IN THE MATTER OF THE UK COVID-19 INQUIRY

MODULE 2: WRITTEN CLOSING SUBMISSIONS
ON BEHALF OF HIS MAJESTY'S TREASURY

A. Introduction

1. These written closing submissions in respect of Module 2 of the Inquiry's work are submitted on behalf of His Majesty's Treasury ("HM Treasury"), following the conclusion of the oral hearings on 14 December 2023.

2. Module 2 concerns the United Kingdom's core political and administrative decision-making in relation to the Covid-19 pandemic between early January 2020 and February 2022, when the remaining Covid restrictions in England were lifted. The purpose of these written submissions is, first, to explain, in the context of the matters under consideration in Module 2, the roles and responsibilities of HM Treasury and the Chancellor of the Exchequer and, secondly, to address issues explored during the Module 2 oral evidence which pertain to the work of HM Treasury.

B. Summary of assistance provided to the Inquiry by HM Treasury in Module 2

3. For the purposes of Module 2, HM Treasury has continued to assist the Inquiry through disclosure of relevant material and the provision of comprehensive witness evidence. Considerable resources have been made available for these tasks.

4. In addition to disclosing a significant number of relevant documents to the Inquiry, HM Treasury has supplied two detailed corporate witness statements. The first corporate witness statement[1], from Dan York-Smith, covers HM Treasury's role in relation to the UK response to the pandemic between January 2020 and November 2020. Dan York-Smith is presently HM Treasury's Director General for Tax and Welfare. During the Covid-19 pandemic, he was Director of HM Treasury's Strategy, Planning and Budget Group. The second corporate witness statement[2], from Kate Joseph, covers HM Treasury's role

[1] INQ000215049
[2] INQ000215607

between November 2020 and February 2022. Kate Joseph is presently a Director in HM Treasury's International Group. Between November 2020 and February 2022, she was the Director of HM Treasury's Covid Response Team, co-ordinating HM Treasury's work on Covid. Also, Sam Beckett, HM Treasury Chief Economic Adviser and Second Permanent Secretary since May 2023, has provided a detailed witness statement[3] which specifically focuses on HM Treasury's approach to economic analysis and modelling during the Covid-19 pandemic.

5. HM Treasury has also facilitated, for the purposes of Module 2, the production of witness statements (and associated documentary exhibits) from the following former HM Treasury officials:
    a. Clare Lombardelli, HM Treasury Chief Economic Adviser from 2018 to 2023[4]. This statement also focuses on HM Treasury's approach to economic analysis and modelling during the pandemic; and
    b. Sir Tom Scholar, HM Treasury Permanent Secretary from 2016 to 2022[5]. This statement provides an overview of HM Treasury's role and how HM Treasury operated during the pandemic.

6. In addition, HM Treasury has also worked with and supported the current Prime Minister, Rishi Sunak, who was Chief Secretary to the Treasury from 24 July 2019 to 13 February 2020 and Chancellor of the Exchequer from 13 February 2020 to 5 July 2022, to facilitate the Inquiry receiving detailed written[6] and oral evidence from Mr Sunak for the purposes of Module 2.

7. In respect of the detailed witness statements provided by current and former HM Treasury officials (which run to several hundred pages in total and exhibit many hundreds of documents), only Clare Lombardelli has given oral evidence to the Inquiry (for part of the morning on 6 November 2023). It follows therefore that the vast majority of the evidence submitted by HM Treasury is contained only in written materials supplied to the Inquiry, which have not been challenged directly or indirectly.

8. At the conclusion of the oral hearings In Module 2, the Chair properly stressed that whilst the oral evidence is an important part of the evidential picture, the Inquiry will have regard to all the evidence which has been submitted to it. HM Treasury is grateful for that

[3] INQ000272143
[4] INQ000251931
[5] INQ000251932
[6] INQ000263374

assurance on behalf of the Inquiry. HM Treasury would invite anyone who wishes to understand the role and responsibilities of HM Treasury and the Chancellor of the Exchequer in relation to the issues under consideration in Module 2 to have regard to the full range of written evidence submitted to the Inquiry by HM Treasury and the Chancellor of the Exchequer, summarised above. There has been much focus in the Module 2 oral hearings on the approach to decision-making and culture within No. 10 Downing Street during the pandemic. This has involved particular focus on the inter-personal relationships, including informal communications, between well-known individuals. However, it is important, HM Treasury respectfully submits, that the public understands that the core decision-making under scrutiny by the Inquiry in Module 2 was underpinned by a vast amount of difficult, hard work carried out at pace by a very large number of diligent, conscientious, hard-working individuals operating in the most challenging and novel circumstances. That is what is reflected, and plainly established so far as HM Treasury is concerned, in the detailed witness statements and documents supplied to the Inquiry on behalf of HM Treasury.

C. <u>The roles of HM Treasury and the Chancellor in overview</u>

9. For the purposes of Module 2, when considering HM Treasury's role in central government's core political and administrative decision-making in relation to the pandemic, it is necessary to understand and properly have regard to HM Treasury's role and responsibilities during that period (January 2020 to February 2022).

