

## **IN THE MATTER OF THE UK COVID-19 INQUIRY**

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### **MODULE 9: WRITTEN OPENING SUBMISSIONS ON BEHALF OF HIS MAJESTY'S TREASURY**

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#### **A. Introduction**

1. These written opening submissions in respect of Module 9 of the Inquiry's work are submitted on behalf of His Majesty's Treasury ("HM Treasury").
2. Module 9 concerns the economic interventions made by the UK Government and the Devolved Administrations in response to the Covid-19 pandemic. In particular, this module will consider, and make recommendations in respect of, the initial economic response to the pandemic; the economic support for business, jobs, the self-employed, vulnerable people, and those on benefits; and the impact of key economic interventions. This module will also consider funding for the Devolved Administrations, Local Government and other relevant public services and voluntary and community sectors.
3. The Module 9 public hearings are to take place from 24 November 2025 to 18 December 2025. The Inquiry has already received a very large volume of detailed and complex written evidence in Module 9 and there are 40 witnesses scheduled to give oral evidence at the public hearings. The purpose of these opening submissions is (i) to summarise the roles and responsibilities of HM Treasury, the Chancellor of the Exchequer ("the Chancellor") and other HM Treasury ministers and officials, so as to assist the Inquiry and the public to put the evidence to be heard in Module 9 in its appropriate context; (ii) to explain the scale of the economic shock caused by the pandemic to which HM Treasury was required to respond, again to provide important context; and (iii) to provide an overview of HM Treasury's approach to the economic response to the pandemic and in particular the key objectives and priorities for HM Treasury. These introductory submissions are therefore intended to set the scene for Module 9 from HM Treasury's perspective. HM Treasury anticipates addressing the key issues and themes which emerge during the course of the Module 9 public hearings in HM Treasury's closing submissions.

## **B. An Overview of the HM Treasury Module 9 Evidence**

### *HM Treasury's corporate evidence for Module 9*

4. For the purposes of Module 9, HM Treasury has provided a corporate witness statement<sup>1</sup> (with associated exhibits), from Beth Russell. In the period with which the Inquiry is concerned, between 1 January 2020 and 28 June 2022, Ms Russell was the Director General of Tax and Welfare in HM Treasury. Ms Russell is presently HM Treasury's Second Permanent Secretary.
  
5. HM Treasury's corporate witness statement for Module 9 is a comprehensive, detailed and therefore lengthy document (563 pages not including exhibited documents). To assist the reader, the main statement is sub-divided into eight parts: (i) HM Treasury: People, Structures and Processes; (ii) Economic and Fiscal Context; (iii) Economic Policy Objectives; (iv) Data, Modelling and Analysis; (v) The Devolved Administrations; (vi) Inequalities, Impact Assessment and Vulnerable Groups; (vii) Long Covid; and (viii) Lessons Learnt on Economic Impacts and Economic Support.
  
6. As the Inquiry has acknowledged in its published List of Issues for Module 9, there were hundreds of economic support schemes across the United Kingdom and not all can be reviewed by the Inquiry in the time available. The Inquiry Legal Team has therefore identified certain 'key economic interventions' upon which it intends to focus. HM Treasury's corporate witness statement for Module 9 therefore also has ten annexes, each of which addresses a separate area of key economic intervention: (a) Coronavirus Job Retention Scheme ("CJRS"), also publicly referred to as 'furlough'; (b) Self-Employment Income Support Scheme ("SEISS"); (c) Loan guarantee schemes for businesses; (d) Covid Corporate Financing Facility ("CCFF"); (e) Business Rates Relief; (f) Grants to Businesses; (g) Statutory Sick Pay ("SSP") and the SSP Rebate Scheme; (h) Uplift to Universal Credit; (i) The Eat Out to Help Out ("EOTHO") Scheme and VAT Relief for Hospitality; and (j) Changes to the Insolvency Rules. Annex K contains further information regarding HM Treasury's structures and people.

### *Evidence from individuals and the need to have regard to all the written evidence*

7. In addition, HM Treasury has supported the Rt. Hon. Rishi Sunak MP, who was Chief Secretary to the Treasury from 24 July 2019 to 13 February 2020 and Chancellor from 13

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<sup>1</sup> INQ000661262

February 2020 to 5 July 2022, to enable the Inquiry to receive a detailed witness statement<sup>2</sup> (and associated documentary exhibits) from him for the purposes of Module 9.

