commitments across government departments. We have drawn on the work of other organisations, in particular the Office for Budget Responsibility’s estimates for lost tax revenue, but have wherever possible verified and sense-checked these against other forecasts.

In counting up the costs, we are fully aware that there will be errors in our accounting. The Government has announced big headline figures for departmental spending alongside smaller pots of extra funding for specific purposes; and take-up figures are not yet available for many of the support schemes. It has therefore been impossible to eliminate the risk of double-counting some costs and missing others entirely. As new information, new costs and new commitments come to light, we will seek to update our figures – for example, it is unclear at the time of writing how much of the £1.25 billion start-up package announced on April 20 is made up of grants vs loans, so we have excluded those measure for the moment. But we still believe this paper provides the most accurate picture currently available of the total costs involved, and as such will help significantly to inform the policy debate.
## Summary of coronavirus costs (updated 20/4/20)

<table>
<thead>
<tr>
<th>Direct measures</th>
<th>Cost (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coronavirus Job Retention Scheme</td>
<td>42,000</td>
</tr>
<tr>
<td>Small business grant schemes</td>
<td>15,000</td>
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<tr>
<td>NHS historical debt write-off</td>
<td>13,000</td>
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<tr>
<td>Business rates holiday</td>
<td>13,000</td>
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<tr>
<td>Self-employment Income Support Scheme</td>
<td>10,000</td>
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<tr>
<td>Welfare</td>
<td>7,000</td>
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<tr>
<td>NHS emergency response funding</td>
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<tr>
<td>Coronavirus Business Interruption Loan Scheme</td>
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<tr>
<td>Rail emergency measures</td>
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<tr>
<td>Local authority funding</td>
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<tr>
<td>Devolved administration public service funding</td>
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</tr>
<tr>
<td>Off-payroll working change delay (IR35)</td>
<td>1,200</td>
</tr>
<tr>
<td>Statutory Sick Pay refund for small businesses</td>
<td>1,000</td>
</tr>
<tr>
<td>Shielding measures</td>
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<tr>
<td>Charities funding</td>
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<tr>
<td>International response package</td>
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</tr>
<tr>
<td>Coronavirus Hardship Fund</td>
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</tr>
<tr>
<td>Bus Services Support Grant</td>
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</tr>
<tr>
<td>Repatriation charter flights</td>
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</tr>
<tr>
<td>Business resilience funding</td>
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<tr>
<td>Fisheries grant funding</td>
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<tr>
<td><strong>Total Direct costs</strong></td>
<td><strong>126,671</strong></td>
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<table>
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<tr>
<th>Indirect costs</th>
<th>Cost (£m)</th>
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<td>Debt interest spending</td>
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<tr>
<td><strong>Total Indirect costs</strong></td>
<td><strong>119,000</strong></td>
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**Coronavirus costs**                                     **245,671**
Direct policy costs

Coronavirus Job Retention Scheme: £42 billion
The Coronavirus Job Retention Scheme (CJRS) covers 80% of the salary of workers retained, up to a total of £2,500 per month, plus the associated employer NICs and the minimum auto-enrolment employer pension contribution on the subsidised wage.\(^1\) Wages are backdated to March 1. The scheme will be open initially for at least three months but may be extended. The first payments are expected to be made towards the end of April.

A range of estimates have been made of the cost of CJRS, as the level of uptake radically changes the estimate of how much this will cost. The cost will also be determined by the length and depth of disruption (for example, if the scheme continues in some form as lockdown is gradually lifted). It will also be determined by the level of wage subsidy that these workers are receiving, as those earning under £30,000 will receive less than the £2,500 cap per month.

The OBR’s economic scenario implies that around 30% of employees will be covered at a cost of £42 billion, based on their March forecast of compensation of employees in the second quarter of 2020.\(^2\) As with all figures in this economic scenario, it is modelled on a three-month lockdown followed by a three-month partial lockdown, and is not a formal OBR forecast.