10. In summary, HM Treasury is the Government's economic and finance ministry, responsible for maintaining sound public finances, delivering sustainable economic growth and maintaining macro-economic and financial stability. The Chancellor is the Government's chief financial Minister and has overall responsibility for HM Treasury and for economic and fiscal policy, and the financial services sector. The Chancellor is involved in collective Cabinet-level decision-making, with a focus, as Mr Sunak explained during his oral evidence, on representing economic and fiscal considerations in the decision-making process.

11. As with all policy, HM Treasury officials' role is to advise ministers, who take decisions on behalf of the department. Such advice, in accordance with the civil service code, is impartial, honest and objective. Throughout the pandemic, HM Treasury officials worked to inform and advise the Chancellor and departmental ministers in order to respond to ministerial requests for briefing, analysis and advice as necessary and, overall, to

support Cabinet-level decision-making. HM Treasury officials used the information shared at scientific committees, including in readouts from HM Treasury officials who observed these meetings, to inform this briefing and advice and to inform internal policy development.

12. The positions taken by HM Treasury officials, for example when engaging in cross-departmental negotiations, are determined by ministers, in light of the analysis and advice they receive. This remained the position during the pandemic.

13. The Chancellor's ministerial responsibility during this period, supported by HM Treasury, was to provide economic and fiscal evidence, analysis and advice in relation to decisions and interventions (in the context of the pandemic) that would impact those areas for which HM Treasury was responsible. This was considered by the Prime Minister and by Cabinet, where appropriate, together with all other relevant evidence such as the minutes and reports produced by the Scientific Advisory Group for Emergencies ("SAGE").

14. As the Inquiry has heard, during the pandemic ministers would put forward the key considerations relevant to their individual departments and it was necessary, as has been explained, for the Prime Minister then to balance those interests in order to reach a decision as to how to proceed. Arguments would be tested and challenged, and alternative options explored. In that process, the Chancellor had a specific responsibility of tailoring economic advice, policy and decision-making to the context of an international pandemic. That responsibility, in the context of HM Treasury's and the Chancellor's broader roles and responsibilities, necessarily required HM Treasury and the Chancellor to ensure that the often grave economic consequences of the policy decisions under consideration were properly factored into decision-making. This is especially because economic consequences are not academic or theoretical concepts; they carry with them far-reaching and potentially damaging socio-economic implications which have real impacts on people's lives.

D. The roles of HM Treasury and the Chancellor in HMG's core pandemic decision-making

Overview of HM Treasury's focus during the pandemic

15. Prior to the Prime Minister's announcement, on 16 March 2020, of the first social distancing measures, HM Treasury ministers and officials contributed to cross-government decision-making through analysis of the possible economic impacts, and in particular the potential impact on the UK economy, of the proposed measures. This analysis was focused on the ability of people and the economy to keep providing the goods and services which the population needs, the ability of businesses to stay open and for people to do their jobs and continue to receive an income. It is important to recognise that this was a novel situation with the pandemic developing very rapidly, there was limited data, and there were a large number of variables. Nevertheless, HM Treasury was quick to respond. Indeed, the Spring 2020 budget, announced on 11 March 2020 – so before the 16 March announcement - included a £12 billion plan to provide support for public services, individuals and businesses whose finances were affected by Covid-19 (which included extending statutory sick pay ("SSP") for those advised to self-isolate and those caring for others required to self-isolate and support through the welfare system for those who could not claim SSP). This was an extensive package that responded to the pandemic as it was understood at that point in time.

16. Subsequently, from March 2020 onwards when restrictions were in place, much of HM Treasury's focus was on the design, financing and implementation of economic support measures. The Government's business and financial responses to the pandemic are to be the subject of a future module. However, in high-level summary, those measures supported the public health strategy by mitigating the economic impact of the virus, and the measures necessary to control it, on jobs, incomes, businesses and the UK economy. Without these economic interventions, which were unprecedented in scale and speed of introduction, it would have been very difficult for individuals to adhere to the conditions of the lockdown without serious risk to their livelihoods. Over the next weeks and months, HM Treasury introduced more economic support, as the impact of the virus and the restrictions on firms and people became more apparent, and continued to tailor the measures so as to support the non-pharmaceutical interventions ("NPIs") and respond to the path of the virus as they evolved. After the re-opening of the hospitality, leisure, personal care and accommodation sectors on 4 July 2020, HM Treasury officials prioritised work that sought to minimise potential longer-term economic and fiscal impacts from the lockdown, including developing policies for the Chancellor's Plan for Jobs which was announced on 8 July 2020. This strategic focus included working closely

with the Covid-19 Taskforce, which had been established by the Cabinet Office by early June 2020, the Joint Biosecurity Centre and others on operationalising regional restrictions, as well as contingency planning for a potential second wave and developing policy on international border restrictions. HM Treasury was also heavily involved in the development of key policy at that time, contributing analysis on the economic impact of different options; for example, in 2020, the move from 2 metres to 1 metre plus, the focus on developing 'smarter NPIs' which were intended to avoid the need for restrictions on the scale that had been necessary in Spring 2020 and on Test, Trace, Contain and Enable.

17. From late 2020 onwards, and in particular during and following the third national lockdown in early 2021, pharmaceutical interventions (for example, testing and of course vaccines) were increasingly deployed to manage the virus. This gradually reduced the need for NPIs to be used to manage the virus – a gradual but significant shift in the way in which the Government collectively managed the response.

