

Witness Name: Tom Scholar

Statement No.:1

Exhibits: 1

Dated: 23 August 2023

## UK COVID-19 INQUIRY

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### WITNESS STATEMENT OF TOM SCHOLAR

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I, TOM SCHOLAR, will say as follows: -

1. I make this statement pursuant to a Rule 9 request from the UK Covid-19 Inquiry dated 19 June 2023.
2. I was the permanent secretary to the Treasury from July 2016 to September 2022. Previously I worked for the Treasury in various capacities from 1990 to 2013, including as second permanent secretary from 2009-13. From 2013-16 I worked for the Cabinet Office as the head of the Economic and Global Issues Secretariat. I have an M.Sc. in economics from the London School of Economics.
3. As the permanent secretary to the Treasury my job was to run the department and to account for its actions. Most of my time was devoted to leadership and management ensuring that the department functioned effectively in difficult circumstances, deciding the correct deployment of staff, reprioritising the workload, and ensuring that the department was meeting the requirements of the Chancellor. I was accountable to Parliament for the performance of the department and appeared several times before the Treasury Select Committee and the Public Accounts Committee. Each director general and director took responsibility for the work in their area. The pandemic touched every area of the department's responsibilities, so the work to support the government's response was spread across the Treasury. This work was coordinated by the Strategy, Policy and Budget group (SPB). The work of economic analysis was also widely distributed throughout various sector teams within the department but was ultimately the responsibility of the Chief Economic Adviser. My role was to oversee their work, in particular through the Executive Management Board which I chaired, and

to account for it to ministers and to Parliament. Throughout this statement I have provided information as fully as I am able to do so but by dint of my role as accounting officer for the department and responsibilities set out above, this may be limited and others within the Treasury will have greater direct knowledge.

#### HMT economic analysis and modelling

4. From early 2020 the Treasury provided advice to ministers on the economic and fiscal impacts of the pandemic and the various non-pharmaceutical measures (NPIs) proposed to deal with it. The advice informed judgements on the relative impact of different measures and equipped the Chancellor to take a well-informed view on some very difficult decisions, through which ministers were trying to control the spread of the virus while minimising the impact on the economy and society more broadly. The Treasury's advice covered every stage in the evolution of the virus, from initial discussions of possible specific restrictions in the first few months of 2020, to the national lockdowns starting in March 2020, and including the proposed circuit breaker in September 2020, the tiered approach introduced that autumn, and the emergence of the Omicron variant in December 2021. My role was to lead the department, account for its actions and provide advice to and support my senior colleagues with direct responsibility for our various official duties, including the preparation of economic analysis. In the rest of this statement, I explain in general terms how the Treasury went about this analysis, and how the nature of the analysis and the models underpinning it developed as we gained more experience and more evidence. Those directly responsible for the analysis and preparation of advice would be able to provide a more detailed description of that process.
5. The preparation of analysis at this time was a very difficult task, given the huge uncertainties at the time and the unprecedented nature of the measures taken. Economic analysis, modelling and forecasting seeks to describe the impact on a set of economic variables of changes to other variables and does so by studying the previous relationships between those variables, usually with extensive previous data sets. During the pandemic we were trying to estimate the impact of very significant interventions (such as the lockdown in the spring of 2020 or the tiered system of restrictions in the autumn) with no previous experience or data to serve as a guide. There were other major challenges: such as the difficulty of predicting how people would change their behaviour in response to changes in the prevalence of the virus,

and changes in the restrictions taken to deal with it; the effectiveness of those restrictions, and the degree of compliance with them; the emergence of new variants; and uncertainty over the timetable for the availability of vaccines, and the likely efficacy of those vaccines. In these circumstances any economic analysis was subject to major uncertainty and wide margins of error.

6. Despite these inevitable challenges, in my view the Treasury's economic analysis was of good quality and adequate to the task. It allowed the Chancellor to make well-informed judgements on the likely impact of the various possible policy measures to try to contain the spread of the virus. Analysis could not provide completely reliable estimates of the precise impact. It could however give a good sense of direction and likely magnitude, and it improved understanding of the interactions between different measures and helped the Treasury and the Chancellor rank proposals in terms of their relative economic impact (alongside their relative epidemiological impact).
7. The Treasury used a wide range of tools and data to carry out this analysis: we used conventional economic models; we studied all the relevant data; we developed new sources of data (such as debit and credit card spending to try to get a more immediate sense of changes in economic activity, including detailed regional breakdowns); we looked at the experience of other countries, where a range of different approaches were taken in response to the pandemic; and we refined our modelling and analysis in the light of experience. As time passed and more data became available, we incorporated that new information into our analysis and modelling. We studied and developed 'epi-macro' models, which attempted to model the whole system impact of NPIs, by bringing together epidemiological and macroeconomic modelling, and recognising the dynamic feedback loops between NPIs, their impact on the spread of the virus, and their impact on the economy. In theoretical and conceptual terms this was a powerful approach, though its practical application was significantly constrained by the huge uncertainties on both sides of the model (the 'epi' impact of NPIs on the spread of the virus and the 'macro' impact on the economy) as well as the links between them. The results of these models were volatile and highly sensitive to assumptions on the effects of different policies, and so their value was more as a tool to improve understanding than as a concrete guide to decision making.
8. In their work on the possible impact of NPIs and other measures, Treasury officials worked with many other analysts engaged on similar or relevant studies, for example