8. HM Treasury has also facilitated, for the purposes of Module 9, the production of witness statements (and associated documentary exhibits) from the following former HM Treasury officials and advisers:

- a. Sir Tom Scholar KCB<sup>3</sup>, HM Treasury Permanent Secretary from 2016 to 2022.
- b. Sir Charles Roxburgh KCB<sup>4</sup>, HM Treasury Second Permanent Secretary from July 2016 to September 2022.
- c. Clare Lombardelli<sup>5</sup>, HM Treasury Chief Economic Adviser from 2018 to 2023.
- d. Kate Joseph<sup>6</sup>, Covid Response Director in HM Treasury from November 2020 to February 2022.
- e. Dan York-Smith<sup>7</sup>, Director of HM Treasury's Strategy, Planning and Budget Group during the pandemic and responsible for the co-ordination of HM Treasury's Covid-19 economic response between March and November 2020.
- f. Vanessa MacDougall<sup>8</sup>, Director of HM Treasury Economics Group in the period from January 2020 to October 2020 and Director of HM Treasury's Personal Tax, Welfare and Pensions Group from March 2022.
- g. James Benford<sup>9</sup>, Director of HM Treasury Economics Group in the period from November 2020 to February 2023.
- h. The Rt. Hon. Steve Barclay MP<sup>10</sup>, Chief Secretary to the HM Treasury from February 2020 to September 2021.
- i. The Rt. Hon. Sir Simon Clarke<sup>11</sup>, Chief Secretary to the HM Treasury from September 2021 to September 2022.
- j. Dr Tim Leunig<sup>12</sup>, Economic Adviser to the Chancellor during the pandemic.

9. Given the subject matter, the written evidence submitted to the Inquiry by HM Treasury and the other participants in Module 9 is extensive, detailed and complex. It is therefore inevitable, in the time available, that the oral evidence will only touch on some aspects of

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<sup>2</sup> INQ000661485

<sup>3</sup> INQ000657854

<sup>4</sup> INQ000659746

<sup>5</sup> INQ000657519

<sup>6</sup> INQ000657982

<sup>7</sup> INQ000588227/INQ000656294

<sup>8</sup> INQ000657748

<sup>9</sup> INQ000588207

<sup>10</sup> INQ000659744/INQ000659745

<sup>11</sup> INQ000587359

<sup>12</sup> INQ000588231

it. Mr Sunak is scheduled to give oral evidence for 1.5 days in Module 9. However, only five other HM Treasury witnesses (Sir Charles Roxburgh, the Rt. Hon. Steve Barclay MP, Dan York-Smith, James Benford and Dr Tim Leunig) have been asked to attend to give oral evidence. More than half a day is set aside for Sir Charles Roxburgh's oral evidence but the other four have been given half-session slots which are unlikely to be much longer than one hour. To put this in context, by way of example, Dr Leunig's witness statement (not including referenced material) is 246 pages long. In that context, HM Treasury remains grateful for the Chair's repeated assurance 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. This reassurance is likely of unique importance in Module 9 where the evidence before the Inquiry will ultimately be so heavily paper-based.

10. HM Treasury would therefore urge anyone who wishes fully to understand the actions of HM Treasury as well as the Chancellor and other ministers, in relation to the issues under consideration in Module 9, to have regard to the full range of written evidence submitted to the Inquiry by HM Treasury, HM Treasury officials and advisers, as well as the Chancellor and other ministers. This is summarised above so far as Module 9 is concerned. However, the evidence previously submitted to the Inquiry in Module 2 in particular<sup>13</sup>, but also in Modules 4, 5 and 7 is relevant to these issues.

*Key themes in the Module 9 evidence from HM Treasury*

11. There are three overarching aspects of this evidence, which HM Treasury wishes to emphasise at the outset:
  - a. Whilst HM Treasury had clear economic and fiscal responsibilities during the pandemic, the primary cross-government objective was to contain the virus and save lives. HM Treasury recognised that long-term economic stability and growth depended on controlling the virus, and that economic measures were necessary tools to support public health efforts and encourage compliance with health restrictions among individuals and businesses. HM Treasury, and the Chancellor, engaged across the scientific community to ensure that economic policy and interventions were consistent with, and supportive of, broader public health and

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<sup>13</sup> In relation to Module 2, HM Treasury supplied two detailed corporate witness statements. The first (INQ000215049) covers HM Treasury's role in relation to the UK response to the pandemic between January 2020 and November 2020. The second (INQ000215607) covers HM Treasury's role between November 2020 and February 2022. Also, Sam Beckett, HM Treasury Chief Economic Adviser and Second Permanent Secretary since May 2023, provided a detailed witness statement (INQ000272143) which specifically focuses on HM Treasury's approach to economic analysis and modelling during the Covid-19 pandemic.

non-pharmaceutical interventions (“NPIs”). In particular, economic interventions were designed alongside, and in response to, public health measures and NPIs; changes in the design and delivery of economic support measures followed the evolution of the NPIs to ensure a consistent approach. In short, controlling the virus was essential for protecting both public health and the economy.