18. These developments were reflected in HM Treasury's work: through 2021, there was a move away from economically restrictive NPIs and more focus, in conjunction with the Cabinet Office's Covid-19 Taskforce and relevant medical and scientific advisors, on management through vaccines, testing and therapeutics. Nevertheless, some NPIs were still required and so during that period HM Treasury sought to ensure that, as the economic and epidemiological understanding of NPIs improved, NPIs were used as effectively as possible. This included, for example, HM Treasury's input into the shape of the 2021 Roadmap, the 2021 Social Distancing Review, and January 2022 travel review.

19. In this context, HM Treasury rejects, in the strongest terms possible, the unfair and irresponsible characterisation of its work as being "pro-death"[7]. Whilst some have suggested that supporting the economy and protecting lives were competing objectives during the response to the pandemic, HM Treasury did not share that view. Throughout the pandemic response, HM Treasury was clear that the best way to support the economy was to control the virus.

Overview of HM Treasury's contribution to cross-Government decision making

[7] INQ000273901_0373

20. In summary, using a broad range of data and analytical techniques, as well as engagement with and challenge from external experts, during the pandemic HM Treasury officials provided advice on:
    a. The economic support measures required to soften the impacts of the virus and NPIs on households and businesses;
    b. How the pandemic and proposed NPIs were affecting, and how any changes might affect, the economy;
    c. How economic activity might affect the progress of the virus;
    d. How Government support and wider policy responses might offset these impacts (or create unintended consequences);
    e. The relationship between the epidemiological and economic outlooks – noting that controlling the virus was essential to a healthy economy; and
    f. How the Government's response, including on NPIs, compared to other countries' responses.

21. HM Treasury worked closely and constructively with other parts of Government, in particular Number 10, the Cabinet Office and DHSC, throughout the pandemic. Given the unprecedented economic impacts of the pandemic, HM Treasury seconded at least 10 policy and economist officials to the Cabinet Office (including 4 senior civil servants) to provide further expertise in integrating economic inputs into decision making and to provide additional strategic capability. HM Treasury and the Cabinet Office jointly ran the Prime Minister's weekly economy update meetings, to provide senior ministers and wider government with a clear picture of how the economy was being affected by the virus. The Chancellor was a member of Covid (O) and Covid (S) from late May 2020 when they were established. Also, the Chancellor was a member of smaller ministerial groups within Cabinet such as the Quad, typically comprised of the Prime Minister, Chancellor, Chancellor of the Duchy of Lancaster and Secretary of State for Health and Social Care, and the Covid-19 Economic and Business Response Implementation Group (also referred to as the "E-MIG") which the Chancellor chaired. HM Treasury officials had regular meetings with Cabinet Office counterparts (anything from weekly to daily depending on the issues under consideration) and regularly met with officials from other departments. HM Treasury officials attended SAGE in an observer capacity from March 2020, as noted in the published minutes and at the invitation of the Chief Scientific Adviser. HM Treasury officials sent readouts of these meetings to relevant colleagues at HM Treasury, including members of the Chancellor's private office. HM Treasury also routinely attended the Joint Biosecurity Centre ("JBC") Gold meetings and, from

December 2020 onwards, attended the Prime Minister's meetings on Vaccine Deployment.

22. HM Treasury also actively participated in cross-government initiatives to strengthen decision-making structures and processes as the response to the pandemic evolved (for example with the establishment of the Covid-19 Taskforce). Any generalised suggestion that HM Treasury was aloof, removed from the core decision making structures or reluctant to accept external advice or input is wrong.

Data analysis and modelling

23. To inform Ministers in HM Treasury and the centre of Government on the impact of the virus on the economy and to assist those responsible for the core decision-making under consideration in Module 2, HM Treasury produced a wide range of economic analysis and utilised a broad suite of analytical techniques and models. These issues are canvassed at considerable length and in minute detail in the witness statements produced by and facilitated by HM Treasury. In short, throughout the Covid-19 pandemic, HM Treasury utilised a wide range of economic data and analytical techniques to inform its understanding of the impact of the pandemic and to support the development and calibration of NPIs. It is however important to stress that in all economic analysis conducted during the pandemic, whether by HM Treasury, elsewhere in Government or externally, there was an extraordinarily high degree of uncertainty. Historical precedent to draw on to assess the economic impacts of NPIs was limited, with the impacts themselves changing over time and dependent on the path of the virus (which itself was being learnt about and was changing over time). This uncertainty was consistently reflected in advice to ministers. Given this high level of uncertainty, HM Treasury used an extensive range of analytical approaches and data sources to try to understand the economic impact of the virus and the NPIs, and these approaches evolved over time as more information became available.

24. Before the pandemic, HM Treasury had a comprehensive data monitoring, briefing and analysis function. During the pandemic, HM Treasury's analysis brought together different types of economic information to understand the economic impacts of the virus, restrictions and economic support policies. This included analysis of data and evidence of both what was happening in the UK and in other countries and included official statistics as well as faster and more novel indicators. Traditional economic data was supplemented with additional data sources that provided a more rapid and real-time

picture of economic activity and which had not previously been used to consider economic impacts, such as transport data from the Department for Transport and education data from the Department for Education to understand levels of mobility across the UK and school attendance/absences. HM Treasury also obtained data from travel and hospitality applications such as Google Maps, Citymapper and Open Table, as well as anonymised credit card usage data.

