Witness Name: George Osborne
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THE UK COVID-19 INQUIRY

MODULE 1

FIRST WITNESS STATEMENT OF GEORGE OSBORNE

1. I, George Osborne, make this statement in response to the Inquiry's Rule 9 request dated 8 February 2023 ("the Rule 9 request"). My work address will be provided to the Inquiry separately.

2. I was Chancellor of the Exchequer, from May 2010 until July 2016, and First Secretary of State, from May 2015 until July 2016. I sat as the Member of Parliament for Tatton from June 2001 until May 2017. Thereafter, I held positions at the Evening Standard and BlackRock. I'm currently a Partner at Robey Warshaw LLP and Chair of the British Museum, the Northern Powerhouse Partnership, and EXOR Partners Council.

3. Whilst I have developed the below statement based on my personal recollection of events and the decisions that I took, I have also liaised with HM Treasury officials to provide specific factual input to enable me to respond to the questions posed in the Inquiry's Rule 9 request dated 8 February 2023. My understanding is that the factual input from HM Treasury officials has been informed by desk-based research, utilising both open source material (primarily past speeches and other government publications) and internal records (for example, policy advice and briefings submitted to me) from the period. In relation specifically to the section of this witness statement titled '*The Chancellor's role in CO emergency planning, including DH led pandemic preparedness*', I have relied on a lawyer-led review of documentary records from my ministerial Private Office's corporate records, using a range of appropriate search terms in order to identify potentially relevant material. I have also read the Module 1 HM Treasury 'Corporate Statement' (signed by Catherine Little), which I understand was submitted to the Inquiry by HM Treasury on 30 January 2023.

4. This statement should be read subject to the caveats above. If further material is made available to me, I would be happy to add to or clarify this statement to take it into account. I wish to make clear at the outset of this statement that I am willing to assist the Inquiry in its important work as the Inquiry considers appropriate and that I assure the Inquiry of my fullest co-operation in doing so.

5. This statement is split into four sections:

   (i) an overview of the role of the Chancellor and HM Treasury within cross-Government emergency / pandemic planning;

(ii) economic, fiscal and financial stability policy between 2010-2016 and how I believe the decisions I took during this period were relevant to the subsequent response to the Covid-19 pandemic;

(iii) my decisions in relation to healthcare, social care and NHS funding, including input into Department of Health (as it then was) led pandemic planning within the wider context of engagement in Cabinet Office-led cross-Government risk management; and

(iv) my priorities for science, technology and research between 2010 and 2016 and how I believe decisions taken during this period supported the subsequent response to the Covid-19 pandemic.

Summary of response

6. This statement contains a large quantity of factual information, much of which is necessarily detailed, regarding the content and purpose of the economic policies pursued during my time as Chancellor of the Exchequer between 2010 and 2016. This introductory summary is therefore intended to set out concisely my views regarding those economic policies in the context of this Inquiry and the questions I have been asked in the Rule 9 request.

7. As Chancellor of the Exchequer from 2010 to 2016, I was not involved in the British government's direct response to the Covid pandemic four years later. However, I firmly believe that Britain was in a far stronger position to meet the enormous challenge of that pandemic as a result of the decisions of the previous governments in which I was fortunate to serve.

8. First, and fundamentally, the UK's public finances were in a far better shape to withstand the unprecedented fiscal shock that the pandemic presented because of the action I helped oversee. If the Coalition government had not implemented a clear plan from 2010 onwards to reduce the very high budget deficit it inherited after the global banking crisis, then Britain would have been dangerously exposed in 2020 to the record fall in GDP, the fall in tax revenues and surge in public spending that the pandemic created. Britain could have faced a fiscal crisis as well as a health crisis if we had not acted over those earlier years. The borrowing crises experienced by other European nations over the last thirteen years, and by the UK in the autumn of 2022, remind us that this was - and is - a real risk for open economies such as ours.

9. Second, the fiscal space that our deficit reduction plan created meant that the government in 2020 was able to introduce hugely expensive public expenditure programmes, such as the furlough scheme and business loans. That made possible the imposition of the lockdown as the core public health measure. The government was able to borrow an additional £314 billion from the market across 2020-21 and 2021-22. The increased financing requirement was fully funded via additional borrowing from the market through the government's normal debt issuance programme. The British state could afford to pay many millions of people to stay at home rather than go out to work, in the spring of 2020 because we had the sound public finances that enabled us to access international debt markets at affordable rates. It also enabled the British state to fund costly national testing and vaccination programmes. No plan to deal with a health emergency, or any other

national crisis, is worth having if it cannot be paid for. Sound public finances, and the confidence of international debt markets in your capacity to borrow and repay, are central to any effective contingency planning for a pandemic.

10. Third, the extensive reforms to the financial system we introduced after 2010 also meant that the pandemic did not lead to another banking crisis. As a result of new regulations and higher capital requirements we imposed domestically, agreed internationally, the losses that businesses faced as Covid struck did not feed through to the failure of banks. Again, the experience of 2008/9 and the economic strains we see in 2023 show that these are not imaginary risks. The contingency planning that we in the Treasury, working with the Bank of England, had extensively developed to deal with future shocks to the financial system worked in the face of the huge test that Covid presented.

11. Fourth, despite the necessity to reduce the budget deficit, we took the decision to protect spending on the NHS. Frontline spending on healthcare rose in real terms in every year of the governments I was part of. There was also a significant real increase on social care spending. The chief executives of NHS England during my period as Chancellor publicly welcomed the size of the health settlements from the government's various spending reviews.

12. Fifth, the policies the government from 2010-2016 developed to support the life sciences sector – from tax credits for privately-funded research, to the introduction of a patent box, to the increases in science spending and the construction of the Crick centre – helped foster an ecosystem of life science research, university spin-outs and start-ups from which the Oxford-AstraZeneca vaccine emerged as a vital early weapon in the battle against covid.

13. Sixth, the Prime Minister I supported and served under, David Cameron, put in place the machinery in central government that meant the British state was much better placed to deal with all crises, including a pandemic. The National Security Council was established by David Cameron in May 2010, and it included a Threats, Hazards, Resilience and Contingencies Sub-Committee.

14. The Inquiry asks me what, with hindsight, we should have done differently to prepare Britain better for the covid pandemic. There is a simple and obvious answer. The UK authorities and health community drew up detailed and specific contingency plans for a flu pandemic – it did not draw up detailed and specific plans for a pandemic caused by an

unknown respiratory disease. No one during my time as Chancellor ever suggested to me that we should, nor am I aware of any other western democracy that did. Clearly, with hindsight, it would be better if the world had.

15. However, to repeat a phrase I often used as Chancellor, in the years 2010-2016 we 'fixed the roof while the sun was shining'. As a result, Britain was in a far better shape to withstand the unexpected covid storm when it hit us four years later. An unprecedented and unpredictable health crisis did not become an economic and financial crisis, which would have made a bad situation very much worse.

Section 1: The role of the Chancellor and HM Treasury in emergency / pandemic planning

The role of HM Treasury, the Chancellor and Junior Ministers

16. During my time as Chancellor, as the most senior HM Treasury Minister, I represented the department in Cabinet, ensuring that HM Treasury's objectives were reflected during the 'collective agreement' of government policy. The Cabinet Office ("CO") led the processes that enabled collective agreement, whilst the Cabinet Secretariat ensured that collective consideration took place across government, although it was ultimately the role of the Prime Minister, David Cameron, to balance objectives across government to reach collective decisions. As a Minister of HM Government, I was also bound by 'collective responsibility', and was thus collectively accountable to parliament for all government policy, decisions, and actions whilst in office.

17. As the Chancellor, I was supported by Junior Ministers, each with specific policy portfolios. For example, the Chief Secretary to the Treasury ("CST") - David Laws (May 2010), Danny Alexander (May 2010 - May 2015), and Greg Hands (May 2015 - July 2016) - was responsible for engaging with departments across Whitehall to consider spending proposals, in line with the strategic priorities and objectives set by me as Chancellor at Spending Reviews, Autumn Statements and Budgets.