economists elsewhere in government, the Office for Budget Responsibility (OBR), the Bank of England, the Office for National Statistics (ONS), academic economists and other external commentators, and the Chief Scientific Officer and Chief Medical Officer and their staff. The various economic institutions published analysis and commentary on the economic impact of the pandemic as part of their regular communication for example, the OBR and Bank of England alongside their official forecasts, the ONS in regular statistical releases and the Treasury in documents accompanying fiscal statements. The Cabinet Office published an 'Analysis of the health, economic and social effects of COVID-19 and the approach to tiering', in November 2020, a document which incorporated Treasury analysis. Decisions on what information or analysis the Treasury publishes are for the Chancellor.

9. The Treasury's analysis was deployed in two ways. It was provided to Treasury ministers, in particular the Chancellor, who used it to inform decision-making and discussions with other ministers, including the Prime Minister. The Treasury also provided analysis to the Cabinet Office for use in advising the Prime Minister and supporting collective ministerial decision-making. The task of synthesizing the official advice from the many departments into a single product was the task of the Cabinet Office. In practice though, and particularly in the early stages of the pandemic, the speed of events and the need for immediate ministerial decisions made it difficult for them to do this. At this early stage therefore the main route through which Treasury analysis was communicated would have been through the Chancellor.
10. The normal procedures applied to the sharing of documents: in particular, the Chancellor's office was the main gateway for the sharing of information with it ultimately being for the Chancellor to decide what documents are shared outside the department. There were no doubt discussions on this at various stages between the Chancellor's office and the policy teams (in particular SPB, the Treasury team which coordinated the department's work on the pandemic). To the best of my recollection, I was not involved in these discussions and as such am not aware of any matters arising, which I also do not recall being brought to my attention.
11. I have been asked whether the creation of an economic equivalent to SAGE would have helped the Treasury analyse the economic impacts of proposals for NPIs. In my view it would have made little difference, if any, and might even have been counter-

productive. As set out above, the challenge in analysing the economic impact of NPIs was the lack of relevant models or previous experience or economic research to support such analysis, as well as huge uncertainties in key variables (for example the spread of the virus and individual behaviour) which meant that the results of the analysis were highly volatile and driven by assumptions. The issue was not a lack of specialist expertise or experience. The Treasury at the time was acutely aware of the analytical challenge and discussed the issues widely with the analytic community both inside and outside government, precisely to draw on as wide a range of expertise and opinion as possible. But turning that exercise into a formal process similar to SAGE could well have had the unintended consequence of conveying a misleading sense of precision to the analysis, or a higher degree of confidence in its results than was supported by the (inevitably weak) analytical foundations. While I was aware that some economists had informally raised the possibility of an economic SAGE, I was not directly involved in any such discussions and do not think that the Chancellor or the Treasury ever took or expressed a formal position on the idea.

12. Ministers constantly had to balance the desire to contain the spread of the virus with the desire to protect the economy and minimise disruption to normal social activity. I have been asked to comment upon SAGE minutes of the 21 September 2020 meeting which are reported to record that “policy makers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is underway under the auspices of the Chief Economist”. I was not present at the SAGE meeting and have not discussed the issue with anyone who was, and I should stress that I can only provide my personal interpretation. In my view this was a loosely drafted phrase which gave rise to some confusion. In particular, the phrase “associated harms” suggests an analysis of broader social impact which is beyond the scope of the Treasury’s responsibilities or expertise. Presumably the committee discussed a possible package of NPI policy interventions, and some members were in favour and others against; some pointed to the positive impact in restricting the spread of the virus, others to the negative impact on the economy and society and the conclusion was that it was for SAGE to advise on the epidemiology, and others in government to advise on the broader impact. The phrase in the minutes may have been better expressed as follows: “ministers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is underway in the various departments responsible, with the Cabinet Office coordinating the advice”.