25. HM Treasury also worked closely with other organisations such as the Office for National Statistics ("ONS"), the Office for Budget Responsibility ("OBR"), the Bank of England and other bodies to inform senior decision-makers on the impact of the pandemic. For example, ONS surveys rapidly conducted during the pandemic were factored into HM Treasury analysis and briefings to decision makers.

26. Data analysis and modelling were highly inter-dependent throughout the pandemic. Modelling was used to understand and interpret the data and to help identify which data would be most useful; data provided inputs and calibration to the modelling. HM Treasury drew on its own internal economic modelling and also used that of other public sector bodies, international institutions (for example the International Monetary Fund and the OECD) and academic modellers. These techniques and models included, by way of example, a labour supply model used early in the pandemic to anticipate the potential impact of the virus and a national lockdown. That labour supply model was subsequently developed to assist in understanding the impact of school closures on the wider economy as a result of the impact on parents' ability to work. A further example of such techniques and models used during the pandemic was a 'Nowcasting' framework used to estimate macroeconomic variables such as the overall level of economic activity or inflation. HM Treasury put substantial effort into adapting and continually refining its modelling techniques given the exceptionally high levels of uncertainty around the virus and its economic impact. However, that uncertainty meant it was not possible to rely exclusively on economic models and HM Treasury's approach therefore sought to include assessment of all available data and evidence.

27. In addition to its more standard economic tools, HM Treasury explored novel techniques to analyse the unprecedented policy choices faced by ministers. The increasing data available as the pandemic progressed enabled HM Treasury to develop a range of modelling and scenario-based approaches. HM Treasury developed its own 'epi-macro' analytical capabilities, seeking to combine epidemiological and economic relationships to estimate how characteristics of the virus and control policies affected both transmission

and economic activity. However, as Clare Lombardelli explained in her oral evidence, and as set out in HM Treasury's corporate evidence (see paragraph 62 of Mr York-Smith's statement), the sensitivity of those techniques to underlying assumptions meant that it was difficult to use them to address specific questions although they were useful in informing the general approach to be taken to deploying NPIs.

28. HM Treasury also contributed its analysis to significant cross-Government work: examples include the Review of the Two Metre Social Distancing Guidance which reported in June 2020, the 2021 Roadmap, the 2021 Social Distancing Review and the January 2022 travel review.

External input

29. Throughout the pandemic, HM Treasury and the Chancellor had regular contact with a wide range of external economic experts so as best to inform HM Treasury's work.

30. The Chancellor had regular contact with the Governor of the Bank of England and the Chair of the OBR and spoke to a range of external economists from academic and financial market institutions. He also regularly spoke to Finance Ministers from around the world.

31. In developing its analytical tools, HM Treasury engaged with leading academics and external bodies such as research institutes, think tanks and business groups. HM Treasury undertook a formal engagement process between the Government Economic Service and the Royal Economic Society to bring together leading economic expertise on particular issues of most relevance to understanding and advising on pandemic impacts and support scheme design. The Royal Economic Society helped identify the most suitable academics on each issue and arrange expert panel sessions. This included discussions with the Institute for Fiscal Studies on the inequality impacts of Covid-19 (5 May 2020), covering age, income and ethnic disparities. The topics addressed also included the implications for future healthcare provision (9 April 2020), restarting the economy (28 April 2020), sectoral re-opening (3 June 2020) and epi-macro strategy (21 July 2020). HM Treasury also drew on a wide range of academic literature, on occasion being provided with access before publication.

Sharing of data and analysis

32. Given the response to Covid-19 was a cross-Government effort, HM Treasury shared its analysis and developed economic understanding across Whitehall as appropriate, such as with the Covid-19 Taskforce following its inception. There was wide engagement with other departments to access expertise and to make best use of data. Regard was always had to the scientific advice when formulating policy, although it was understandably not always settled, as was the case with regard to the Omicron variant, as Mr Sunak explains in his witness statement (see paragraphs 502 – 540).

33. Throughout the pandemic, HM Treasury officials produced data packs to inform ministers of the impact of the pandemic and the actions taken in response[8]. How this data was presented (such as the format and frequency) changed as the pandemic evolved and NPIs changed. For example, as the virus first emerged in China, monitoring was focused on how the concern around the virus was affecting market and confidence indicators. As the virus took hold in Europe and the UK (with NPIs subsequently introduced), a broader range of data was available with which to gauge the impacts on the economy.

34. Alongside the provision of monitoring for internal consumption, HM Treasury shared its data across Whitehall and supported other departments from the start of the pandemic in their understanding of economic data. HM Treasury developed cross-Whitehall assessments for ministers of the economic impacts of the virus, restrictions and policy responses with No.10, the Cabinet Office and economic departments (such as the then-Department for Business, Energy and Industrial Strategy "BEIS" and the then Department for Digital, Culture, Media and Sport "DCMS"). Beginning in early April 2020, Charles Roxburgh — the then Second Permanent Secretary at HM Treasury — chaired a regular cross-government meeting of Permanent Secretaries and Directors-General from economic departments. HM Treasury officials worked closely with the Cabinet Office to support their synthesis of relevant advice and analysis. Ultimately, it was the responsibility of the Cabinet Office to synthesise HM Treasury's economic advice, SAGE scientific advice and other advice concerning social impacts relating to Covid-19 so as to permit informed decision-making.