18. Although, as Chancellor, I was advised by HM Treasury officials, I was the final arbiter of the positions that the department adopted. However, it should be noted that I served as Chancellor in two governments. The first government was a coalition between the Conservative and Liberal Democrat parties, between 2010 and 2015. During this period, some alterations were made to decision-making structures when compared to those used by single party governments [GO/001, INQ000142255 and GO/002, INQ000142254]. For example, there was particularly close working between me, as Chancellor, and the Liberal Democrat CST (first David Laws and then Danny Alexander as set out above) to agree HM Treasury decisions bilaterally. A 'Quad' comprising the Prime Minister, Deputy Prime Minister, Chancellor and CST was also formed during the coalition government, to act as a discussion forum where the leadership of the two political parties would attempt to resolve policy differences prior to full Cabinet collective agreement. In the second government in which I served, which followed the 2015 General Election, the Conservative party formed a majority government. In that government, I served as Chancellor until 13 July 2016.

HM Treasury and the Chancellor's role in emergency / pandemic planning

19. Throughout my period as Chancellor, the Civil Contingencies Secretariat ("CCS"), within the Cabinet Office, coordinated and led emergency planning on behalf of HM Government. Whilst overall responsibility for emergency planning lay with the CCS, the Department of Health ("DH") and Public Health England ("PHE"), working with CCS, led pandemic planning and preparation. The Cabinet Office Briefing Room ("COBR") coordinated central government's responses to international, national, or multi-regional emergencies.

20. Between 2010 and 2016, HM Treasury, and therefore the Chancellor, contributed to cross-government preparations for civil emergencies. This contribution broadly fell into four categories:

    a) The monitoring, assessing and managing of economic and fiscal risks;

    b) Leading responsibility in government for monitoring and responding to risks to the stable operation of the UK financial system, learning the lessons of the financial crisis of 2008/09;

    c) Setting budgets and applying spending controls and/or conditions for government departments – although noting that it was ultimately for the relevant Secretary of State to decide how to allocate their budgets; and

    d) Preparing HM Treasury's own corporate structures to enable effective crisis management, working closely with the Permanent Secretary and other senior officials, again learning from the 2008/09 financial crisis.

21. Although not directly responsible for either pandemic or cross-government emergency planning, HM Treasury and I, as Chancellor, co-operated with lead departments to support emergency planning where requested. Specifically, HM Treasury cooperated with DH and PHE to support pandemic planning when requested to do so. Additional detail on this engagement with pandemic planning between 2010-2016 can be found in Section 3 below.

22. Further, the department fed into the CO's National Security Risk Assessment ("NSRA"). For the risks where HM Treasury was allocated as a lead department (for example, risks relating to the management of the financial system), the department developed scenarios and determined the potential impacts and likelihood of the risk in question. Further detail on the Chancellor's role within CO led risk management processes can also be found at in Section 3.

Section 2: The government's economic, fiscal, and financial stability policy 2010-2016 and its implications for the Covid-19 pandemic response

23. Within the collective decision-making framework described above, as Chancellor I was responsible for the government's economic, fiscal and financial stability policy between 2010-2016. This section describes the government's economic, fiscal and financial stability policies between 2010-2016 and how I believe the actions taken to repair the public finances, grow the economy and improve the stability of the financial system contributed positively to the Government's ability to respond to the Covid-19 pandemic.

The financial crisis in 2008/09 and the challenges facing the economy and public finances in 2010

24. The public finances deteriorated significantly in the wake of the financial crisis, primarily as a result of the economy entering a deep recession and, to a lesser though still substantive extent, due to the government's banking interventions including recapitalisation of Lloyds Banking Group and the Royal Bank of Scotland. Public sector net borrowing ("PSNB"), the government's deficit, averaged 2.8% of GDP between the mid-1970s and 2007-08, with the highest level of borrowing recorded over this period being 6.6% of GDP in 1993-94. However, borrowing then rose from 3.0% of GDP in 2007-08 to a peak of 10.2% in 2009-10, while public sector net debt ("PSND"), the total stock of the government's debt, rose from 35.6% of GDP to 64.5% over the same period.

25. The newly-created Office for Budget Responsibility ("OBR"), in respect of which there is more detail below at paras 35-38, announced in its June 2010 pre-Budget forecast that it expected that, without further action, debt would continue to rise over the forecast period [GO/003, INQ000142213]. Left unchecked, rising public sector debt in the UK would have risked pushing up long-term interest rates, which would have affected not just the government, but also families and businesses through the higher costs of loans and mortgages. Continuing to accumulate substantial debts in order to fund spending that benefits today's generation would have come at the expense of subsequent generations. The Government was therefore concerned about the ability to fund short-term debt. This fiscal approach was endorsed by the then Governor of the Bank of England, Mervyn King, who, in 2010, said that "*the steady reduction in the very large structural deficit over a period of a parliament cannot credibly be postponed indefinitely...[…]...I do, therefore, Chancellor welcome your commitment to put the UK's public finances on a sound footing. It is*

important that, in the medium term, national debt as a proportion of GDP returns to a declining path". [GO/004, INQ000142245].

26. Reducing the deficit and placing debt as a percentage of GDP on a downward path was also essential to rebuild fiscal space to provide scope to respond to future economic shocks. A responsible approach to repairing the UK's public finances following the financial crisis was essential. I have no doubt that taking those steps to repair the UK's public finances in the years following the financial crisis of 2008/09 had a material and positive effect on the UK's ability to respond to the Covid-19 pandemic. The most urgent task facing the UK economy, as stated in Budget 2010 [GO/005, INQ000142195], was therefore to implement an accelerated plan to reduce the deficit. Indeed, there was cross-party consensus on the need to reduce the deficit following the financial crisis.

The government's macroeconomic strategy 2010-2016

27. Faced with high budget and current account deficits, macroeconomic strategy throughout the period was characterised by tight fiscal policy and loose monetary policy. The 2010 Budget set out a plan to give effect to this strategy and rebuild the UK economy.

28. While fiscal policy was tightened to restore macroeconomic credibility, monetary policy stayed historically loose to pick up the slack in the economy. Accommodative monetary policy took the form of multiple rounds of Quantitative Easing and a historically low bank rate of 0.5% from 2009-2016. Although the Bank of England ("the Bank") did not use negative rates after first using Quantitative Easing in 2009, it did perform another two rounds of Quantitative Easing so that it could meet its primary objective of price stability. After inflation remained above target for three-years, the Bank's objective of price stability was met in 2013 when it returned to 2%.

29. Using lessons learnt from the financial crisis, the Macroeconomic framework was also changed regarding financial stability. After the 2008 financial crisis exposed gaps in the UK's oversight of the financial system as a whole, the Financial Services Act ("FSA") 2012 created a new regulatory framework for financial services in the UK and established a range of oversight measures, including establishing the Bank of England's Financial Policy Committee ("FPC"). The FPC was tasked with identifying and monitoring systemic risks to the financial sector, complementing the firm-specific regulation undertaken by the Prudential Regulation Authority and Financial Conduct Authority (also provided for by the

2012 Act). The FPC began operating on an interim basis in 2011 and with legislative authority from 1 April 2013.

30. During 2011 and 2012 the economy was hit by a number of unexpected external shocks including commodity price driven inflation and the Euro-Area debt crisis, which damaged business confidence and exports. Data at the time showed that the economy had entered recession, although I understand recent data revisions have found this not to be the case. These shocks were one reason why the monetary policy framework was reviewed in the 2013 Budget. The 2% inflation target was retained, and the remit was updated to clarify the trade-offs involved in setting monetary policy to meet the target. Macroeconomic policy still focused on fiscal responsibility throughout the shocks and the deficit reduction plan was maintained, while loose monetary policy supported demand [GO/006, INQ000142197].

31. After facing slower than expected growth in the first half of the period, overall the UK economy grew strongly from 2014-2016 as the impact from external shocks started to fade, in part driven by a strong labour market and lower commodity prices. Despite the positive macroeconomic outlook, the structural budget deficit and current account balance still remained historically high. Spending restraint continued and interest rates remained low meaning that, overall, the government's macroeconomic policy remained constant.