According to the IFS’s early calculations when the scheme was first launched, if the CJRS were taken up by 10% of private-sector workers for a period of three months, it would cost around £10 billion, and proportionally more if the scheme runs for longer or if more employers take it up.\(^3\) This would give a monthly cost of £3.3 billion. The IFS notes that “the commitment to replace 80% of the wages of workers placed on furlough is impossible to cost with certainty in advance as we do not know how many private sector employers will take it up”.\(^4\)

The ONS’s Business Impact of Coronavirus Survey puts the average furlough rate at 21% from nearly 18,000 responses gathered between March 23 and April 5.\(^5\) This is lower than the OBR estimate as it covers the gradual increase in uptake over the first few weeks of the scheme. This survey is being

\(^1\) HM Revenue and Customs, “Claim for your employees’ wages through the Coronavirus Job Retention Scheme”. Available from: https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme.


returned every two weeks from businesses from various industrial sectors and regions, therefore a more accurate picture of the ongoing rate will emerge over time.

It is important to highlight that this and other surveys will not yet have taken into account the announcement on April 15 that the cut-off date for CJRS eligibility was extended from February 28 to March 19 (the day before the scheme was originally announced). This is the second change impacting this cohort of those who changed jobs in early March, as on April 6 the guidance allowed employers the discretion to re-employ and furlough staff who stopped working for them after 28 February. The Treasury expects the latest change to benefit over 200,000 employees and so based on the ONS uptake rate, this would add around 42,000 employees to the CJRS. As the extension becomes operational in the week commencing April 20, the impact of this change should start to be seen in the survey results.

A further change to this scheme was made on April 17, extending it to at least the end of June. The additional cost this adds will depend on whether full lockdown also lasts for the duration of this period, while the OBR scenario would have lockdown ending on June 23. The scheme will still need to be open under the partial lockdown phase while restrictions are lifted on certain businesses. We will look to factor this in to an updated costing in due course once there is a clearer indication of the restrictions that may be in place at the end of June.

A survey of more than 1,000 businesses by the British Chambers of Commerce, carried out on April 1-3, found that 37% of firms would furlough between 75-100% of their staff in the coming week, up from 33% the previous week. Of these 20% had said that they would furlough all of their staff in the next week, up from 17%. In the previous week’s survey, 44% said they would furlough at least 50% of their staff. The Resoultion Foundation alaysis of these figures puts the furlough rate for private

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sector employees at up to 48%. It must be noted that 95% of respondents to the latest BCC Business Impact Tracker were SMEs, with 77% in the service sector and 23% manufacturers. This indicates that uptake in certain sectors and smaller firms may be much higher than for larger companies.

Another poll by the Chartered Institute of Professional Development found that 52% of employers planned to furlough some staff, with 17% saying they anticipated having to furlough up to 10% of their workforce, while 10% forecasted having to temporarily lay off up to 24% of the workforce.12

Haymarket Business Media’s much larger poll of over 20,000 employees, rather than employers, found that only 9% reported that their role had been furloughed (30% of the 29% of respondents that reported that their job had changed or been placed at risk).13 Of the business leaders who responded to the survey, a quarter said they had introduced a furlough or subsidy scheme, and a further 14% said they were planning to introduce one.

Our costing uses the OBR scenario estimate as it is the most complete estimate of the impact across three months of full lockdown and a subsequent three months of partial lockdown as people gradually return to work. Although it does not take into account the recent eligibility extension, given the relatively small number of employees this is likely to bring into the scheme, the overall rate is unlikely to be significantly impacted. The various polls above offer a range of alternative uptake rates both above and below the OBR’s 30%, which indicates that the OBR figure is likely to be a reasonable mid-point estimate.

Small business grant schemes: £15 billion
Two grant schemes have been set up for small businesses, with greater relief available for some of the hardest-hit sectors. This funding is channelled via councils and devolved administrations.