35. HM Treasury's focus during the pandemic was on undertaking comprehensive economic analysis that best informed decision-making in the fast-changing circumstances. It is the OBR's responsibility to publish independent economic forecasts; indeed, the OBR was established pursuant to the Budget Responsibility and National Audit Act 2011 when the

[8] By way of example, see INQ000184619 and INQ000184609

Government decided to transfer responsibility for preparing official economic forecasts to an independent body. HM Treasury analysis was published during the pandemic but HM Treasury did not produce academic-style papers to be discussed at structured meetings in the way SAGE did, for the purposes of publication.

E. Economic SAGE: an alternative?

36. During the Module 2 hearings, the issue was raised as to whether core decision-making would have been assisted by having in place an economic equivalent of SAGE. HM Treasury welcomes an open debate as to how to improve the way it operates, particularly in a crisis. Any decision to set up an economic equivalent of SAGE would be for ministers. As far as HM Treasury is aware, this idea was never formally proposed to HM Treasury. However, notwithstanding these points, HM Treasury has substantive reservations about the headline suggestion that an economic equivalent of SAGE should be established, essentially for the same reasons Mr Sunak gave in his oral evidence.

37. First, HM Treasury already performs this function. HM Treasury has the expertise to provide expert economic advice to assist Government decision-making. HM Treasury already brings together statistics, forecasts, modelling and analysis by the ONS, OBR and Bank of England –independent institutions which in turn engage with the wider economic community. HM Treasury had, and utilised, ready access to expertise in these institutions throughout the pandemic. HM Treasury also engages with other expert bodies, including the Royal Economic Society and academics, when beneficial to do so. The principal issue faced by HM Treasury during the pandemic was not a lack of expertise but rather the huge and unprecedented uncertainty which attached to any analysis. As Sir Tom Scholar states in paragraph 11 of his witness statement, HM Treasury was acutely aware of the analytical challenge presented by the pandemic and discussed the issues widely with the analytic community both inside and outside Government, to draw on as wide a range of expertise and opinion as possible. This was especially the case in the early stages of the pandemic when relevant data was very limited indeed.

38. Secondly, whilst HM Treasury recognises that there is a legitimate debate to be had about how much economic analysis HM Treasury can or should publish (which will ultimately be a decision for the Chancellor), the sensitivities around HM Treasury data and projections limit the extent to which they can be freely shared. This was

acknowledged during the course of the Module 2 hearings. Publishing downside risks to the economy could have been self-fulfilling by creating instability in financial markets and having the effect of reducing jobs and investment. HM Treasury is open to considering recommendations as to how to improve the way it operates during a crisis. However, a desire to see more economic data or analysis published during a crisis, or a desire to see economic data or analysis presented in a different way, are not of themselves good reasons to create a new or distinct organisation.

39. HM Treasury does consider, with hindsight, that it could have benefited from a more systematic approach to external engagement. Indeed, the Economic Advisory Council, established by the Chancellor and in place between October 2022 and November 2023 to advise the Government in an independent capacity on UK and international economies and financial markets, is an example of a more systematic approach to external engagement being applied where beneficial.

F. <u>**Core decision-making regarding economic policy during the pandemic**</u>

40. The Government's specific business and financial responses to the pandemic is a substantial topic and will be the subject of detailed consideration in a future module. An unprecedented and comprehensive set of policies and schemes was devised by HM Treasury during the course of the pandemic to protect individuals, businesses and the UK economy at large: the Coronavirus Job Retention Scheme ("CJRS" – also known as the 'furlough' scheme), the Self-Employment Income Support Scheme ("SEISS"), the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Bounce Back Loan Scheme ("BBLS"), business rates relief, business grants, increases in Universal Credit, tax deferrals, VAT cuts and protection from eviction schemes are some examples.

Eat Out to Help Out

41. During the Module 2 oral hearings, the Inquiry placed particular focus on the Eat Out to Help Out ("EOTHO") scheme (albeit that scheme represents only a comparatively small part of the work HM Treasury undertook to seek to support the economy during the pandemic). The EOTHO scheme is addressed in detail in the corporate witness statements from HM Treasury officials (see in particular Annex A to Mr York-Smith's witness statement) and the witness statement from Mr Sunak, as well as in Mr Sunak's oral evidence on this subject. However, given EOTHO has been referred to on a number

of occasions during Module 2, often without the appropriate context, HM Treasury does wish to highlight the following points in relation to it:

a. Following the first lockdown, HM Treasury was extremely concerned about the potential for widespread unemployment in the absence of a recovery in consumption. Consumption is the largest component of GDP in the UK economy and vital to the performance of the macroeconomy. The impact of Covid-19 on different types of consumer spending was markedly different. However, the largest falls were seen in respect of (i) restaurants and fast food and (ii) travel, with spending down 71% and 88% respectively. The hospitality and leisure sectors in particular are very employment intensive with employees tending to be younger, on lower incomes and extremely vulnerable to unemployment. As a result of the first 2020 lockdown, the viability of many such businesses was threatened and 75% were not trading by June 2020. There was of course no working from home option available in that sector; 83% of workers in that sector had been furloughed by June 2020. In addition to the risk that hundreds of thousands of people vulnerable to unemployment might become unemployed, the closing of such businesses would also have resulted in impacts on creditors, contributing to further economic disruption.