The government's fiscal policy 2010-2016

32. Given the risks associated with a high budget deficit, and as I have explained above, in 2010 the government decided that deficit reduction was the key priority for fiscal policy. I described the government's fiscal policy approach in my Autumn Statement 2013 speech as "*using surpluses in good years to keep debt falling. So we fix the roof when the sun is shining*" [GO/007, INQ000142201]. I reiterate my belief that this approach, of prioritising the repair of the UK's public finances and a determination to "fix the roof when the sun was shining", benefited the UK in the longer term and, even with the benefit of hindsight, was the correct economic policy to pursue to place the UK in the strongest position to react to unexpected future financial shocks, including shocks caused by a crisis such as a pandemic.

33. Initially, this fiscal policy was expected to be achieved through a combination of spending reductions, which were estimated to be worth £32 billion a year by 2014-15 and tax increases, following the IMF's best practice in deciding upon that combination. Tax

increases included increases in the rate of VAT and Capital Gains Tax, as well as aggressive action against tax avoidance to ensure that better off sections of the population also made a substantial contribution. At the time, the OBR expected that the government's deficit reduction plan would result in a fall of PSNB from an estimated 11.0% in 2009-10 to 1.1% in 2015-16.

34. The government's fiscal policy over this period was supported by actions to strengthen macroeconomic and fiscal institutions. This included reaffirming the independence of the MPC in setting interest rates at Budget 2010 and introducing major reforms to the oversight of the financial system.

35. In addition, the OBR was established in May 2010 with the aim of improving the credibility of fiscal policy. The Budget Responsibility and National Audit Act 2011 established the OBR and gives it the duty "to examine and report on the sustainability of the public finances". In 2020, the OECD commented that the OBR is widely credited with bringing greater transparency to the public finances and enriching the fiscal policy debate. A decade on, stakeholders view the OBR as a fixed and highly valued part of the UK institutional landscape [GO/008, INQ000142214].

36. Part of the OBR's role is to produce forecasts for the economy and public finances. These are produced independently of the government. At Budget 2010, the government's fiscal policy decisions were based on the OBR's independent forecasts for the economy and public finances for the first time.

37. The Charter for Budget Responsibility ("the Charter") sets out the OBR's role, how it performs its duties and the required content of its key publications. The Charter sets out the government's fiscal rules, its fiscal policy objectives and the means by which these objectives will be attained. This demonstrated the government's determination to reduce public sector borrowing and debt, promoting domestic and international confidence in the sustainability of the public finances, in particular by setting a clear and measurable fiscal mandate that would guide fiscal policy decisions over the medium term.

38. The Charter has been updated several times since its introduction in 2011. The Charter was updated in autumn 2015 to add to the OBR's role a requirement to "*produce a fiscal risks statement setting out the main risks to the public finances, including macroeconomic risks and specific fiscal risks. This will be produced at least once every two years. The government will formally respond to this report*". The OBR published its first Fiscal Risks

Report in July 2017 and the International Monetary Fund ("IMF") welcomed the report as "*raising the bar on the assessment and quantification of fiscal risk to a new level that other countries should look to meet*" [GO/009, INQ000142251]. The development of the fiscal-risks framework accompanied broader developments in risk monitoring and management in HM Treasury, spurred by the 2012 White Report (see paras 66-69 for further details).

39. By Budget 2015, we had made progress in delivering fiscal consolidation. The government had delivered £83 billion of the £98 billion planned discretionary reductions in spending and £106 billion of the £121 billion of the total discretionary consolidation planned for the 2010-2015 Parliament [GO/010, INQ000142199]. As a result of good financial management and spending control, departments were able to exceed their consolidation targets. Since 2010, departments had underspent against plans by an average of over £5 billion a year, with the OBR forecasting further underspends for 2014-15 of £3.5 billion [GO/011, INQ000142211]. Overall, the tax to GDP ratio rose but there were a number of tax cuts, in particular a rise in the personal income tax allowance and cuts to corporation tax rates.

Fiscal rules and management of the public finances

40. At Budget 2010, I announced new fiscal rules to achieve a cyclically-adjusted current balance by the end of the rolling, five-year forecast period. Current balance requires the government's revenues to meet its day-to-day spending. The current budget does not include investment spending, protecting the most productive public investment expenditure, while the choice of a cyclically-adjusted aggregate allows some fiscal flexibility during times of economic uncertainty. The fiscal mandate was supplemented by a target for PSND as a percentage of GDP to be falling by 2015-16.

41. In January 2015, Parliament approved an updated Charter, which adjusted the fiscal mandate to require a cyclically-adjusted current balance in the third year of a rolling 5-year forecast period. This was supplemented by the aim for PSND as a percentage of GDP to be falling at a fixed date of 2016-17.

42. A further update to the Charter was approved by Parliament in October 2015. This defined the government's fiscal mandate as a surplus on the headline measure of PSNB by 2019-20, maintaining a surplus in normal times thereafter. This was supplemented by a target for debt as a share of GDP to be falling in each year until 2019-20.

Fiscal policy 2010-2016 and preparation for shocks and civil emergencies

43. As stated in Budget 2010, "*reducing the deficit and so placing debt as a percentage of GDP on a downward path provides scope to absorb the impact of future economic shocks*". This approach to fiscal policy was consistent with subsequent statements from the OBR in its 2017 Fiscal Risks Report that "*the public finances need to be managed prudently during more favourable times to ensure that when these shocks do crystallise, they do not put the public finances onto an unsustainable path*" [GO/012, INQ000142212].

44. We made progress between 2010-16 in repairing the public finances. The public finances would have been in a worse position had the government not undertaken the fiscal consolidation that was pursued following the 2010 general election. HM Treasury analysis from Budget 2016 showed that, without that fiscal consolidation, the government would have borrowed an additional £930 billion over the period 2010-11 to 2019-20 compared to the outturn and the OBR forecast. This is calculated as the path of PSNB if cyclically adjusted PSNB (the structural deficit) had been fixed as a share of GDP since 2009-10 at its 2009-10 level [GO/013, INQ000142200].

45. I have no doubt that the actions taken by the government between 2010-16 helped to stabilise debt and to ensure that the public finances remained on a sustainable footing in the wake of the financial crisis. Higher public sector debt in the UK may have risked market confidence in the sustainability of the UK's public finances, which could have led to an increase in the cost of borrowing, limiting the scale of action that governments could take in the face of future shocks. The impact that reduced market confidence had on the country's ability to function, including resultant large increases in the cost of borrowing, following the policy announcements by the short-lived Truss government, clearly demonstrates the risks associated with markets losing confidence in the sustainability of public finances.

46. I repeat my strong belief that the prudent management of the UK public finances in this period laid the foundation for a stronger UK economy which in turn enabled the UK to have the economic resilience and flexibility to respond to the pandemic. What was undoubtedly an unprecedented health crisis did not become a fiscal crisis because the government had the fiscal flexibility to respond to the associated economic shock. A contingency plan for a pandemic, or any other national crisis, is worthless unless the country has the ability and

resources to pay for it as well as the economic resilience to enable the financial system to continue to operate and not collapse under the strain.

47. I do therefore believe that the stabilisation of borrowing and debt between 2010 and 2016 meant that the government was able to provide an effective economic and fiscal response to the Covid-19 pandemic. Demand for the UK's debt remained strong with a well-diversified investor base and Debt Management Office ("DMO") auctions continued to perform well. Publicly available information indicates that the government borrowed an additional £314 billion across 2020-21 and 2021-22,[1] to fund the response to the pandemic and because of the fall in economic activity. This was record peacetime borrowing and caused the UK's debt rise to a level not seen since the early 1960s.

48. Estimates from the IMF showed that the UK's discretionary fiscal expansion in response to COVID-19 was one of the largest and most comprehensive fiscal support packages globally [GO/014, INQ000142206]. The IMF praised the UK Government response for its "*strong policy measures and rapid vaccination campaign*" in helping to contain the health, economic and financial impact of the pandemic, which supported a "*faster-than-expected recovery*" [GO/015, INQ000142191]. I believe that the foundation for this response was laid in the wide-ranging and comprehensive steps taken to strengthen the UK economy in the wake of the financial crisis in 2008-09. The pandemic has only served to reinforce my belief that the key decisions made in respect of economic policy during my tenure as Chancellor were the correct ones.