- b. Within that context, HM Treasury’s institutional objectives (i.e. ensuring economic growth, fiscal sustainability and financial stability) nevertheless remained consistent and shaped the design of the economic interventions. However, the unprecedented nature of the crisis and the various economic challenges presented by the pandemic inevitably required flexibility and trade-offs. The fiscal impact of higher public spending on economic support schemes during the pandemic had to be balanced against the importance of limiting longer-term damage to the economy caused by people losing jobs and their contact with the labour market. HM Treasury sought to safeguard public spending; propriety, regularity and value for money remained of paramount importance but there was also a difficult balance to be struck between enabling speed of action and ensuring value for money. HM Treasury was not blind to the risks around fraud and waste in this regard; those risks had to be balanced against the countervailing risks of mass unemployment and significant economic damage that would have been caused by inaction or a delayed response.
- c. The speed, scale and breadth of the economic response to the Covid-19 pandemic prevented a public health crisis from also becoming an economic crisis. There was an unprecedented increase in public borrowing and spending, deployed at pace across the economy. By as early as the March 2020 Budget, more than £12 billion of economic support for public services had already been announced. In response to the Covid pandemic generally, the government borrowed more than an additional £300 billion across 2020-21 and 2021-22, with record peacetime borrowing recorded in 2020-21. HM Treasury also rapidly developed and implemented novel economic support schemes throughout the pandemic (including CJRS/‘furlough’, the various loan guarantee schemes and tax and benefits adjustments), which directly prevented millions of jobs being lost and saved many thousands of businesses. To help design and deliver the new policies, HM Treasury harnessed a wide variety of new and existing data sources from the public and private sector, worked closely with other government departments and actively sought a wide range of external input. The speed and agility with which HM Treasury responded on such a scale to the pandemic was made possible by intensive work, carried out at pace, by a very large number of diligent,

conscientious, hard-working individuals operating in the most challenging and novel circumstances.

### **C. The Roles and Responsibilities of HM Treasury and the Chancellor in overview**

12. For the purposes of Module 9, it is necessary to understand and properly have regard to HM Treasury's role and responsibilities during the Covid-19 pandemic.
13. 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 in Module 2, on representing economic and fiscal considerations in the decision-making process.
14. The Chief Secretary to the Treasury ("CST") is the second senior ministerial office in HM Treasury and reports to the Chancellor. They are responsible for public expenditure including spending reviews and in-year spending control. During the relevant period, HM Treasury's other ministers included the Financial Secretary to the Treasury, the Economic Secretary to the Treasury, the Exchequer Secretary to the Treasury, and a Treasury Lords Minister. HM Treasury ministers also had a number of special advisers. Special advisers are temporary political appointees who work closely with ministers to provide political advice, support, and guidance. In addition, during this period, the Chancellor also had access to the advice of Richard Sharp and Dr Tim Leunig, who were both appointed as direct ministerial appointments in HM Treasury. Mr Sharp provided advice on corporate finance related issues drawing on his background and experience in the financial services industry. Dr Tim Leunig, who will give oral evidence in Module 9, acted as an economic adviser to the Chancellor.
15. The Permanent Secretary is responsible for the delivery of HM Treasury's strategy and, as HM Treasury's Accounting Officer, is accountable to Parliament for the organisation and management of the department, including its use of public money and stewardship of assets, as well as being head of the Accounting Officer system for government as a whole. Throughout the relevant period, Sir Tom Scholar served as Permanent Secretary and chaired HM Treasury's Executive Management Board. HM Treasury's Executive

Management Board is responsible for the overall management of HM Treasury. This includes responsibility for governance, decision making and financial management of the department. HM Treasury had one Second Permanent Secretary during the relevant period, whose role was to support the Permanent Secretary in the running and oversight of the department. The Second Permanent Secretary had oversight of HM Treasury's economics ministry functions including financial services, growth, and infrastructure. During this period this role was filled by Sir Charles Roxburgh, who will give oral evidence in Module 9.

16. The Permanent and Second Permanent Secretary worked closely with HM Treasury's Director Generals ("DGs") - who also sit on the Executive Management Board - to set the strategic direction of the department. The DGs are the lead senior advisers to the Chancellor in their areas and advice to ministers is normally signed off as appropriate by a DG or Director.
17. Together, the DGs worked closely with Clare Lombardelli, HM Treasury's Chief Economic Advisor from 2018 to 2023 (who gave oral evidence in Module 2). The Chief Economic Advisor is the primary official advisor to the Chancellor on macroeconomic and fiscal issues. The Chief Economic Advisor also leads HM Treasury's relationship with the monetary policy side of the Bank of England, international economic organisations, the gilt investment community and the wider economics community. The Chief Economic Advisor is responsible for the work of the Economics and Fiscal Groups in HM Treasury and also sits on the Executive Management Board.
18. HM Treasury's internal organisation and structures, including its risk management functions, are explained in detail in Part 1 of HM Treasury's Module 9 corporate statement. In summary, HM Treasury uses a group structure to organise its work. During the relevant period, there were 13 groups (led by a Director working to a DG) which collectively worked to achieve HM Treasury's core objectives. Specific areas of policy, analytical and delivery expertise are centred in these groups. From March 2020, HM Treasury conducted a redeployment exercise to move officials, including senior civil servants, from standing roles to the highest priority, mainly Covid-related, pieces of work across HM Treasury. More than 70 people were moved between groups and HM Treasury also recruited and promoted staff, including increasing the number of Deputy Directors to increase resilience in leadership roles, and ensure the department had sufficient resource to manage pressure.