The main Small Business Grant Fund provides grants of £10,000 to small businesses eligible for Small Business Rates Relief or Rural Rates Relief. For businesses in the retail, hospitality or leisure sectors there is more support: a grant of £25,000 per property for each property with a rateable value over £15,000 and below £51,000; and £10,000 per property for each property with a rateable value of £15,000 or less.

The OBR estimates that approximately one million properties will be eligible for these schemes at a cost of £15 billion, including the costs to the devolved administrations.14 (See the section on devolved administration public service funding for more details on devolved administration costs.)

**NHS historical debt write-off: £13 billion**
Matt Hancock announced early in the crisis that over £13.4 billion of debt owed by NHS trusts was being written off.15 The loans were frozen from April 1 when the interest ceased and the loan principal and outstanding interest was extinguished from the balance sheet, with the transaction occurring in the 2020/21 financial year. The 107 trusts had an average of £100 million in debt each, with the two trusts with the highest debts reaching a combined total of over £1 billion. The debt was converted to equity (Public Dividend Capital) within the DHSC.

As the transaction is kept within the DHSC group, this is not formally counted by the government as an additional fiscal cost for the Exchequer.16 The write-off is from debt that built up over many years before the COVID-19 outbreak and is therefore not a direct cost from the NHS’s response. However, the Government had no public plans to write-off the debt prior to the COVID-19 outbreak and it has been provided explicitly to give “much needed financial support during this unprecedented viral pandemic” as well as giving trusts a clean slate to plan for the future.17

This cost is therefore included as the write-off would not otherwise have occurred were it not for the COVID-19 pandemic. Although this is being internalised by the DHSC, the transaction will need to be paid by the department in the current financial year.

**Business rates holiday: £13 billion**
In addition to the grant schemes mentioned above, a 12-month business rates holiday for all retail, hospitality, leisure and nursery businesses has been announced. The OBR gives an initial estimate that this will cost around £13 billion in 2020-21.18 The 100% relief from business rates applies to all businesses in these sectors in England and Scotland. In Wales relief is given to businesses with rateable value below £500,000. This scheme does not operate in Northern Ireland – instead all businesses will pay zero rates for April, May and June 2020.

This cost is included here as it is as a direct result of a policy brought in due to the COVID-19 outbreak.

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16 Ibid., see Notes to editors.
17 Ibid.
Self-employment Income Support Scheme: £10 billion

Self-employed people who earn under £50,000 are able to claim support under the Self-employment Income Support Scheme (SEISS) if they filed a tax return for 2018–19. For those who are eligible, they will be able to claim a taxable grant worth 80% of three months’ profits paid in June, with a cap of £2,500 per month, based on average historical profits from April 2016 to April 2019 (or the portion of that period they were trading).

Unlike the CJRS, there is no requirement to cease working in order to qualify, only to report that you have lost trading profits due to COVID-19. Indeed, anyone eligible who loses less than 80% of their historical profits (or £2,500 a month, if lower) will be financially better off than before the pandemic.

The IFS put a ballpark estimate of the cost of this scheme at £10 billion for three months. Unlike for CJRS, the OBR has not done an equivalent analysis for a three-month partial lockdown afterwards. The IFS also notes that if the scheme is extended beyond June, a self-employed person whose business is completely shut down would have a family income thereafter around 14% lower than before the crisis, on average – similar to employees – as opposed to 44% in the absence of recent reforms. A quarter of self-employed people earning less than £50,000 a year do not have enough liquid assets (between themselves and any partner) to cover three months’ lost earnings, and 15% do not have enough to cover one month. We have not assumed however any further spending other than the initial three-month scheme.