Preparation for shocks and emergencies: departmental spending and the use of reserves

49. A core component of HM Treasury's approach to managing economic and fiscal shocks which impact the spending required by departments is to set aside contingency for genuinely unforeseen, unabsorbable and unavoidable pressures. HM Treasury control how this contingency – called the Reserve – is allocated. This Reserve was set at both Spending Review 2010 ("SR10") [GO/016, INQ000142247] and Spending Review 2015 ("SR15") [GO/017, INQ000142248]. There is one Reserve for Resource Departmental Expenditure Limits ("RDEL") and one for Capital Departmental Expenditure Limits ("CDEL"). Access to the Reserve was and continues to be contingent on approval by the CST.

[1] This figure is comparing the latest outturn data from Public Sector Finances published by the Office for National Statistics on the 21st of March 2023, against the forecast published by the Office for Budget Responsibility in March 2020.

50. My understanding is that the process by which the Reserve is managed has changed little since 2010. Indeed, the guidance included in Consolidated Budgeting Guidance ("CBG") 2010-11 is broadly consistent with that included in the 2015-16 publication. For example, the checklist below, setting out the requirements for all department proposals for Reserve access, remained the same between 2010-2016 [GO/018, INQ000142205]. CBG set out that all proposals needed to include:

a) The size of the pressure;

b) The cause of the pressure and why it was unforeseen;

c) The offsetting actions that have been taken and could be taken to manage the pressure and absorb it, including cutting costs, cutting inefficiencies, cutting unnecessary programmes and cutting lower priority budgets;

d) The residual pressure, split into capital and resource, and the administration costs and programme elements; and

e) The corrective actions they mean to take if a Reserve claim is agreed, as regards the substance of the policy, improved financial management, and paying back the amount of the claim.

51. Where unexpected issues arose, in the first instance, departments were expected to use their Departmental Unallocated Provision. Between 2010 and 2016, CBG notes that departments were encouraged not to fully allocate their DELs against their programmes at the start of a financial year but to hold some provision back to deal with unforeseen pressures.

Financial stability policy and reforms 2010-2016

52. During my time as Chancellor between 2010 and 2016, I was responsible for HM Treasury implementing fundamental reforms to the UK's financial regulation architecture. The reforms were informed by the experience of the 2008/09 financial crisis and delivered on a commitment contained within the 2010 Conservative Manifesto. These hugely important reforms significantly improved the stability of the UK's financial sector. Again, as a result of these reforms which further strengthened the UK financial system, I believe the UK

banking and financial system was more resilient and much better placed to withstand the Covid-19 pandemic than it would have been in 2010.

53. The reforms were implemented via the FSA 2012, which I have already referred to above. The FSA 2012, amongst other things:

a) gave the Bank of England a financial stability objective;

b) moved from a mono-peak system to a twin-peak system by splitting the Financial Services Authority into the Financial Conduct Authority (as conduct regulator) and Prudential Regulation Authority (as the micro-prudential regulator for banks and insurers); and

c) created the FPC in the Bank of England (referred to above), with responsibility for the health and resilience of the system as a whole ("macroprudential" regulation).

54. These 2012 reforms were supplemented by the Banking Reform Act ("BRA") 2013, which provided for the implementation of the key recommendations of the Independent Commission on Banking ("ICB"). The ICB was commissioned by me, as Chancellor, on 16 June 2010 and I subsequently sponsored the introduction of the BRA 2013 in Parliament. The BRA 2013:

a) introduced ringfencing, where UK retail and investment banking operations had to be undertaken by separate legal entities, with banks in scope of the ringfencing regime required to put their arrangements in place by 1 January 2019;

b) added the bail-in power to the Special Resolution Regime;

c) created the Payment Systems Regulator;

d) established a special administration regime for Financial Market Infrastructure; and

e) established the Senior Managers and Certification Regime for banks. This regime was extended in 2016 to all firms regulated under the Financial Services & Markets Act 2000.

55. Alongside these architectural reforms, HM Treasury was also heavily involved in the implementation of improved capital and liquidity requirements for banks via the Capital Requirements Directive IV and Capital Requirements Regulation in the EU and their transposition into UK law. These regulatory reforms implemented the Basel III capital and liquidity standard, which requires banks to hold more capital, with greater loss absorbing capacity, introduced a leverage ratio to ensure a minimum amount of capital relative to balance sheet size (regardless of estimated risk weighting), and introduced liquidity requirements to improve firms' ability to weather funding stresses.

56. The Special Resolution Regime for banks was strengthened in 2014 via the transposition into UK law of the Bank Recovery and Resolution Directive in 2014.

57. The overall result of this programme of reforms was a much more resilient financial sector, with firms expected to hold greater loss absorbing capacity and liquidity reserves to reduce their likelihood of failure, and a more focused set of regulators – each with clear objectives and the powers necessary to achieve their respective objectives. The UK's ability to resolve failing firms was also significantly enhanced, thereby reducing the disruption caused by firm failure – and, in so doing, improving the macroeconomic stability of the UK.

58. Most importantly, in the context of the Covid-19 pandemic, the increased capital and liquidity resilience of firms made the financial sector more resilient to periods of stress, such as that experienced during the pandemic. The Bank of England Financial Stability Report for 2020 indicates that over the course of 2020, major UK banks' Common Equity Tier 1 capital ratio (i.e. the highest quality of regulatory capital to absorb losses) had increased to 15.8%, more than three times higher than before the 2008/09 financial crisis. The FPC judged at the time that the UK banking system was resilient to a range of adverse economic outcomes and had the capacity to absorb losses and continue to support households and businesses. The Bank of England assesses the resilience of the largest UK banks to severe scenarios as part of its annual stress test, and according to its 2021 report has found that UK banks should be able to withstand a range of severe scenarios while maintaining the provision of credit to the real economy [GO/019, INQ000142250].

59. These consequences of the banking reforms introduced in 2010 to 2016 support my belief the UK financial system was more resilient and much better placed to withstand the Covid-19 pandemic than it would have been otherwise.

Improving emergency planning to enable a more effective response to financial stability risks from 2010-2016

60. In my time as Chancellor between 2010-2016, I had significant input into processes that allowed HM Treasury to improve its response to future financial stability events. This input was provided through my participation in financial stability exercises, my role in live contingency planning for financial stability events, and my focus on improving the resilience of the UK financial system to operational risks.

61. In 2014, I participated, alongside the then Governor of the Bank of England, Mark Carney, and US Treasury Secretary, Jack Lew, in an exercise simulation of a systemic financial stability crisis. The exercise focused on systemically important transatlantic banks and on limiting the impact of failure through use of the authorities' resolution powers. The findings of the exercise were used to inform proposals for G20 to strengthen financial stability. Following this, a working-level exercise, 'Resilient Shield' was held in November 2015, which simulated a cyber-attack on global banks [GO/020, INQ000142204]. This followed a similar working-level exercise, "Waking Shark", in 2013 which was approved by me.

62. I was involved in improving the resilience of the financial system to operational risks, such as cyber threats. In 2015, I gave a speech at Government Communications Headquarters ("GCHQ") that set out details of how the UK could be protected from cyber-attacks against businesses, infrastructure, and individuals [GO/021, INQ000142203]. As part of this, and as the then chair of the government's committee on cyber, I introduced a National Cyber Security Plan. Part of this plan included the creation of a new National Cyber Centre, intended to house the UK's first dedicated 'cyber force' to handle cyber incidents in Britain.

63. Following its inception in 2013, my annual remit for the Financial Policy Committee ("FPC") included emergency planning by the authorities for financial stability risks. The remit set out that the FPC should consider itself, at its core, responsible for identifying, monitoring, and addressing systemic risks that affect the entire financial system. The remit outlined that these risks should include risks to the operational resilience of vital functions of the financial system, such as payment services and insurance. In 2016, my remit for the FPC also stated that the FPC should consider itself responsible for identifying, monitoring and

addressing systemic non-financial risks; earlier remits had included specific non-financial risks, such as cyber risk. As a result of this, the FPC drove a programme of work by the Financial Authorities which enabled the Financial Authorities and the sector to be more resilient to non-financial risks.