19. The pandemic affected every aspect of HM Treasury's work, and each of the 13 groups played a part in the department's response. A summary explanation of the 10 groups in HM Treasury that played a central role in designing and delivering economic interventions within the scope of this module is set out in paragraphs 24 to 37 of Part 1 of HM Treasury's corporate witness statement for Module 9. By way of example, and by reference to HM Treasury officials who will give oral evidence in Module 9:

- a. The Strategy, Planning and Budget Group sits at the heart of HM Treasury and leads on the department's overall strategy, resourcing and prioritisation, and acts as HM Treasury's central co-ordination function. During the relevant period, Dan York-Smith, who gave oral evidence in Module 7 and will give oral evidence in Module 9, was the Director. Early in the pandemic, a dedicated team called the Covid-19 Response Team was established in this group to lead and co-ordinate HM Treasury's work on Covid, with responsibility for (i) synthesising Covid-related advice to the Chancellor and HM Treasury ministers, bringing together analysis on the economic impacts, business impacts, public services, costs, risks, distributional effects, international experience and other pertinent issues; and (ii) the relationship with, and HM Treasury input into, the central decision-making processes, particularly the Cabinet Office and No.10 Downing Street. The volume of work resulted in the Director role being split, with Kate Joseph (who has also provided a witness statement for Module 9) taking over Mr York-Smith's role as Director of the Covid-19 Response Unit from November 2020 and Mr York-Smith continuing as Director of the Strategy, Planning and Budget Group.
- b. The Economics Group provides ministers with analysis and assessment of economic developments in the UK economy and advises on their implications for the government's economic strategy. It works with policy teams to factor economic analysis into advice for ministers on a wide range of policies. The group is a leading member of the UK macroeconomic community, collaborating with the Bank of England, the Office for Budget Responsibility and academia on shared topics of interest. They also liaise with international organisations in their surveillance of the UK economy and support the economic and social research professions across government departments. Vanessa MacDougall was Director for the Economics Group until late 2020, when this passed to James Benford. Both have provided witness statements for Module 9 and James Benford will give oral evidence.

20. HM Treasury's governance evolved rapidly and iteratively to co-ordinate the departmental-wide response. HM Treasury's Executive Management Board met daily to discuss live pandemic and economy fiscal updates, agree priorities and next steps on economic

support and other issues, and discuss departmental resource and structural needs. Below that, the Covid Response Board was a key forum for updates on the path of the virus and the key workstreams in response, including on economic support. HM Treasury's Covid Response Board was set up specifically in response to the pandemic. While this was not a decision-making forum, the group met initially three times a week to coordinate advice for ministers and discuss key questions, before moving to twice weekly meetings. Membership included representatives of all teams involved in pandemic work.

21. In addition, HM Treasury introduced governance boards for specific economic interventions during the pandemic. For example, boards were established (together with HMRC) for the CJRS and SEISS. These were not decision-making fora (as decisions sat with Ministers) but monitored development and delivery of specific interventions and coordinated advice for ministers.
22. 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.
23. Given the heightened uncertainties during the pandemic, HM Treasury relied on a wide range of analytical tools and techniques to understand what was happening in the economy and inform policy development. These tools, which included established and new economic models, were developed and refined throughout the pandemic. Alongside traditional modelling approaches, new capabilities were rapidly built: a labour supply model was developed to understand the potential economic impact of the different forms of NPIs; a firm-level model was procured to assess how policy interventions might affect businesses' employment levels or the likelihood of insolvency; and epi-macro modelling was used to explore the interactions between health and economic factors. More details on these analytical tools, including a description of HM Treasury's epi-macro modelling, are set out in Part 4 of HM Treasury's corporate witness statement for Module 9.
24. HM Treasury is a core part of a broader set of institutions – within and outside government – that produce economic analysis and develop and deliver economic policy. HM Treasury

worked very closely with a number of government departments, most notably HMRC; the Department for Business Energy and Industrial Strategy (“BEIS” – now the Department for Business and Trade); DWP; the Department for Culture, Media and Sport; the Ministry of Housing, Communities and Local Government (“MHCLG”) (subsequently renamed the Department for Levelling Up, Housing and Communities (“DLUHC”) from September 2021), and the Department for Transport, to develop and deliver the economic response. HM Treasury also engaged proactively and extensively with organisations and individuals outside central government, including the British Business Bank, the Financial Conduct Authority, the Bank of England, and international institutions such as the International Monetary Fund (“IMF”) and Organisation for Economic Co-operation and Development (“OECD”), drawing on their analysis and modelling to inform its approach. There was regular two-way dialogue with the Trades Union Congress (“TUC”), business groups like the Confederation of British Industry (“CBI”) and British Chambers of Commerce, academics, and sectoral councils. There was also engagement with a variety of other partners like credit agencies, banks and financial institutions, technology firms, and major firms in affected sectors to both deliver interventions (for example, the loan guarantee schemes) and to bolster HM Treasury’s understanding of how policies were impacting people and firms and how support needed to evolve in response.