b. On 10 May 2020, the Prime Minister announced the timetable for the easing of NPIs imposed in England. Under that roadmap, which was the subject of detailed scientific and public health advice, pubs and restaurants were to reopen on 4 July 2020. It was in that context that HM Treasury focused significantly on how best, within that framework of safe opening, to support the economy and stimulate consumption, including by reference to international comparisons. A huge amount of HM Treasury work went into analysing how to stimulate consumption and the development of the EOTHO scheme was intended to achieve that.

c. The formulation of the EOTHO policy incorporated a detailed public sector equalities duty assessment. This is contained in Annex A[9] to the HM Treasury submission to the Chancellor dated 30 June 2020, which concerned the design of the policy. The purposes of this public sector equalities duty assessment were to ensure due regard was had to the need to eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, to advance equality of opportunity between people who share a protected

[9] INQ000088079_0008 to INQ000088079_0011

characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not. This assessment expressly considered the impact of this policy on disabled people, people who had been shielding, other groups with higher risk of Covid-19 infection, severe symptoms and death (including Black and Asian ethnic groups) and those with children or other caring responsibilities. Whilst recognising that the scheme may be disproportionately under-used by such people, the assessment noted that employees in this sector are disproportionately young, female, part-time workers, in the bottom half of incomes. It was also noted that this was a time-limited offer with open access and no minimum spend criteria, which was intended to encourage a return to eating out and attending hospitality settings in person. The specificity and time-limited nature of the measure made this policy a weak vehicle for addressing the wider inequalities issues highlighted in the assessment. Having considered these issues carefully, including whether the inclusion of takeaways in the policy would mitigate some of the access issues faced by different groups with protected characteristics, HM Treasury's advice to the Chancellor was that he did not need to alter the scheme significantly or decide not to go ahead on the basis of these equalities considerations.

d. On 8 July 2020, the Chancellor announced the 'Plan for Jobs' economic aid package. That package was developed in consultation with the Prime Minister before being presented to the Cabinet by the Chancellor; that briefing included the EOTHO scheme specifically. The purpose of the package was to provide targeted, temporary support to employment as the country sought to recover from the initial lockdown and to minimise structural damage to the economy and public finances. The Plan for Jobs emphasised the importance of the work that had been done to support businesses to reopen safely (such as in connection with cleaning, social distancing (which meant reduced customer numbers) and recording customers and visitors for the purposes of contact tracing). Regarding how businesses could reopen in a Covid-secure way that reduced the risk of transmission of the virus, BEIS engaged more than 450 employers, business representative organisations and trade unions. Also, DCMS, the Ministry of Housing Communities and Local Government and the Department for Transport all had significant engagement with their sectors. Mr Sunak described in his oral evidence the very detailed sector-specific guidance that related to hospitality reopening.

e. It was in that context, namely the assessment by broader Government, having received scientific advice, that NPIs could be eased safely, that the EOTHO policy was formulated. EOTHO was a scheme (as with all policy measures at that time) designed to operate within the boundaries of what was deemed safe at that time. HM Treasury did not set the Covid-secure guidelines for hospitality businesses to operate safely; it designed economic policy that could be implemented within the parameters of that guidance.

f. Within this economic support package, EOTHO was in fact a relatively small, if novel and eye-catching, measure. It ran for only 13 days in total (Mondays, Tuesdays and Wednesdays between 3 August and 31 August 2020) at an estimated cost of £500 million. It was intended to complement the introduction of a temporary reduced rate of VAT for hospitality, accommodation and attractions at an estimated cost of £4.1 billion. The overall estimate of fiscal support provided via this package was up to £30 billion. By way of context, the Government provided up to £400 billion of support during the course of the pandemic.

g. During the Module 2 oral evidence hearings, the Inquiry has explored with a number of witnesses (principally scientists) what they knew of the EOTHO policy before its implementation and adduced oral evidence from them that their reaction would have been one of concern, regarding increased risk of transmission, if they had been consulted on the detail of the policy. However, that is to overlook that this was a policy which operated within the Covid-secure guidance in place at the relevant time, which had been developed in conjunction with the Government's scientific advisors. In any event, it appears that, as Mr Sunak explained in his oral evidence, concerns were not raised with him between the announcement of the scheme on 8 July 2020 and its commencement on 3 August 2020.