64. During my time as Chancellor, I also played a role in contingency planning for a number of financial stability events, approving live contingency planning work conducted by the Financial Stability group. For example, I approved contingency plans made by the Financial Stability Group in response to Euro-zone firms affected by the Euro-zone crisis. Following the introduction of legalisation that required over-the-counter ("OTC") derivatives to be centrally cleared through Central Counterparties ("CCPs"), I also played a role in contingency planning for CCPs. I was briefed at the time on the resilience, resolvability, liquidity and recovery of CCPs and attended a G20 session in which the implementation of G20 reforms to CCPs was discussed [GO/022, INQ000184555].

65. This important work improved the resilience of the UK financial system in the face of significant financial stability events.

The 'White Review' in 2011/12

66. Following calls from the National Audit Office ("NAO") and the Public Accounts Committee ("PAC") to conduct an exercise on lessons learnt from the 2008/09 financial crisis, the then Permanent Secretary to the Treasury, Sir Nicholas Macpherson, commissioned a review into the Department's management of the 2008/09 financial crisis in October 2011.

67. The Review team, led by Sharon White (a former Director General at the Ministry of Justice and later Director General Public Spending and Second Permanent Secretary at HM Treasury), published the Review of HM Treasury's Management Response to the Financial Crisis (the "White Review") in March 2012 [GO/023, INQ000142243]. The recommendations from the Review, alongside those of the Department's 2010 Strategic Review, laid the foundations for a significant set of structural reforms to assist operational preparedness.

68. As part of these reforms, the Financial Stability group established a pre-agreed protocol for operationalising a response to a systemic crisis. It also introduced a Reservist list. The list contains details of officials who have particular skills or experience in financial crisis management and the UK resolution regime, as well as the whole of the Financial Stability

Group, who act as initial surge resource in a crisis. Regular training for reservists is conducted, including six-monthly exercises simulating a crisis response situation. Following the recommendation of the White Review, the Financial Stability Group also introduced a Professionalising Crisis Management programme ("PCM"), aimed at improving HM Treasury's approach to financial crisis management and to establish mutual understanding between the financial authorities (Bank of England, FCA and FSCS) on their roles and responsibilities in a resolution, ensuring that HM Treasury is able to respond effectively to financial stability events. As a part of this programme, HM Treasury have developed a suite of manuals and resources to support the deployment of tools in a crisis and mitigate any risks of diminishing experience. Regular training and exercising are conducted to maintain familiarity with the resources and processes and build resilience across the Financial Stability Group.

69. Beyond reforms to improve HM Treasury's management of financial stability risks, the White Report also included a number of recommendations concerning the organisational structure of HM Treasury and its ability to respond to crisis events. This included recommendations to strengthen the department's contingency planning by ensuring that people on standby to work on the crisis ('reservists') are properly trained, have clear roles and operate within a clear management structure; place greater emphasis on experience, expertise, and people management in its promotion and reward policies; include greater use of pay flexibilities and allowances; and improve staff succession planning, supported by longer handovers between posts; and creating a more enabling environment to challenge policy orthodoxy, by involving outside experts more routinely in policy debates and recruiting staff from more diverse backgrounds. As Chancellor, I was responsible for approving the final White Review report prior to its publication. These recommendations and the action taken to give effect to them will have helped HM Treasury to act in a nimble and responsive way to new and fast changing priorities, including the Covid-19 pandemic.

Section 3: Healthcare and social care funding and the Chancellor's involvement in pandemic preparedness 2010-2016

70. This section sets out how, despite the challenges facing the economy and public finances between 2010 and 2016 as described above, the government sought to prioritise health and social care spending at a time when difficult decisions were required across a number of departments. I also describe my engagement with CO-led cross-government emergency planning and with pandemic planning led by DH.

Health and social care spending at Spending Review 2010

71. At SR10, I announced that DH's budget from 2011-12 until 2014-15 was to increase in real terms in each financial year. This growth occurred in circumstances where all other departmental budgets, other than overseas aid, were cut by an average of 19% over the same period. Despite the very significant economic challenges facing the UK in this period, it was a government priority to increase NHS funding. As the coalition agreement set out, the government "*guarantee[d] that health spending increase[d] in real terms in each year of the Parliament*".

72. DH's Resource Departmental Expenditure Limit ("RDEL"), used to fund day-to-day (including frontline) expenses, was to grow by 1.3% in real terms in each financial year (see table 3 below). Further, up to £4bn was allocated to DH's Capital Departmental Expenditure Limit ("CDEL"), used for investing in long-term assets. The allocation was higher in 2014-15 than it had been in 2006-07 in real terms. The CDEL settlement specified certain projects that DH would fund, notably the Centre for Emergency Preparedness and Response at Porton Down and several hospital re-development schemes.

73. Further, over the SR period, over £7bn was provided to local authorities to support the delivery of social care (see table 3 below). The SR10 settlement also agreed a health reserve that DH could access in specific circumstances including to manage unforeseen events, such as health emergencies. The allocation was £500m (2011-12), £1,250m (2012-13), £2,000m (2013-14), and £2,500m (2014-15). To access the reserve DH had to apply to HM Treasury, as explained above.

Table 1: Budgets set for DH at SR10

Financial Year	DH RDEL (excluding depreciation) (billions)	DH CDEL (billions)	Social Care (billions)
Baseline (2010-11)	£99.760	£5.122	[Not available]
2011-12	£101.480	£4.429	£1.328
2012-13	£103.988	£4.429	£1.852
2013-14	£106.394	£4.437	£2.059
2014-15	£109.791	£4.648	£2.000

74. To work towards making the public finances more sustainable, HM Treasury attached conditions to the budgets announced at SR10. These conditions primarily related to generating efficiencies, such as accepting DH's proposal to create up to £20bn of efficiencies. However, it should be noted, HM Treasury did not dictate how DH would achieve these savings and HM Government committed to reinvest these savings back into DH's frontline operations.

75. Whilst HM Treasury set the DH's overall budgets, the Secretary of State for Health determined how these budgets were to be spent routinely. It was only for exceptional expenses that government departments required HM Treasury's consent. In my experience, HM Treasury Ministers regularly and comprehensively engaged with all business cases put to them. Following the business cases' review by officials, HM Treasury Ministers would take decisions to balance public service provision, wider government objectives and the sustainability of the public finances.

76. In summary, however, the SR10 settlement meant that frontline health spending increased in real terms each year between 2010 and 2015.

Health and social care spending between SR10 and SR15

77. As Chancellor, and together with the CST, I consistently sought to protect health spending, despite the economic challenges faced by the UK and tightening other departmental budgets to control the deficit. For example, at Autumn Statement 2011, the savings generated by capping public sector pay increases at 1% annually were routinely returned to the Exchequer. However, savings made by the DH were to be reinvested in the department [GO/024, INQ000142192].

78. Similarly, at Autumn Statement 2012, despite reducing all departmental budgets by 1% in 2013-14 and 2% in 2014-15, to fund a £980m growth package, health budgets were protected [GO/025, INQ000142193]. Further, at Budget 2013, total government RDEL was to be reduced by £1.1 billion in 2013-14 and £1.2 billion in 2014-15, yet health budgets remained protected.

79. Spending Round 2013 ("SR13") set DH's budget for the financial year 2015-16. RDEL was increased (as can be seen from table 3 above) to £110,372 million, a 0.1% real term increase on 2014-15 baselines, and CDEL was set at £4,735 million. HM Government's key priority at that stage was to fund social care and, as a result, I announced a £2bn increase in DH's RDEL for local health and care and £3.8bn RDEL and CDEL funding for local health and care, to be shared between local NHS commissioning groups and local authorities, to assuage social care pressures [GO/026, INQ000142249]. Sir David Nicholson, then Chief Executive of NHS England, described the SR13 settlement as "*a very significant settlement for the NHS…[…]…It is a potential 'game changer' as it gives us the opportunity to accelerate the development of integrated services* [GO/027, INQ000142210]."

80. At Autumn Statement 2014, I adjusted the funding allocated to DH at SR13. HM Treasury increased DH's Total Departmental Expenditure Limit ("TDEL"), the sum of its allowed non-exceptional expenditure, by 1.2% in real terms. This increase equated to a 1.7% real term increase in funding for NHS England (£1.8bn of new money), of which (non-exhaustive) £1.5bn funded frontline NHS services in England in 2015-16 and increased funding to devolved administrations by £250m in 2015-16 [GO/028, INQ000142194].