To check the IFS figure, as they do not provide detailed data, we have assessed take-up amongst the five million self-employed. We first need to eliminate those who are ineligible. About a quarter of people with some self-employment income (1.3 million people) will be ineligible because they received less than half of their income from self-employment. Approximately 225,000 (4%) will be ineligible because their self-employment profits were more than £50,000 a year. Roughly 650,000 (13%) will be ineligible because they entered self-employment in the past year (i.e. since April 2019). However, these groups also overlap. The IFS estimates that around two million people with some self-employment income (38% of them) will not have it covered by the SEISS. This leaves around three million who are eligible. If half of them took this up, it would cost around £8 billion, which tallies broadly with the IFS figure of £10 billion over three months with slightly higher uptake assumed.

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23 Ibid.
24 Ibid.
Welfare measures: £7 billion

The Universal Credit (UC) standard allowance and the basic element of Working Tax Credit (WTC) have been increased by £20 per week. This is on top of the planned annual uprating in line with CPI inflation. Other changes include an increase in Local Housing Allowance (LHA) rates, the suspension of the minimum income floor (MIF) in UC, and making contributory Employment and Support Allowance (ESA) payable from day one instead of day eight.

The OBR uses the Treasury’s estimate of the cost of these measures of £7 billion in 2020-21.25 This broadly fits with our own evaluation of the individual costs of the different elements, although it is not clear what assumptions have been made and when for this estimate of total welfare measures.

The IFS estimated that the increase in the standard allowance in UC and WTC would cost around £4 billion.26 Treasury ready reckoners give an illustrative cost of £260 million for a £100 annual increase in WTC under a scenario in which WTC was still ubiquitous (i.e. if UC did not exist), based on which a rough estimate for a £1,000 increase would be £2.6 billion. However, the standard allowance in UC is available to all claimants while WTC is a benefit paid only to in-work claimants, meaning that the change will also benefit out-of-work UC claimants and the cost will therefore be somewhat higher than under a continuity WTC scenario. With this in mind, IFS’s estimate seems reasonable.

The DWP has reported that 950,000 new claims for UC were made between March 16 and 31, a more than ninefold increase on the roughly 100,000 new claims it usually receives in a fortnight.27 It is unclear whether this recent increase has been fully factored into the £7 billion estimate. Also, when it was used in answer to Parliamentary Questions on March 19, the £7 billion appeared to include changes to Statutory Sick Pay day one payment.28 Pending clarification from the Government, we have accounted for SSP separately, particularly as its uptake is now affected by the more generous CJRS.

LHA is Housing Benefit payable to claimants renting in the private sector: rates have been increased to cover the 30th percentile of local market rents. This effectively reverses the four-year benefits freeze.

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from 2016-20, and the 2012-15 period when rates were increased by inflation instead of rent rates. The Chancellor stated that the change would cost nearly £1 billion. The IFS put this at £800 million.

NHS emergency response funding: £6.6 billion
Putting an estimate on the financial impact of the COVID-19 response on the NHS has been the most difficult cost to quantify. Since the Budget announcement that NHS would receive whatever extra resources it needed to cope with COVID-19, there have been rolling announcements on the growing cost of the NHS’s emergency measures as the scale of the crisis has become apparent.

In addition to the initial headline figure of £5 billion, many smaller announcements of specific funding for medical purposes have been made without reference to whether they fall under headline funding figures or alternative schemes. In addition, several of the schemes are split across departments or agencies, further complicating the separation of figures. We have attempted to disaggregate the costs where possible.

On April 13, it was announced that £6.6 billion from the coronavirus emergency response fund will go to support health services; free up hospital beds; buy new ventilators, diagnostic tests and protective equipment for NHS staff; enable home delivery of medicines; and support medical and nursing students and retired doctors and nurses to join the front line. There is no further detail on the individual elements of this figure.

We include this as the most up-to-date estimate of funding for the health service emergency response, not least as many of its components are difficult to calculate otherwise. For example, on NHS staffing costs, we can calculate starting pay for newly-qualified doctors and nurses entering the health service early, and multiply this by the latest uptake figures, but it is more difficult to assess the pay for returning health professionals who may not be re-entering at the level they left.