13. I exhibit to this statement as “TS/1” a copy of the speech given by Clare Lombardelli, the Chief Economic Adviser, in July 2022. I cleared the speech for publication. In January 2021 I wrote to the Treasury Select Committee with the purpose of setting out the Treasury’s approach to economic analysis. Within that letter, I explained that in 2010, the Government decided to transfer responsibility for preparing official economic forecasts to a new Office for Budget Responsibility (OBR), which was subsequently established in statute under the Budget Responsibility and National Audit Act 2011. As a result, the Treasury does not now prepare economic forecasts although it retains a macroeconomic capacity with which it provides policy advice to ministers, including for fiscal events; stylised projections to analyse different policy options (such as alternative paths for fiscal policy); and analytical work on particular policy themes or challenges. The Treasury also maintains and develops (jointly with the OBR) a large-scale macroeconomic model, which the OBR uses for forecasting. This involves ensuring that the model reflects any changes to the structure, composition and classification of the ONS national accounts and other data sources, the re-estimation of the behavioural equations to take on the latest data or theory, and other work to develop the overall coherence and consistency of the model.
14. I also set out how since the onset of the pandemic, the Treasury provided ministers with advice on the impact of Covid-19 on the economy and the public finances bringing together the economic data published by the Office for National Statistics, forecasts and projections prepared by the OBR, the Bank of England and others, academic literature and real-time information such as mobility data.
15. The Treasury also considered the non-pharmaceutical restrictions (NPIs) in force or under consideration; the extent of Gross Value Added (GVA) accounted for by the sectors directly affected; the employment accounted for by those sectors; regional variations in NPIs, and the resultant impacts on factors such as supply chains and ability to travel to work; and the vulnerability of the labour market and firms, using the information provided by survey data. In doing so the Treasury used a range of analytical tools to bring together this information and to assess the interaction between the different factors. This analytical work generated advice to ministers on the possible range of impacts, although inevitably those are subject to a high degree of uncertainty. It also informed the Government’s publication, ‘Analysis of the health, economic and

social effects of COVID-19 and the approach to tiering', on 30 November.

16. I explained that any attempt to estimate the specific economic impacts of precise changes to individual restrictions for a defined period of time is subject to very wide uncertainty. Many factors determined the short and long-term economic impacts of the restrictions, including the path of the virus in the UK; the effectiveness of and degree of compliance with the restrictions; the proportion of the country under certain restrictions, and how that proportion changes over time; the behaviour of consumers and businesses in response to the virus and restrictions, including the overall change in consumption and investment and businesses' ability to adapt, displacement to other sectors, and how changed activity in one sector affects another; the effectiveness of other measures, including community testing and vaccines, which in turn depends on vaccine roll-out, take-up and efficacy; and the path of the virus globally, including the possible development of new strains, and the approach to restrictions in other countries. Estimating the economic effects of changes in restrictions also requires knowledge of what would have happened to the path of the virus and the economy with different restrictions, or no restrictions. As the evolution of the virus and the restrictions required to mitigate changed over time, and given the complex interactions between the two, it was not possible to know with any degree of confidence what would otherwise have happened. Any assessment of a given change to restrictions was therefore unavoidably only partial in nature.

17. I referred in that letter to the OBR's November 2020: Economic and Fiscal Outlook which drew attention to the very high degree of uncertainty attached to the projections in the scenarios they set out, noting that they "make no attempt to assign probabilities to any particular outcome" and that "ultimately these are judgement-based scenarios". I therefore pointed out that any forecaster would face the same challenges and at the best of times, and in the most stable economic conditions, forecasting is an uncertain business. While epi-macro models provide valuable insight into how changes in one variable can affect outcomes elsewhere in a highly complex system, they rely critically on assumptions on parameters – which, in the absence of previous experience or extensive data sets, can only be assumptions. The Treasury studied the outputs of the academic literature on epi-macro modelling very closely and benefited from

observer status at SAGE, and discussions with both leading academics and the analytical network across government departments. While the Treasury incorporated the insights into its analysis, it also needed to recognise that the results are exceptionally uncertain, and heavily driven by assumptions.

18. In my letter I confirmed that the Treasury would continue to incorporate economic analysis into policy advice to ministers. At the time of writing some issues, such as the impact on vaccine roll-out on consumer behaviour and voluntary social distancing had not yet been observed and so could not be modelled with any degree of confidence. On others, such as the possible impact on different sectors as restrictions are reduced I indicated that the Treasury would be able to draw on previous experience, including the analysis published in the 30 November document. I noted that the Government was clear that the unabated spread of the virus would lead to unacceptable health and economic outcomes.
19. Both the speech and the letter set out the inherent difficulties in conducting robust economic analysis during the pandemic and the uncertainties which inevitably had to be attached to the results. In that context economic analysis could only ever be a tool to inform understanding and judgement. In my view the Treasury did a good job in producing the best analysis available to support decision-making on NPIs. If at some point in the future the government once again has to consider imposing NPIs or similar measures, the experience of 2020-22 will mean that future analysts will have invaluable previous evidence and data to guide their work, which was not available to us in the spring of 2020 due to the unprecedented nature of the pandemic we experienced.