81. Again, in this period, frontline health spending increased in real terms, despite the economic challenges faced by the UK.

Health and social-care spending at SR15

82. At SR15, I set out departmental budgets for the next five financial years. Despite the continued tight fiscal circumstances, health spending was increased in real terms by 3.3%, equating to £10bn more per year in real terms by 2020 for NHS England [GO/029, INQ000142257]. This increase was provided in the context of continued fiscal discipline, with measures taken across a range of departments to continue to promote fiscal sustainability. For example, at SR15 I announced that the Ministry of Justice's budget was to reduce by 15% and DWP's budget by 14%. The settlement was welcomed by Simon

Stevens, the then Chief Executive of NHS England. Stevens said that the settlement "will help stabilise current pressures on hospitals, GPs, and mental health services, and kick start the NHS Five Year Forward View's fundamental redesign of care…[…]…In the context of constraints on overall public spending, our case for the NHS has been heard and actively supported [GO/030, INQ000142273]."

83. These real term increases in health spending meant that the government could commit to fund 800,000 more operations and treatments, 5.5 million more outpatient appointments, 2 million more diagnostic tests, access to GP services in the evenings and at the weekend, and 7-day access to hospital services by 2020.

84. At SR15, a social care precept was created to give local authorities, responsible for social care, the ability to raise new funding to spend exclusively on adult social care. The precept gave local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold. From 2017, the SR made social care funds available for local government, rising to £1.5bn by 2019-20, to be included in the Better Care Fund.

85. With the benefit of hindsight I am far from convinced that substantially increased healthcare funding would have led to a different healthcare outcome to the pandemic. This is because I believe that extra funds would have been directed to areas of healthcare which had a perceived greater need.

Using the tax system to improve public health

86. In 2015, the government started considering the role of tax as a lever to tackle obesity, following stakeholder representations and in the context of developing a HM Government obesity strategy.

87. In the 2016 Budget, I announced that the government would introduce a banded levy targeting packaged drinks with a high added-sugar content, in a bid to tackle childhood obesity in the UK.

88. I subsequently oversaw the development of the Soft Drinks Industry Levy ("SDIL"), which came into effect in April 2018, including the decision to implement the tax (rather than rely on it as a 'credible threat' to strengthen efforts to improve industry action on voluntary reformulation).

89. The SDIL has achieved the intended policy outcomes, to reduce the sugar content of soft drinks in scope of the levy. Monitoring of the impacts from 2015-2019 by the Office for Health Improvement and Disparities concluded that the total sugar purchased per household from drinks subject to the SDIL decreased across all socioeconomic groups and sales decreased by over 5-fold for drinks with 5-8g of sugar per 100ml and more than halved for drinks with over 8g of sugar per 100ml [GO/031, INQ000142252]. SDIL was therefore an important policy intervention in the years before the pandemic to improve public health, as substantial medical evidence exists to demonstrate that obesity was a key risk factor in increasing the chances of severe illness and / or morbidity following a Covid-19 infection.

Involvement in CO emergency planning, including DH-led pandemic preparedness

Cabinet Office Emergency Planning

90. As summarised at the outset of this statement, as Chancellor I contributed to cross-government preparations for civil emergencies and was involved in the CCS' emergency and risk management processes. This engagement was linked to the principles underpinning collective agreement by Cabinet (or often Cabinet sub-committees) of government decisions.

91. A key component of the government's emergency planning framework was the National Risk Assessment ("NRA"), a yearly classified assessment of the most significant emergencies that could affect the UK over a five-year period. The NSRA builds on the NRA by extending the approach to 20 years and covers all national security risks, including overseas events. The National Risk Register ("NRR") is the public-facing version of the NRA. The risk of an influenza pandemic was included on the NRR whilst I was Chancellor.

92. The first revision of the NRR during my time as Chancellor occurred in January 2012 [GO/032, INQ000013406]. Pandemic influenza was identified as the highest priority risk, as the swine flu pandemic was not thought to have changed the risk of another pandemic emerging. Influenza pandemic remained the highest priority risk in the 2013 and 2015 revisions [GO/033, INQ000013617 and GO/034, INQ000040833].

93. As a member of the National Security Council ("NSC") and the NSC (Threats, Hazards, Resilience and Contingencies) Cabinet Sub-Committee ("THRC-SC"), I was kept up to date and consulted on the NSRA reports and the associated NRR updates. For example,

in October 2012, the National Security Adviser wrote to the Prime Minister and members of the NSC, including me, seeking approval to issue the Annual Report for the 2012 NRA [GO/035, INQ000184537]. The report listed major accidents or natural hazards, such as influenza pandemic, as a tier one national security risk. It also noted that work continued to focus on the highest priority risks, including updating departmental plans following the revised Pandemic Flu Strategy in 2011 (see below). These plans were to be tested in a major national exercise in 2014 [GO/036, INQ000181685].

94. As part of HM Government's risk management processes, the CCS issued a regular 'Forward Look' to the THRC-SC to plan and prepare for potential civil emergencies that the government might face in the following six months. The 'Forward Look' routinely considered the likelihood and impact of the emergence of a human pandemic. For example, in April 2014, the likelihood of a human pandemic was considered to be medium, but its potential impact was high. This risk assessment remained unchanged in the July 2014 paper. The April 2014 paper also set out the risk to the UK from the Ebola virus in West Africa. The paper noted that the likelihood of the outbreak spreading to the UK over the following six months was very low, and that the UK had effective processes in place to detect, contain and treat the disease [GO/037, INQ000184538; GO/038, INQ000184539; and GO/039, INQ000184540].

95. HM Treasury regularly produced a Financial Sector Resilience Plan ("FSRP") as part of the Cabinet Office Critical Infrastructure Resilience Programme, which aimed to develop a systematic cross-sector campaign to reduce disruption caused by natural hazards or disasters. The FSRP assessed the resilience of the financial sector to key risks identified in the NRA, such as pandemic influenza and set out measures to address weaknesses in the financial sector's, regulators' and the government's approaches to responding to these risks.

96. As a member of the THRC-SC, I also engaged in broader CO-led emergency planning. In April 2011, the Minister of State for Security and Counterterrorism wrote to the Prime Minister and THRC-SC members seeking agreement on a proposed cross-government response to the report of the Science and Technology Select Committee Inquiry. The Inquiry examined the government's use of scientific evidence and advice in emergencies [GO/040, INQ000184535]. The response stated that significant steps had been taken to ensure that scientific evidence was considered at all stages of emergency management [GO/041, INQ000142244].

97. In another example, in June 2014 the Minister for Government Policy, Oliver Letwin, sought agreement from members of THRC-SC on the conclusions of a review undertaken by the CCS in the aftermath of severe flooding the previous winter [GO/042, INQ000184542]. Recommendations included more closely engaging the armed forces in emergency preparedness and planning [GO/043, INQ000184543]. As Chancellor, I agreed that more should be done to make the use of the military more transparent to local authorities and that the armed forces should be more closely engaged with emergency preparedness. These views were communicated to the Prime Minister in June 2014 [GO/044, INQ000184544 and GO/045, INQ000184545].

Chancellor's involvement in DH-led pandemic planning

98. As described above, upon request from the lead department (DH in respect of a pandemic), and in line with HM Treasury's role overseeing public spending, HM Treasury did contribute and assist with planning for civil emergencies. This section provides details of my engagement with pandemic related planning during my period in office as Chancellor.

99. On 21 October 2010, the CST wrote to the Secretary of State for Health regarding DH's SR10 settlement (a settlement on which I, as Chancellor, had the final decision as the most senior HM Treasury minister). The importance of the NHS being able to respond to financial pressures, including pandemic flu, was emphasised in the letter [GO/046, INQ000184528].

100. In December 2010, I attended a Cabinet meeting in which NHS objectives and funding were discussed. HM Treasury officials briefed me that one of the department's objectives for the meeting was to ensure that DH was willing to reopen primary care trust ("PCT") allocations in the case of an event such as pandemic flu [GO/047, INQ000184529].