Coronavirus Business Interruption Loan Scheme: £6 billion
The Coronavirus Business Interruption Loan Scheme (CBILS) provides financial support to businesses across the UK that are losing revenue, and seeing their cash flow disrupted, as a result of the COVID-19 outbreak.

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The British Business Bank operates CBILS via its accredited lenders, with lenders providing up to £5 million in the form of term loans, overdrafts, invoice finance or asset finance available on repayment terms of up to six years. CBILS gives the lender a government-backed guarantee for the loan repayments to encourage more lending while the borrower remains fully liable for the debt.

Under the scheme, personal guarantees of any form will not be taken for facilities below £250,000. For facilities above £250,000, personal guarantees may still be required, at a lender’s discretion, but recoveries under these are capped at a maximum of 20% of the outstanding balance of the CBILS facility after the proceeds of business assets have been applied, and a Principal Private Residence cannot be taken as security. From April 20, business interruption loans will also be made available for larger businesses with an annual turnover of over £45 million that are not eligible for the COVID-19 Corporate Financing Facility.\(^{32}\)

The Government is only making Business Interruption Payments to cover the first 12 months of interest payments and any lender-levied charges while the borrower remains liable for the debt itself. However, there is no cap on the interest rates that banks can charge even though banks are able to borrow at close to 0%.

The Resolution Foundation offer an estimated cost for a three month lockdown scenario of £6 billion based on a 10% default rate, which we have used in our costings.\(^{33}\) Due to the lack of information on lending terms, the update in criteria after the scheme’s initial launch and indications of very low application acceptances so far, the estimate is highly tentative and will not have taken into account the recent extension of the scheme to larger businesses, but uptake figures are not yet available to factor in this extra cohort of businesses.

**Rail emergency measures: £3.5 billion**

Part of the increased public service funding revealed on April 13 is £3.5 billion to “ensure vital rail services continue to operate”.\(^{34}\) Under an Emergency Measures Agreement, there has been a temporary suspension of normal franchise agreements, with all revenue and cost risk transferred to

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the Government for a limited period, initially set at six months.Operators will continue to run services day-to-day for a small predetermined management fee. It is not clear whether this cost is accounted for in the above figure, but we have chosen to assume so until further detail is provided.

**Local authority funding: £3.2 billion**
As part of the same £14.5 billion public services package on April 13, £1.6 billion was listed for local authorities, without details of what this pays for. However, it is clear that this does not include services covered by the £6.6 billion health service funding, as that includes £2.9 billion support to “local services and hospital discharge, reinforcing care for the vulnerable, and meaning that those who are strong enough can leave hospital more quickly, freeing up bed space for patients that need it”.

A further £1.6 billion was added to this on April 18 to help continue to support rough sleepers and relieve pressure on other vital services.

**Devolved administration public services funding: £2 billion**
In the same package on April 13, the Treasury gave a figure of £2 billion for funding devolved public services: £1 billion for the Scottish Government, £0.6 billion for the Welsh Government and £0.3 billion for the Northern Ireland Executive. This figure avoids double counting, since we count the cost of business and individual support within the devolved nations in other parts of this note. This funding is instead for areas like the NHS and other devolved public sector spend, where the totals elsewhere in this note only refer to England.

**Off-payroll working change delay (IR35): £1.2 billion**
On March 18 a one-year delay was announced to the implementation of reforms to off-payroll working rules for the private sector. The OBR provides a simple costing for this: its previous forecast had estimated this change would yield £1.2 billion in 2020-21, so it assumes the lost revenue is the same.

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36 Ibid.
37 Ibid.
It does, however, seem likely that some of these contractors may be more likely than other employees to be terminated by their companies due to the current economic uncertainty. This would therefore lower the receipts that would have been gained by HMRC had the delay not been implemented. Nevertheless, as this is impossible to quantify, we use the OBR estimate.