25. Given the importance to the economy of mitigating the impact of the pandemic on businesses and individuals, HM Treasury was closely involved with most economic support schemes. For most schemes, HM Treasury was either solely or jointly responsible for developing the policy and was closely involved in overseeing delivery, albeit many economic interventions were designed and delivered in conjunction with other departments. HM Treasury’s role was also to ensure that the economic and fiscal impact of policies under consideration were understood and explained to ministers, so that difficult and wide-reaching decisions were made on as informed a basis as possible.

26. In relation to local government, HM Treasury worked with MHCLG/DLUHC to agree the local government budget, the main source of grant funding for English local authorities including the funding they needed to implement the economic support schemes they were responsible for delivering. The details are set out by MHCLG through the annual Local Government Finance Settlement, but local authorities are responsible for their own finances within centrally set parameters. Some funding will be ringfenced for particular activities and the level of funding may vary from year to year to reflect changes in responsibilities placed on local authorities by government. Local authorities also have the

power to raise income locally through Council Tax, retained business rates and sales, fees and charges.

27. HM Treasury also worked to ensure the provision of unprecedented measures to assist the Devolved Administrations with their economic requirements in responding to the pandemic. Part 5 of HM Treasury's corporate statement for Module 9 addresses in detail the extensive engagement with and funding of the Devolved Administrations during the pandemic. In summary, 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; changes in funding provided to the Devolved Administrations are largely determined through the long-standing Barnett formula.
28. 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 the Department of Health and Social Care ("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.
29. 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.

30. Many of HM Treasury's key economic interventions and financial investments made during the pandemic – including CJRS, SEISS and loan guarantee schemes – were implemented on a UK-wide basis, benefiting businesses and individuals across all parts of the UK. In designing UK-wide schemes, HM Treasury considered the impact across the whole of the UK, including regional variations. HM Treasury has acknowledged that the pandemic underlined the need for more robust engagement mechanisms, better communication channels, and enhanced sharing of information with the Devolved Administrations to ensure co-ordinated responses in future crises. HM Treasury has already taken steps to improve its ways of working with the devolved governments, in particular given the challenges posed by the split of devolved and reserved powers meaning some policies were delivered UK-wide, whereas others were delivered by the Devolved Administrations.

#### **D. Economic and Fiscal Context**

31. In order to set the Module 9 evidence in its proper context, it is essential to understand the economic and fiscal situation caused by the pandemic. This is explained in Part 2 of HM Treasury's corporate witness statement, which sets out chronologically the impact of the Covid-19 pandemic on the UK's economy and fiscal position.

32. The economic impact of the pandemic was immediate and on an unprecedented scale. Prior to the pandemic the UK economy was relatively stable, with steady growth, low inflation, and a strong labour market with low unemployment. However, data from the Office of National Statistics shows that in April 2020, Gross Domestic Product ("GDP" – a key indicator of a country's economic health) was 25% lower than in February 2020. In May 2020, GDP experienced a modest rebound of 2%, as some lockdown restrictions were eased. However, household consumption remained sharply reduced during this period. In the second quarter of 2020, household consumption fell by 23.1% compared to the first quarter of 2020, having already declined by 2.9% in that first quarter. This was largely driven by decreases in expenditure on hospitality, transport, and recreational activities. A major associated concern for HM Treasury was that the NPIs would lead to businesses being unable to operate and therefore high levels of unemployment. Mass unemployment would have led to hardship for many individuals and families but could also have caused lasting and very significant damage to the economy, particularly if large numbers of people had become dislocated from employment for a lengthy period. The

economic support measures, including CJRS ('furlough') and SEISS, were designed to mitigate these risks.