101. On 4 March 2011, the Secretary of State for Health wrote to members of the THRC-SC requesting clearance for the publication of the UK Influenza Pandemic Preparedness Strategy for consultation. In March 2011, I, as Chancellor, wrote to the Prime Minister, David Cameron, in response to this request, to give clearance for publication. However, I underscored that this would not prejudice any decisions on future business cases. The Prime Minister asked HM Treasury officials to work closely with DH to consider business cases for planned flu countermeasures, including the strategic reserve of pre-pandemic vaccines, to ensure the proposals were affordable and represented the best value for money [GO/048, INQ000184532]. On 21 March 2011, the Prime Minister's private

secretary confirmed THRC-SC clearance to proceed with publication, subject to the views of a number of ministers, including me as Chancellor [GO/049, INQ000142256]. The strategy was published on 10 November 2011 [GO/050, INQ000142272].

102. The following paragraphs include specific (though not exhaustive) examples of HM Treasury's and my approval of specific flu countermeasures dated both before and after the agreement to publish the 2011 Strategy. Many of these routine spending decisions fell within the responsibilities of the CST. However, it is worth noting that during the Coalition Government (2010-2015) it was a departmental policy that the Chancellor's office would be copied into the documents sent by officials (such as policy advice and draft letters) to the CST.

Vaccine funding

103. On 16 September 2010, the CST was briefed on the Outline Business Case ("OBC") for Advance Purchase Agreements ("APA") for a Pandemic Specific Vaccine, with me, as Chancellor, copied into the advice. HM Treasury officials recommended that the OBC be approved, to allow DH to begin the vaccine procurement exercise. The submission noted the inflexibility of previous APAs that had been criticised by an independent report concerning the previous government's response to the swine flu pandemic [GO/051, INQ000184527].

Medication funding

104. On 16 March 2012, the CST wrote to the Secretary of State for Health, confirming HM Treasury's approval of DH's Antibiotics Full Business Case, which ensured that the UK would have had an adequate supply of antibiotics during a pandemic, by setting up a Dynamic Purchasing System [GO/052, INQ000088142]. DH's proposal was for a four-year procurement system to stockpile antibiotics as a precautionary approach to treat patients who developed a secondary bacterial infection to a pandemic flu [GO/053, INQ000088167].

105. In December 2015, HM Treasury confirmed approval for DH's procurement of Tamiflu, an antiviral flu medication. DH held a stockpile of Tamiflu in the event of an influenza pandemic, and a significant proportion of this stockpile was due to expire in 2016/17. HM Treasury approved an initial exchange of expiring Tamiflu stock (a spend of approximately £14 million) and provisionally approved the exchange of the remaining Tamiflu stock in February 2016 (a spend of approximately £41 million) [GO/054, INQ000088146].

Logistical funding

106. On 31 January 2012, the CST wrote to the Secretary of State for Health confirming HM Treasury's approval for the Managed Contact Centre Services Full Business Case, which intended to make arrangements for call centre services to support the National Pandemic Flu Service. Approval was conditional on DH:

a) consulting HM Treasury on any further spending;

b) undertaking further negotiations with four bidders to attempt to secure cost savings; and

c) any costs of contracts committing to spending beyond the current spending review be entirely absorbed into DH's existing baseline in any future Review settlements [GO/055, INQ000088139].

PHE Science Hub

107. In December 2014, the CST and I, as Chancellor, considered the Secretary of State for Health's request for approval of an OBC proposing the creation of a PHE "Science Hub". The proposal set out that a significant investment was required to retain the capabilities of PHE's high containment laboratories and to allow PHE to continue protecting the public from infectious diseases such as Ebola [GO/056, INQ000184550]. A key part of the proposal was the consolidation of all existing high containment laboratories to a single site at Harlow. Existing facilities were considered outdated and in need of modernisation to ensure safety.

108. The decision on the OBC was deferred until after the General Election, and an updated request from DH followed in May 2015 [GO/057, INQ000088153]. A note from DH provided to me in July 2015 highlighted that the integration and co-location of PHE's science functions were key to realising the maximum potential from whole genome sequencing, and that the separation of facilities had resulted in challenges during the Ebola response and the swine flu pandemic. The Science Hub was also to provide facilities for major research funders including for the specialist pre-clinical testing of vaccines [GO/058, INQ000184553]. I note that further detail on the progress to develop the Science Hub after my time in office as Chancellor has been supplied by HM Treasury in their Module 1 corporate statement.

International role in global health

109. In June 2011, I attended a Global Alliance for Vaccines and Immunisation (GAVI) pledging event. GAVI is a public private partnership that aims to increase access to immunisation in poorer countries. I was prepared to increase significantly the UK's funding to GAVI and urged partners to consider possible additional investments. Whilst the aim of the pledging event was to reduce child mortality through immunisation, increased funding also provided the opportunity to work closely to reduce prices and develop new vaccines [GO/059, INQ000184534 and GO/060, INQ000184536].

110. During the 2014 Ebola outbreak, I was involved in work undertaken by HM Treasury to accelerate the availability of a vaccine. In making decisions, I considered risks, including the cost of the vaccine and issues around manufacturer indemnity, and reflected on lessons learned from the swine flu pandemic. In 2014, I attended COBR meetings in relation to the Ebola outbreak [GO/061, INQ000184548; GO/062, INQ000184546; and GO/063, INQ000184547]. In November 2014, I was copied into advice from HM Treasury officials to the CST regarding a request from the Department for International Development ("DfID") for approval to announce a pledge of up to £1 billion over 5 years to GAVI [GO/064, INQ000184549].

111. In January 2015, I and the CST agreed to contribute a grant of $50 million for a new IMF Trust to provide grant support to Ebola's affected countries and to help to contain future pandemic [GO/065, INQ000184551 and GO/066, INQ000184552].

Section 4: Science, research, and technology policy 2010-2016

112. Between 2010-16, the government of which I was a part actively supported the development of UK science and research. As set out at the beginning of this statement, it is clear that scientific research, development and technology were necessarily at the forefront of the UK's response to the Covid-19 pandemic, from the development of the Oxford-AstraZeneca vaccine to world-leading clinical trials such as the RECOVERY trial. The steps taken by previous governments to support scientific research, development and technology in the UK are likely, I believe, to have contributed positively to the UK's preparedness and capacity to respond to the pandemic.

113. This section of my statement provides an overview of the government's science and technology strategy between 2010 and 2016 and relevant aspects of the science and technology work involving the government in that period.

HM Government's science and technology strategy 2010-2016

114. The Coalition Government's strategy on science and technology was to help, "*make the UK the best place in the world to do science* [GO/067, INQ000142246]." In 2012, I gave a speech to the Royal Society in which I made clear that the government saw science, research, and innovation as a key long-run driver of economic growth in the UK. Broadly, the government's overall science strategy at that time can be described as encompassing:

   a) Protecting the UK as a high-quality research base that attracts high-value corporate inward investment, by ring fencing of science budgets.

   b) Creating a business environment which enables innovative industry to thrive.

   c) Prioritising capital spend on high fixed cost scientific facilities where they are key enablers for cutting edge science.

   d) Identifying and enhancing the UK's national capabilities in eight key future technologies including synthetic biology and regenerative medicine.

115. I reiterated this ambition in a 2014 speech, setting out that in the face of other public sector cuts the government had protected science spending at £4.6 billion a year and had

increased capital investment in science to record levels. I also set out the plan to tackle the UK's historic weakness in commercialising scientific applications in a three-part plan, by:

a) Backing scientific clusters, including through the programme of City Deals;

b) Helping scientists to commercialise research, including through the Catapult centres, and;

c) Committing to long-term science funding by taking difficult decisions in other areas of public spending [GO/068, INQ000142202].

116. "Our plan for growth: science and innovation", published in December 2014 by HM Treasury and the Department for Business Innovation and Skills, expanded on this agenda by setting out the government's overall approach to harnessing the UK's cutting-edge science base to support future prosperity and societal wellbeing [GO/069, INQ000142215].

117. In the foreword, I reiterated the importance of "*prioritising science and innovation spending in difficult times*" and confirmed the government's commitment to fund £5.9bn of research and development ("R&D") infrastructure from 2016 to 2021 – then described as the most long-term commitment to science capital in decades.