#### UK Government Structures

20. Decisions on NPIs were taken by the Prime Minister, very often in meetings with other ministers. The precise form and structure and cast lists of those meetings changed over time, but the Chancellor was present for a large proportion of them.
21. The main route for ensuring that economic considerations were fed into decision-taking was through the Chancellor. The Treasury ensured that he was fully briefed.



The Chancellor decided on his position and then argued his case with the Prime Minister and others, in both formal and informal meetings. He was in very frequent contact with the Prime Minister throughout this period.

22. The Cabinet Office played its usual role in preparing papers to advise the Prime Minister and to support collective ministerial decision-taking. The Treasury provided economic material for that exercise. In the spring of 2020, I recall that at the request of the Cabinet Office, the Treasury seconded a senior civil servant, Yasmine Moezinia, to the Cabinet Office to improve communication and to help ensure that the economic angles of the advice were correctly covered. The Cabinet Office felt this would strengthen their economic capability and the Treasury agreed. This was very helpful in the early stages of the pandemic. There was extensive contact between the Treasury and the Cabinet Office and Treasury officials routinely attended meetings where economic issues were considered and contributed to and commented on papers which covered economic considerations.
23. The main challenge in working with the Cabinet Office was the speed at which events developed. Particularly in the early stages of the pandemic the urgency of the issues and the understandable demands from No 10 for immediate advice made it very challenging to follow the normal procedures for drafting and agreeing papers on complex issues where expertise was spread across departments. In these circumstances the secondment of a senior Treasury official to the Cabinet Office team was very helpful. In the later stages of the pandemic, as the pace of events eased somewhat, it became easier to revert to standard procedures for agreeing advice, and this was also helped by the creation of the Cabinet Office Covid-19 Taskforce, with effective leadership, more adequate staffing and a clearer structure, and a number of individuals with significant previous experience of economic analysis and economic policy.
24. The central point, though, is that the main route for ensuring economic considerations were properly taken into account was the presence of the Chancellor in discussions with the Prime Minister, and his involvement in the key decisions.

### Communications

25. During the pandemic my role was to run the department. The Treasury was of course actively and constantly involved in discussions with No 10 and others on the government response. This work was led by the senior officials with relevant responsibilities and was not something that typically engaged me personally. My work was very largely internal to the Treasury. Although most of my communication with Treasury colleagues was face-to-face, by screen or by email, I did use SMS and (occasionally) WhatsApp to communicate with colleagues. These messages were invariably informal and typically either conversational or logistical in nature (for example arranging a time to speak or checking if somebody was attending a particular meeting). I was not a member of any WhatsApp groups where discussions took place that were key to Government decision-making on the Covid-19 response or relevant to the Covid-19 response. The only minister who ever contacted me by SMS or WhatsApp was the Chancellor. To the best of my memory that would have been two or three times over this whole period, and in each case a logistical message to arrange a time to speak. I did not use any personal device to conduct any government business.

### Lessons Learned

26. In what follows I restrict myself to my areas of responsibility, in particular the quality of advice provided by the Treasury and its ability to function effectively as a department despite the challenging circumstances.
27. In my view the Treasury did a good job in difficult circumstances. Like many other organisations we quickly developed working procedures which allowed the department to continue to operate effectively while people worked remotely during the lockdown, and we quickly reallocated staff and reprioritised work to focus on the key issues. The economic analysis provided to ministers was of good quality. For the reasons discussed above the results were inevitably approximate and subject to wide margins of uncertainty, but experience over time showed that the judgements underpinning the analysis were sound.

28. In preparing for a future pandemic or other major civil contingency, the Treasury will need to ensure that its knowledge management systems allow it to retrieve very quickly the extensive analytical material prepared in 2020-22. This will be invaluable in the event that the department needs to advise on anything similar in the future. The Cabinet Office should ensure that its emergency response structures are robust to the pressure they will be subject to. My sense is that the Civil Contingencies Secretariat had good and robust plans for dealing with an emergency within the familiar parameters of previous experience; but that an unprecedented and all-encompassing crisis at a national level, which required the constant personal attention of the Prime Minister and the Cabinet, posed a challenge on an entirely different scale.

#### 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: 23 August 2023