33. The cost of immediate government support for businesses and individuals at the outset of the pandemic also placed significant pressure on the public finances. Public sector borrowing in April and May 2020 was £49.3 billion and £51.5 billion respectively, significantly higher than the same months in 2019 (£11.4 billion and £4.9 billion respectively).
34. HM Treasury was required to operate under profound uncertainty throughout the pandemic, but this was particularly the case at the outset. Understanding the economic impact of the first lockdown presented a particularly challenging task, as the reactions and interactions of individuals under lockdown conditions, the effectiveness of the lockdown in controlling the epidemic, and the ability of support measures to mitigate economic consequences were all highly uncertain at that time. The duration of the pandemic in March 2020 was also uncertain. The response to the pandemic, including lockdowns and restrictions, continued to evolve in tandem with new information and expert advice about the virus and its spread, leading to a prolonged global economic and social shock.
35. As the country re-opened over the summer of 2020, GDP rebounded by 16.9% - a level of change not seen since consistent Office of National Statistics data became available in 1955 – but still remained well below pre-pandemic levels. The Covid pandemic continued to present unique challenges, straining healthcare systems and prompting governments to take significant measures to prevent further escalation. The nature of the Covid pandemic's economic shock was also unique, as it involved the intentional suppression of economic activity by government (through the use of lockdowns and other social restrictions) on an unprecedented scale. This resulted in the temporary shutdown of parts of the economy to limit close contact and reduce the spread of the virus. HM Treasury fully recognised, however, that controlling the virus was essential for protecting both public health and the economy. Action taken to reduce transmission of the virus, while disruptive in the short term, was driven by public health priorities that were therefore in alignment with the UK's long-term economic interests.
36. As businesses and consumers adapted and gained confidence from government support, subsequent lockdowns resulted in a less severe decline in economic activity. While the lockdowns inflicted significant direct economic damage, they limited the spread of the virus. Policies to support businesses and workers helped to mitigate the impact and reduced the potential for long-term economic scarring.

37. For example, the CJRS ('furlough') and SEISS supported incomes of workers and the self-employed during this period. These schemes (especially CJRS) were designed to support the UK's economic recovery by stopping workers becoming laid off and preserving the link between employer and employees, therefore limiting the risk of economic scarring – where workers struggle to regain employment while their skills atrophy. This also prevented employer closures and falls in employees' income, which would also support household spending. The CJRS prevented 4 million direct job losses and saved many businesses from closure, which contributed to lessening the economic impacts of the pandemic. Between March and October 2020, the CJRS subsidised the wages of 9.6 million employees at its peak, representing approximately a third of the UK workforce. SEISS similarly supported the incomes of people who were self-employed. However, despite these schemes, there were still 2.4 million starts to Universal Credit in the first two months after lockdown started in March 2020; this was six times more than the average number of starts in the 12 months to March 2020 which demonstrates the scale of the pandemic's economic impact.

38. The severity of the economic impact during the second national lockdown (from 5 November 2020 to 2 December 2020) was (as forecast) less than during the first, in part because businesses and individuals had adapted to restrictions, finding ways to operate within their constraints, but also because of increased certainty over the government's support measures. The economy evolved in response to both the virus and the measures put in place, and individuals and businesses adapted their behaviours to the ongoing restrictions, testing procedures, vaccination rollouts, and the economic support available. The impact of the second lockdown on the public finances was also less severe than during the first. Public sector borrowing was £21.8 billion in November 2020 compared to £5.7 billion in November 2019. While this was still a significant rise in borrowing relative to the previous year, it was less than the increases observed in the first lockdown.

39. The third national lockdown in the UK began on 6 January 2021. New, more transmissible variants of the virus led to further restrictions and extended the duration of economic disruption. However, the third lockdown also coincided with the acceleration of the vaccination rollout. By this point, the economy was dealing with the cumulative effects of multiple waves of lockdowns, which led to deeper concerns about recovery. UK GDP fell by 1.0% during the first quarter of 2021 compared to the previous quarter. While this would typically be considered a significant decline in pre-pandemic times, it was less severe than many economists had anticipated. Monthly GDP data reveals a mixed performance: after

a 3.2% decline in January 2021 (compared to December), GDP increased by 1.4% in February and by 3.0% in March, signalling a recovery in the latter part of the quarter.

40. While the pandemic itself undoubtedly caused a substantial economic shock, the broader context of geopolitical events and supply-side challenges must also be considered when evaluating the long-term economic damage during this period. For example, the Russian invasion of Ukraine in early 2022 severely disrupted global energy and agricultural markets, leading to widespread economic consequences worldwide. Additionally, both the long and short-term effects of the UK's exit from the European Union created challenges for the UK economy, compounding the already significant economic disruptions caused by the pandemic. The picture is therefore a complex one.
41. Overall, the pandemic's economic support measures played a crucial role in mitigating immediate hardship for individuals and businesses, helped to prevent widespread job losses and stabilised the economy during a period of intense uncertainty. These interventions were also effective in facilitating the recovery of business activity and the labour market, enabling many sectors to regain their footing as restrictions eased.
42. Fiscally, the Covid pandemic necessitated a significant response from governments worldwide. The UK government's economic support package was among the largest and most comprehensive globally according to estimates by the IMF, entailing substantial but necessary increases in borrowing and debt. 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*". The costs, however, were extraordinary. Reflecting the cumulative effects of multiple waves of lockdowns, at a time of falling GDP, borrowing and debt increased significantly by the end of the 2020-21 financial year. Public sector borrowing rose from £60.8 billion (2.7% of GDP) in 2019-20 to a record peacetime figure of £314.5 billion (15.1% of GDP) in 2020-21. As a result, government debt rose from £1.8 trillion (85.4% of GDP) in 2019-20 to £2.4 trillion (96.4% of GDP) in 2021-22.