Science and technology funding 2010-2016

118. Over the SR period, as set out above, £4.6bn was annually allocated to the Department for Business, Innovation and Skills' science budget. Within this, the Medical Research Council's resource budget grew from £546m in 2010/2011 to £575m in 2014/15.

119. Also, SR10 increased the DH's research budget from £934m in 2010/11, to £1,008m (2011/12), £1,034m (2012/13), £1,063m (2013/14), and £1,093m (2014/15) - a real terms increase. Most of DH's science funding was allocated to the National Institute for Health Research (NIHR). My understanding is that NIHR played a critical role in delivering clinical research on Covid-19 throughout the pandemic, supporting over 100 urgent public health studies on Covid-19 including studies on treatments, vaccines, diagnostics, long-term impacts of Covid and research to support policy decisions during the pandemic. For example, NIHR supported the RECOVERY trial, which demonstrated the first effective treatments for hospitalised patients with Covid-19; the study's findings are estimated to

have saved a million lives globally in the first nine months of the pandemic [GO/070, INQ000142242].

120. At SR10, HM Treasury provided £220 million over the SR period for the Crick Institute, a biomedical research institute then known as UK CMRI. The Crick set up a testing centre in April 2020 for SARS-CoV-2 and carried out research into the properties of SARS-CoV-2 and the efficacy of different testing methods. Further, £69 million was allocated to the Diamond Lightsource synchrotron facility, where work relating to Covid-19 drugs was later undertaken.

121. SR10 also established the Catapult centres, a network of translational research facilities across the UK. The UK's Covid-19 response drew on the Catapult network's existing expertise and capabilities. For example, the Cell and Gene Therapy Catapult received funding during the pandemic as part of the UK's Covid-19 vaccine manufacturing resilience strategy.

122. The Regional Growth Fund ("RGF") was introduced in 2010 to rebalance the UK economy by supporting private enterprise in areas and communities that depended heavily on the public sector. The fund promoted growth in key sectors, including life sciences.

123. At Budget 2012, I announced a new fund that would become the Research Partnership Investment Fund [GO/071, INQ000142196]. The fund supported university infrastructure projects developed between universities and external partners. As an example of an early project, the University of Dundee Centre for Translational and Interdisciplinary Research was allocated £38 million, with co-investment from others. The centre aimed to translate life science research into global healthcare solutions.

124. At Autumn Statement 2012, this support for research was augmented. The Research Partnership Investment Fund was allocated a further £100m; £600 million of additional investment into Research Council infrastructure and facilities for applied research and development was announced, as was an extra £270m for laboratories, classrooms, and other facilities in HE colleges.

125. Science funding was protected at SR13. In 2013, £75m was invested to expand the existing European Bioinformatics Institute in Cambridge to provide a new facility for biological data storage, to support life sciences research and its translation. In April 2014, I launched a £375m (Official Development Assistance ("ODA")) fund, called the "Newton

Fund" to improve the science and research capabilities of emerging powers and promote economic development through science and innovation. This fund helped support collaborative work between the UK and partner countries (e.g. Brazil) in areas such as neglected diseases, food security, Future Cities, and the bio-economy.

126. During the 2014 Budget [GO/072, INQ000142198], I announced the £2.9bn Grand Challenges R&D infrastructure fund. It invested in major research facilities, such as promising an additional £61 million to the High Value Manufacturing Catapult centres. The British Business Bank was also established in 2014, as a HM Government owned business development bank that aimed to improve SMEs' access to finance. Further, at Budget 2015, £195m of ODA funding was allocated to DH for the next five years for the Fleming Fund. Working with external partners, the fund sought to tackle antimicrobial resistance.

127. At SR15, science funding remained a priority for HM Government [GO/073, INQ000142253]. SR15 announced over £5bn of health R&D funding over the 5 years of the SR period. As part of this, NIHR's core budget for domestic research spend was maintained in cash terms over the SR period, but it received an overall uplift (to c.£1,100 in 2017/18, c.£1,125m in 2018/19, c.£1,125m in 2018/19, and c.£1,150m in 2019/20) because of a new ODA R&D allocation, with which a new NIHR Global Health Research programme was initiated. This new ODA allocation was part of a planned increase in overall HM Government ODA spending by £16.3bn per year by 2020, announced at SR15.

128. Learning from the world's lack of preparedness for the 2014-16 Ebola epidemic in West Africa, another new ODA health research fund was announced at SR15. The Ross Fund, managed by DH and DfID, and working with the Bill and Melinda Gates Foundation, was provided with £1bn over 5 years. The fund, which also attracted investment from external partners, intended to invest in the research and development of drugs, vaccines, diagnostics, and treatments to combat the most serious infectious diseases [GO/074, INQ000142216].

129. Among other projects, the Ross Fund invested:

a) £100m additional funding for the UK Vaccine Network ("UKVN"), which supported developing vaccines and vaccine technologies for diseases with epidemic potential occurring in low- and middle-income countries. In 2016, UKVN funded work on a viral vector vaccine platform with the aim of developing a vaccine for the coronavirus causing Middle East Respiratory Syndrome

(MERS). This adenovirus vector platform was rapidly adapted at the beginning of the Covid-19 pandemic and became the Oxford-AstraZeneca vaccine; the vaccine is estimated to have saved over 6 million lives globally in the first year after being introduced.

b) £88m on further prevention and response measures for future epidemics, including product development of diagnostics for diseases of epidemic potential, a UK Rapid Response Team able to respond to infectious disease outbreaks in the developing world within 48 hours, investments to further work on development of infectious disease vaccines and drugs, and research to accelerate trialling and regulation of medical technologies in international outbreaks of infectious diseases.

HM Government's science, R&D and technology tax relief policies 2010-2016

130. Between 2010 and 2016, HM Treasury also used the tax system to support the science, technology and research and development priorities described above. Those tax decisions supported the development of the UK's scientific, research and technological base, supporting sectors and industries which played a vital role in the UK's response to the Covid-19 pandemic. This was achieved through, R&D tax credits, the Patent Box, and financial support for start-ups and SMEs. In this way we supported the life-sciences sector which ultimately contributed vaccines and other valuable research to combat the pandemic [GO/075, INQ000184530; GO/076, INQ00018453; and GO/077, INQ000181686].

Pharmaceutical Industry Mergers and Acquisitions 2010 to 2016

131. Over the spring and early summer of 2014, negotiations between Pfizer and AstraZeneca ("AZ") took place regarding a potential merger and acquisition ("M&A") by Pfizer of AZ, to facilitate the relocation of its HQ operations from the U.S. to a European country. This followed a wave of what were considered "mega-mergers" of some of the largest pharmaceutical companies at the turn of the millennium and through the 2000s, including the Glaxo Wellcome and SmithKline Beecham merger, and a number of acquisitions by Pfizer.

132. Despite concerns expressed about the impact of the deal on the UK's economic interest, HM Government's key priority was to promote greater competition and encourage overseas investment. Therefore, HM Government did not seek to block the M&A, but

instead, in an effort to protect the UK's economic interests, sought assurances and commitments from Pfizer to protect R&D investment and manufacturing in the UK. Meetings with Pfizer leadership were held during which HM Government's concerns were raised with the company and firmer commitments to the UK sought, both in relation to R&D and manufacturing. Ultimately, the proposed takeover did not take place as AZ rejected Pfizer's offer [GO/078, INQ000184541].

133. During the Covid-19 pandemic, AZ formed a key pillar of the UK's vaccine strategy. The company partnered with Oxford University to produce its Covid vaccine with a partially UK-based supply chain and provided globally at cost. I believe this would have been strongly desirable from HM Government's perspective as the UK did not have a strong manufacturing base for vaccines. This helped to secure part of the UK's vaccine supply as well as providing a low-cost vaccine option for low and middle-income countries. I understand that a future Inquiry module will examine in detail Covid-19 vaccines.

134. By seeking to protect AZ's R&D and manufacturing capabilities in the UK, in the face of the potential Pfizer M&A, the government in which I served as Chancellor properly and rightly protected this element of the UK's ability to respond to the Covid-19 pandemic.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

Signed: Personal Data

Dated: 15 May 2023