**Statutory Sick Pay refund for small businesses: £1 billion**

All those self-isolating or unable to work as a result of COVID-19 are now able to access Statutory Sick Pay (SSP) from their first day off. For employers with fewer than 250 staff, they will be able to reclaim up to two weeks’ SSP costs for anyone who has claimed it as a result of COVID-19.

DWP statistics show that the majority of employees receive above the SSP minimum from their employer when on sickness absence (although they are less likely to receive more than the minimum than those at larger firms). The current rate of SSP is £95.85 per week, meaning refunding an employer for two weeks’ worth of SSP would cost the Government £191.70 per employee.

The SSP refund was announced before the more generous CJRS scheme was announced. Although the Government has urged those who are absent due to COVID-19 sickness or self-isolation to seek sick pay in the normal way, the CJRS is far more attractive to employers to cover periods of absence and therefore uptake of SSP is likely to be lower than expected.

Due to this likely cross-subsidisation, the OBR has halved the Treasury estimate for SSP cost to £1 billion. This estimate may fall further once further data on take-up is published.

**Shielding measures: £900 million**

Separate to the new local authority funding above, there is £900 million separately listed to cover extra measures such as food packages for extremely clinically vulnerable people who have been advised to shield themselves from the virus at home and do not have a local network of family and friends to drop off provisions.

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Charities funding: £750 million
A £750 million package for frontline charities has been made available for those providing services including hospice care and support for domestic abuse victims. This includes £360 million in direct grants from government departments and £370 million for smaller charities, including via a grant to the National Lottery Community Fund. The Government will also match donations to the National Emergencies Trust as part of the BBC’s Big Night In, pledging a minimum of £20 million. Devolved administrations will receive £60 million through the charities pot under the Barnett Formula.

A separate earlier announcement of £5 million for mental health charities was made on March 29, to be administered by Mind, but it seems likely this will be included in the main figure now.

International response package: £744 million
This section groups together the international funding package which totals £744 million. This and others in the package are ‘up to’ costs that may not be spent in their entirety. A large portion of this was announced prior to the Budget, with the latest extra £200 million updated on April 12. Given how difficult uptake figures are to obtain even for domestic schemes, we will give the maximal figures until further data emerges.

The package includes measures including (but not exclusively):

- Up to £20 million for the Coalition for Epidemic Preparedness Innovations (CEPI) to support vaccine development. This is in addition to the £30 million commitment that the UK has already made to CEPI, bringing the UK’s total commitment to £50 million.
- Up to £5 million through the Joint Initiative on Research for Epidemic Preparedness in collaboration with Wellcome to develop quicker diagnosis methods and perform other essential research for disease control. This is in addition to the £20 million rapid response research call for novel coronavirus research launched on February 4.
- Up to £16 million for humanitarian partners to help the most vulnerable countries prepare for coronavirus. This includes £5 million to the International Federation of the Red Cross and Red Crescent Societies; £5 million to UNICEF to support infection prevention and access to

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safe water; and £6 million for extra support for other partners, including for medics and supplies.

- £5 million for the WHO’s flash appeal. This is in addition to the £5 million commitment that the UK had already made to the appeal.
- £500,000 for the Humanitarian-to-Humanitarian Network to combat misinformation online.47
- Up to £150 million for the International Monetary Fund’s Catastrophe Containment and Relief Trust (CCRT) to help developing countries deal with the short-term economic disruption caused by coronavirus.48 Initially, £75 million of UK aid funding will be made available to the CCRT, with a further £75 million conditional on future need.
- Up to £50 million for a global hygiene campaign with a further £50 million funded by Unilever to promote handwashing and surface disinfecting.49
- £130 million for a new UN appeal that includes: £65 million for the WHO; £20 million for UNICEF; £20 million for the UN Refugee Agency; £15 million for the World Food Programme; and £10 million for the UN Population Fund.50
- £50 million for the new International Red Cross and Red Crescent Movement appeals.51
- £20 million for unspecified NGOs, including UK charities, to tackle the virus. It is possible this may double-count some of the £750 million previously pledged for charities, but no information is given that would allow for an accurate separation of any overlap.52

On April 16, a Tweet from Rishi Sunak indicated that he would be “doubling our £2.2 billion loan to the IMF’s Poverty Reduction and Growth Trust”.53 There are no official details of this yet and it has not been counted in our total figure.