#### **E. Overview of HM Treasury's Focus during the Pandemic**

43. As made clear above, HM Treasury's fundamental objectives during the pandemic aligned with those of the wider government: to prevent the spread of Covid and to protect the economy. HM Treasury did not perceive an inherent tension or conflict between these objectives. HM Treasury recognised that long-term economic stability and growth

depended on controlling the virus, and that economic measures were necessary tools to support public health efforts and encourage compliance with health restrictions among individuals and businesses.

44. Covid was a public health crisis in which economic activity was intentionally suppressed in the interest of the UK's long-term public health and economic recovery. The scale of this deliberate suppression in a modern, complex economy was unprecedented, making the novelty of the situation a key challenge. Since both demand and supply were intentionally suppressed, the government needed interventions to sustain otherwise viable economic activity until NPIs were lifted and normal economics could fully resume. This required providing direct support to the businesses and households affected. However, it was equally important to ensure that support measures did not inadvertently slow down recovery once restrictions eased. Striking the right balance – providing support when economic activity was not possible while also allowing businesses and individuals to transition out of reliance on government interventions as conditions improved – was a core consideration in designing and implementing the economic interventions.

45. In this context, HM Treasury had several key economic objectives during the pandemic. This is explained in detail in Part 3 of HM Treasury's Module 9 corporate statement but can be summarised as follows:

- a. Preventing unemployment and supporting living standards. This was to mitigate severe financial hardship for individuals and communities, both in the short and long term. There was a clear economic case for the government to step in, temporarily, to help ensure people remained connected to their employers and retained an income until their jobs became viable again. Addressing these short and long-term risks shaped policies such as the CJRS and SEISS. The CJRS is estimated to have directly protected around 4 million jobs. The benefit of protecting jobs and retaining employer-employee matches was also that it allowed for a quicker and smoother recovery as restrictions were eased. It allowed employers and employees to restart activity more promptly and efficiently than if employees had been made redundant. The scheme also played an important role in protecting household incomes - thus supporting the wider economy by reducing the risk of economic scarring. Similarly, targeted support, such as the Kickstart Scheme and expanded apprenticeships in the Plan for Jobs, aimed to prevent long-term unemployment among young people.
- b. Preventing viable businesses from failing. Many businesses had insufficient cash reserves to survive the disruption that would be caused by the pandemic, so

preventing the failure of many otherwise viable businesses was a central concern for HM Treasury. As regarding employment, the likely temporary nature of the shock from Covid and intentional suppression of economic activity meant that there was a clear case for government intervention to help prevent otherwise healthy businesses from closing. HM Treasury recognised that different sectoral impacts necessitated a targeted response, developed in conjunction with other government departments. For example, targeted grant schemes and business rates relief were introduced to support the hospitality and retail sectors, while the cultural recovery fund provided vital support to the arts and heritage industries. In addition, loan guarantee schemes such as the Bounce Back Loan Scheme (“BBLs”), Coronavirus Business Interruption Loan Scheme (“CBILs”) and Coronavirus Large Business Interruption Loan Scheme (“CLBILs”) provided wide ranging support across the economy for businesses in difficulty.

- c. Protecting the most vulnerable and avoiding unfair impacts. HM Treasury was aware from the outset that the economic costs of the pandemic would not be felt equally; some of the most vulnerable people in the UK were likely to suffer most, such as those in insecure employment. A core objective for HM Treasury, from the outset, was to understand the distributional impacts of the pandemic and ensure that the policy response was designed to supplement economy-wide schemes with targeted support where it was most needed. HM Treasury used available data and sought new sources to understand distributional impacts, analysing available data across different groups. The CJRS disproportionately supported those sectors most impacted by restrictions. This meant it benefited the lowest-earning households the most, as a proportion of their pre-Covid income. Support also evolved over time, where possible, as more was learnt about cohorts who might have fallen between different types of available support. For example, stakeholder consultation led to changes to SEISS eligibility for new parents and reservists, and, in October 2020, CJRS was extended to new entrants through a change in cut-off date. This was combined with wider support for those on low incomes, including temporary uplifts to benefits. Part 6 of HM Treasury’s Module 9 corporate statement concerns ‘Inequalities, Impact Assessment and Vulnerable Groups’.
- d. Ensuring economic activity was consistent with NPIs and enabling a rapid recovery once restrictions were lifted. Short-term economic crises can have significant long-term economic effects, known as economic scarring, including higher unemployment, lower wages and reduced capital investment. Trying to mitigate the risk of economic scarring was particularly complex. It involved trying to ensure that economic activity was taking place where permitted under NPIs, whilst, at the same

time, ensuring that support schemes were wound down at the right time to avoid holding back economic activity that could otherwise resume. By carefully phasing out interventions as restrictions lifted, HM Treasury aimed to strike a balance between sustaining economic momentum during restrictions and allowing market forces to drive recovery once conditions improved.