h. During the Module 2 oral hearings, the Inquiry did not seek to adduce any evidence of what subsequent analysis has in fact concluded on the issue of whether EOTHO increased numbers of cases of the virus. As the Inquiry knows from evidence already submitted, following the end of the EOTHO scheme, HMRC (who administered the scheme) examined available data to try to ascertain whether any relationship existed between the use of the EOTHO scheme and increased cases of Covid-19. The headline finding in that report[10], dated 9 December 2020 and provided to HM Treasury on 15 December 2020, was that there is "*little evidence to support the claim that EOTHO scheme directly led to an increase in Covid-19 cases, on a UK-wide level*. *Generally, correlations are either weak or not statistically-significant.*" What the analysis revealed was that there were local authorities with very high take up of the EOTHO scheme with relatively low levels of new cases of Covid-19 in September and October 2020, as well as local authorities with relatively high levels of new cases of Covid-19 in September and October 2020 and low take up of the EOTHO scheme. Further analysis conducted by HMRC in December 2020 and January 2021 reached a similar conclusion. The approach to, and results of, this analysis is set out in more detail in paragraphs 35 to 57 of the witness statement[11] of Eileen Patching on behalf of HMRC, dated 12 September 2023. HM Treasury invites the Inquiry to have regard to those findings, which were not considered by a single scientific witness, and were not referred to during closing submissions by any core participant other than HM Treasury.

i. Finally in relation to the EOTHO policy, the Inquiry explored with Mr Sunak whether concerns about rising cases informed the judgement not to extend the scheme. As set out in Mr Sunak's evidence, this was not the case, the policy was always designed to be short-term.

Self-isolation support payments

42. Another focus of questioning during the Module 2 oral hearings, on behalf of the non-state core participants in particular, was the adequacy of the financial support provided to those, particularly on lower incomes, who were required to self-isolate. HM Treasury anticipates that the sufficiency of the Government's financial provision in this regard will be considered in detail in the future module which will consider the Government's business and financial responses to the pandemic.

43. However, as Mr Sunak explained during his oral evidence in response to questions from non-state core participants, proper regard was had to the need to support those required to self-isolate and significant steps were taken to do so at various stages during the pandemic. Paragraphs 348 to 372 of Mr Sunak's witness statement set out the major

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decisions taken regarding financial support for those self-isolating, noting that this is likely to be examined in detail in a future module.

44. Financial support for self-isolation was considered from an early stage of the pandemic, with major changes introduced to the existing Statutory Sick Pay ("SSP") system in March 2020 to improve the generosity of SSP at the outset of the pandemic in order to ensure support for individuals. The Government extended SSP eligibility to include all those advised to self-isolate due to Covid-19, even where they had not yet presented with symptoms. SSP was also changed such that it would be paid from the first day of sickness (rather than the fourth) to ensure individuals could claim SSP from their first day of Covid-related sickness absence. These amendments to SSP were just one part of an extensive range of measures intended to protect the workforce, including the CJRS, SEISS and the increases applied to Universal Credit within the context of the pre-existing welfare and employment rights system. For those who were ineligible for SSP, access to other benefits, such as Employment Support Allowance, was made quicker and easier. Also, a Hardship Fund of £500 million was established for local authorities to use to support vulnerable families at their discretion.

45. Following the first national lockdown and in response to the emerging public health strategy (and, in particular, the introduction of the Test and Trace system), the Government introduced bespoke support for self-isolation. On 27 August 2020, the Government announced a new payment for people self-isolating and unable to work from home in areas with high incidence of Covid-19. Shortly thereafter, the Test and Trace Support Payment ("TTSP") was launched on 20 September 2020, following agreement at a Covid-O meeting on 18 September 2020. This was a means tested scheme that provided eligible individuals with a flat payment of £500 for the 14 days of isolation, exempt from National Insurance contributions, in addition to any SSP or benefits received.

46. On 21 September 2020, HM Treasury approved an initial allocation of £40 million of funding, requested by the MHCLG for local authorities to administer the TTSP scheme. Additionally, on 28 September 2020, HM Treasury approved funding for a separate discretionary fund to be allocated for local authorities to administer "*hard cases*". This was estimated to provide support to approximately 30,000 individuals required to self-isolate, who would not be eligible for funds under the TTSP scheme, but where there was a compelling case that they should receive support.

47. The policy was approved and came into effect in England prior to 28 September 2020, when the legal requirement came into force requiring people to self-isolate if they tested positive for Covid-19 or were contacted by NHS Test and Trace.

48. As Mr Sunak explained in his oral evidence, and as set out in paragraphs 357 to 364 of his witness statement, the available evidence indicated that reluctance to self-isolate on the part of individuals was caused by a wide variety of different factors (for example loneliness or boredom, mild or improving symptoms or a desire to go shopping) and was not simply related to financial circumstances. Indeed, by early November 2020 there had been a relatively low take up of the scheme, with only about 20% of eligible people claiming the payment.

49. Nevertheless, the TTSP scheme was extended and expanded. Indeed, the TTSP and Covid-19 SSP regime were only withdrawn on 28 February 2022, when the Government removed the legal obligation to self-isolate. On 17 February 2021, HM Treasury agreed to extend the eligibility of the TTSP scheme to parents and guardians of school-age children, and to increase the discretionary funding available to local authorities to £20 million per month from March 2021 to the end of June 2021, to be funded from the £15 billion NHS Test and Trace envelope for the financial year 2021/22. It was also agreed to extend the eligibility of the TTSP scheme to include parents and guardians of children aged between 16 and 25 years old. These changes were published in online guidance on 22 March 2021.