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51 Ibid.

52 Ibid.

Coronavirus Hardship Fund: £500 million
To supplement other new local government funding, a £500 million Hardship Fund was announced to provide Council Tax relief to vulnerable households who are the most affected by the virus.\(^{54}\) It can also be used to provide further discretionary support to vulnerable people through measures such as Local Welfare Schemes.

This hardship fund appears to be additional to the other extra funding for local authorities. The latter is part of the emergency response fund, which was announced in the Budget as being separate from the £500 million hardship fund. The OBR similarly count it separately.

Bus Services Support Grant: £167 million
Bus service providers in England will get an additional £167 million paid over 12 weeks under a new Bus Services Support Grant.\(^ {55}\) As a condition of the funding, bus operators will be required to maintain necessary services at a level which is sufficient to meet much reduced demand, but also to allow adequate space between passengers on board. This is expected to be up to 50% of normal service levels.

This new money is on top of the existing £200 million received under the Bus Services Operators Grant which will continue to be paid as normal even if not all services are running. It is also in addition to up to £30 million of extra government bus funding, originally earmarked for starting new services, which will instead be paid to local authorities to maintain existing services.

Repatriation charter flights: £75 million
Up to £75 million has been pledged to airlines to subsidise the cost of tickets to make sure that special repatriation charter flights for British travellers are affordable where commercial routes do not exist.\(^ {56}\)


Once special flights have been arranged, these will be promoted through the Government’s travel advice and by the British embassy or high commission in-country. British travellers who want a seat on the flight will book and pay directly through a dedicated travel management company.

**Business resilience funding: £20 million**

Another £20 million of government funding has been made available via a BEIS competition for businesses to help boost the UK’s resilience to the long-term impact of the COVID-19 outbreak and similar situations in the future.57

Grants of up to £50,000 will be available to technology and research-focussed businesses to develop new ways of working and help build resilience in industries such as delivery services, food manufacturing, retail and transport. It will also cover new services to connect families remotely and create educational tools for remote learning.

The proposals will be reviewed as part of a competition launched by Innovate UK, seeking the best new ideas from businesses. All the projects will begin by June 2020 and will last up to six months, with products and services expected to be available to the public towards the end of this year.

**Fisheries grant funding: £10 million**

A £10 million fund has been announced for businesses in the fisheries sector to receive direct cash grants to help support those struggling due to the decline in exports and reduced demand from the hospitality sector.58 The grants will help to cover fixed business costs, administered by the Marine Management Organisation. This package includes £1 million to help fisherman sell their catch to local communities.

**Food redistribution fund: £3.3 million**

This £3.25 million Defra grant for food redistribution organisations across England is designed to redistribute up to 14,000 tonnes of surplus stock during the COVID-19 outbreak, including food from


restaurants that have had to close. Businesses and charities bid for grant funding to cover a range of activities to reduce food waste. It will be managed by sustainability not-for-profit WRAP.

**Destination Management Organisation funding: £1.3 million**

DCMS is offering £1.3 million to Destination Management Organisations (local tourism organisations) that are at risk as they usually receive at least 50% of their income from commercial sources. It will be used to cover operating costs and the cost of employees that cannot be furloughed under the CJRS scheme because they provide crucial business support services.

**Techforce19: £500,000**

£500,000 of funding is available for technology companies who come up with digital support solutions for people who need to stay at home because of COVID-19. Unlike the larger business resilience pot designed in part to build technological resilience to future crises, this funding is designed to help with the current pandemic. Funding of up to £25,000 per company is available.