- e. Maintaining value for money and fiscal discipline. HM Treasury sought to balance the design and implementation of economic interventions at pace, ensuring that assistance was provided quickly to those who needed it, with the need to ensure value for money considerations and safeguards against fraud and misuse were maintained. This was plainly a very difficult balance to strike, especially in the context of needing to maintain fiscal discipline in circumstances where unprecedented government borrowing and spending was required.

46. While the core objectives remained constant, the practical approach to achieving them evolved in response to the virus's progression, the changing public health strategies, and the adoption of learnings from delivery of economic support. The rapid spread of the virus and the evolving public health response created a volatile environment where economic policy had to be adapted at an extraordinary pace. However, throughout the pandemic, HM Treasury's approach to economic support reflected the government's strategy for NPIs, by ensuring that the level and nature of financial assistance evolved in response to, and consistently with, the changing public health measures.

47. By way of illustration, in September 2020 HM Treasury moved to shift from broad emergency measures to more tailored support in line with the evolving public health response. While the overarching goal of supporting jobs remained unchanged, the strategy evolved to try and ensure assistance was in line with the more targeted approach to the NPI strategy which had developed (based on a geographical basis and through a more complex set of rules in the tiering system). HM Treasury's strategy was to avoid measures that might inadvertently stifle economic activity where it could safely take place and focus on supporting or encouraging economic activity where permitted. On 24 September 2020, the Chancellor announced his Winter Economy Plan, introducing a package of targeted measures designed to support economic growth and recovery. The Chancellor's statement emphasised that government support would evolve alongside restrictions, reaffirming HM Treasury's core objective of protecting jobs and livelihoods while adapting to the ongoing challenges posed by the pandemic. However, when cases of Covid continued to rise and a second national lockdown was required in late 2020, a

change of approach was required and HM Treasury ministers rapidly decided to extend CJRS and SEISS.

48. HM Treasury also played a central role in shaping the roadmap for the easing of restrictions, working closely with the Covid Taskforce and other government departments, including by providing input on the economic impacts of different NPIs to inform the sequencing of easing restrictions. Providing some level of certainty by having an expected path out of lockdown was critical for re-establishing economic confidence.
49. In summary, HM Treasury's response to the economic impacts of Covid-19 throughout the pandemic was designed to align with the Government's primary and non-negotiable objective of containing the virus and saving lives. Economic interventions were designed alongside, and in response to, public health measures. Long-term economic stability and growth depended on controlling the virus effectively. Accordingly, from the outset, it was a priority for HM Treasury officials to have an understanding of the health picture given the interaction between the likely path of the virus, the NPIs and the need for economic policy to evolve alongside the government's public health strategy. HM Treasury, and the Chancellor, engaged across the scientific community, including with the Chief Medical Officer, the Government Chief Scientific Adviser and the Scientific Advisory Group for Emergencies ("SAGE"), to ensure both that economic policy and interventions were consistent with and supportive of broader public health and NPIs, and that economic decisions were informed by the latest health intelligence.
50. In this context, HM Treasury paid close attention to the emerging evidence in relation to Long Covid, as more came to be known and understood about the longer term sequelae. Long Covid was of interest to HM Treasury in terms of the risks it posed to the labour market and regarding economic scarring as part of the longer-term economic impacts of the pandemic. Consequently, HM Treasury officials engaged with other departments across Whitehall on these issues, including assisting with preparations for the DHSC Long COVID Oversight Board. Part 7 of HM Treasury's corporate witness statement for Module 9 concerns Long Covid and sets out in detail both how Long Covid was factored into HM Treasury decision-making from 2020 onwards and the sources of financial support available to sufferers of Long Covid.

## **F. Conclusion**

51. HM Treasury remains keen and determined to learn from its experience in the pandemic. Part 8 of HM Treasury's Module 9 corporate statement explains in detail the extensive government evaluations of Covid economic support and recovery schemes carried out to date and the various areas in which lessons have been learned by HM Treasury as a result of 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 within the UK, including in the event of any future health or other major crisis. HM Treasury looks forward to building on that work done to date as a result of Module 9 of the Inquiry's work.
52. HM Treasury is grateful for the opportunity to assist the Inquiry in respect of Module 9 and wishes to conclude these written opening submissions by assuring the Inquiry of HM Treasury's assistance in relation to Module 9 and the Inquiry's ongoing work generally.

**Dated: 10 November 2025**

**His Majesty's Treasury**