50. It should also be noted that the TTSP scheme became more generous over time, as the required periods of self-isolation reduced. On 14 December 2020, the number of days for which contacts were required to self-isolate was reduced from 14 days to 10 days. On 22 December 2021, the self-isolation requirement was reduced to 7 days and on 17 January 2022 it was further reduced to 5 days. However, the flat payment of £500 remained the same, thereby increasing the pro rata daily amount.

G. Devolved Administrations

51. Many of the key economic interventions made during the pandemic, including the CJRS, SEISS, CBILS, BBLS and VAT cuts for businesses were UK-wide measures. As noted above, they are to be the subject of more detailed focus in a future module concerning the Government's business and financial responses to the pandemic.

52. During the pandemic, HM Treasury's main engagement with the Devolved Administrations was in relation to funding and that was led by the Chief Secretary to the Treasury through the Finance Ministers' Quadrilateral, as well as bilateral meetings with individual Finance Ministers from the Devolved Administrations. It has been, and remains, standard practice for the Chief Secretary to the Treasury to lead on engagement with the Devolved Administrations on behalf of HM Treasury, meeting with the relevant Finance Ministers. In normal times, the Finance Ministers' Quadrilateral typically met once or twice a year, in advance of key fiscal events, but at the start of the pandemic meetings were held every two or three weeks. Following the upfront funding guarantee announcement in July 2020 (addressed further below), meetings of the Finance Ministers' Quadrilateral were held approximately every three months but did take place more often when required.

53. In overview, whilst the UK Government provides most of the Devolved Administrations' funding, it generally has no role in deciding how that funding is allocated between Devolved Administrations' responsibilities (for example, health or education), nor in assessing or assuring value for money of the Devolved Administrations' spending. The amount of funding provided to the Devolved Administrations by the UK Government is mostly formula-based. Specifically, changes in funding provided to the Devolved Administrations are largely determined through the long-standing Barnett formula.

54. Under the Barnett formula, a population-based share of changes in UK Government departmental funding for areas that are devolved in Scotland, Wales and/or Northern Ireland are added to existing Devolved Administration funding. By way of example, additional funding for DHSC to spend in England automatically leads to additional funding for the Devolved Administrations through the Barnett formula. Barnett-based funding is adjusted for tax/welfare devolution (through agreed formulae) and there are a small number of non-Barnett uplifts (the main one being replacement EU funding for farmers). Alongside this, the Devolved Administrations have their own agreed tax and borrowing powers.

55. During the pandemic, funding for the Devolved Administrations was ultimately determined through the Barnett formula. However, the Devolved Administrations requested additional flexibility so as to permit them to make decisions without having to wait to receive their Barnett allocations and therefore to act more quickly. In response, in July 2020, the Government agreed to provide an unprecedented upfront funding guarantee for the fiscal year 2020/21, so as to provide the Devolved Administrations with increased funding certainty and enable them to spend additional funding without having

to wait for it to be spent in England first. The UK Government initially announced a guarantee of an additional £12.7 billion in funding for the Devolved Administrations on 24 July 2020, and this guarantee was subsequently increased three times in 2020 (to £14 billion on 9 October 2020, to £16 billion on 5 November 2020 and to £16.8 billion on 24 December 2020). By 8 January 2021, that additional upfront spending of £16.8 billion was divided as follows: £8.6 billion for Scotland, £5.2 billion for Wales and £3 billion for Northern Ireland.

56. In summary, HM Treasury worked to ensure the provision of unprecedented measures to assist the Devolved Administrations with their economic requirements in responding to the pandemic.

H. Lessons Learned

57. HM Treasury is keen to learn from its experience in the pandemic. HM Treasury continues to seek to improve its ways of working so as best to discharge its functions and ensure the stability of the macro-economic environment and financial system, including in the event of any future health or other major crisis. HM Treasury recognises that this will require HM Treasury to be open to challenge and ongoing debate.

58. Different crises will demand different policy responses but HM Treasury has already started to build on its experience during the pandemic to improve its ways of working. For example:

    a. HM Treasury has continued to develop its analytical capabilities. It has deepened its engagement with the ONS and the newly established Joint Data and Analysis Centre in the Cabinet Office, and continues to build its modelling capability supported by academic engagement. HM Treasury has also expanded its data science capabilities, establishing a data science team in 2022.
    b. HM Treasury has increased its analysis of economic risks, including establishing a new horizon scanning workstream within the Economic Risk Group to monitor and assess future risks to the economy more systematically. This work has included creating the Economics Group Risk Monitor which reflects risks in the National Risk Register and draws on the expertise of relevant teams across Government.

c. HM Treasury has sought to adopt a more systematic approach to its engagement with external advisors and continues to work to improve its engagement and information sharing with other government departments.

59. HM Treasury looks forward to considering any additional recommendations which the Inquiry makes that can improve HM Treasury's discharge of its function and responsibilities.

I. <u>Conclusion</u>

60. HM Treasury is grateful for the opportunity to assist the Inquiry in respect of Module 2 and wishes to conclude these written closing submissions by assuring the Inquiry of HM Treasury's assistance in its future modules and work.

Dated: 15 January 2024

His Majesty's Treasury