**Indirect costs**

Alongside the impact of deliberate policy measures to mitigate the effects of the COVID-19 pandemic, there will be an impact on the Government’s finances more widely. In any recession, tax revenue will fall and welfare spending will rise: as growth stalls and companies shed workers, profits will fall and the number of welfare claimants will rise.

There is an extensive literature examining the fiscal impact of changes in GDP. The problem of course is that the impact of the crisis on GDP is still a matter of extreme speculation. A wide range of different estimates have emerged as the outbreak has progressed: the latest, from the Office for Budget Responsibility, predicts a 13% fall in annual GDP, driven by a 35% quarter-on-quarter fall for Q2 2020. However, this is a more significant economic impact than most other estimates, such as those from


KPMG, Morgan Stanley, Bloomberg, Capital Economics and CEBR (the Centre for Economics and Business Research).63

Part of the reason for this is that these initial estimates were made within a week of lockdown commencing, before the full extent of the UK situation was known or estimates from other comparable advanced economies had begun to emerge. Morgan Stanley, for example, predicted a 5.1% annual fall in GDP; Capital Economics gave a figure of 7%. Our modelling shows that these would roughly halve the cost of the recession to government compared with the OBR’s figures. The Resolution Foundation, meanwhile, estimates that economic activity will be around 30% lower during periods of lockdown, with an annual real GDP fall of 10% in a three-month lockdown scenario.64

In our costing, we have chosen to use the OBR estimates of receipts and other additional indirect factors.65 Using a single source here avoids double-counting and ensures that all estimates are based on the same assumed scenario – and also reflects the OBR’s authority on these issues. However, as the economic outlook changes and more indicators capture the extent of the impact, we will make revisions in forthcoming updates – which could alter the total cost very significantly.

Receipts: £116 billion
The OBR estimates an extra £130 billion will be lost in tax receipts due to the COVID-19 outbreak, £14 billion of which have already been included in the costs above as they are incurred as a result of direct policy changes. The remaining receipts include:

- **Income tax and National Insurance Contributions**: Broadly expected to fall by more than the fall in GDP, but partly offset by the CJRS and SEISS. The OBR estimates a 16% fall in receipts which adds £57 billion in extra costs.

- **VAT and excise duties**: Brought down by lower consumer spending plus increases in VAT debt, alongside a significant loss of Air Passenger Duty revenue. The OBR estimates a 21% fall in receipts which adds £40 billion in extra costs.

- **Corporation tax receipts**: Reduced due to lower profits and lower oil prices. The OBR estimates an 18% fall which adds £10 billion in extra costs.

- **Capital taxes**: Sharp falls in equity prices and property transactions. The OBR estimates a 28% fall which adds another £6 billion in extra costs this year due to time lags, with a further £4 billion in the next financial year.

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63 Ibid., see Table 1.1.
• **Interest and dividend receipts**: Reduced due to lower interest rates and RBS not paying dividends this year. The OBR estimates a 9% fall which adds £3 billion in extra costs.

**Welfare spending: £15 billion**
We have already factored in the cost of changes to welfare policies announced due to the COVID-19 outbreak, including changes to Universal Credit, Working Tax Credit and Local Housing Allowance. In addition to this, we also need to add in the increase in welfare spending as a result of higher unemployment and lower earnings. The OBR estimate that unemployment will rise by 1.4 million which, when coupled with the rise in spending on in-work benefits, gives an estimate of £15 billion.

**Other indirect factors: -£12 billion**
Two further factors are important to note as they will enable the Government to claw back at least some of its spending. First, the lockdown means that many capital projects have had to be delayed: the OBR predicts this will result in an additional £2 billion underspend in departmental capital budgets compared to the assumptions made in the Budget. Second and more significant is that debt interest will be lower due to the lower Bank Rate, lower gilt yields, lower RPI inflation and quantitative easing. It is estimated that debt interest will be 30% lower in this financial year, leading to a saving of £10 billion.

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