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## THE UK COVID-19 INQUIRY

### MODULE 9 CORPORATE WITNESS STATEMENT OF HIS MAJESTY'S TREASURY

#### FIRST WITNESS STATEMENT OF BETH RUSSELL

1. I, Beth Russell, make this statement on behalf of His Majesty's Treasury ("**HM Treasury**" or "**the Department**") and I do so in response to the Inquiry's Rule 9 request dated 31 October 2024 ("**the Rule 9 request**") on behalf of the Department. My work address is Darlington Economic Campus, Feethams House, Darlington.
2. I am HM Treasury's Second Permanent Secretary, a post I have held since 2022. My role is to support the Permanent Secretary in the running and oversight of the Department and my responsibilities include oversight of tax, welfare and growth policy and leadership for the Darlington Economic Campus. I have worked in the Department since 2000 and during the period covered in this statement, I was the Director General of Tax and Welfare. Previous to that I held senior leadership positions in Personal Tax, Welfare and Pensions and General Expenditure Policy. Part 1 sets out in more detail the relative roles and responsibilities of senior HM Treasury officials during the pandemic, including for specific elements of the economic response.
3. Whilst I have some personal recollection of some of the events or processes described in this witness statement, I have also coordinated and liaised with a number of colleagues with the relevant knowledge and experience across the Department. Their contributions have been used to respond to the questions in the Rule 9 request. My statement therefore relies upon those contributions to form the responses in this statement. I am also reliant on document archive searches conducted by colleagues.

4. My statement should be read subject to the caveats above. I have done my best to assist the Inquiry on behalf of the Department against these limitations. If further material is made available to me, I would be happy to add to or clarify this statement to take it into account.
5. In line with the Rule 9 request, this statement covers the period between 1 January 2020 and 28 June 2022.
6. The statement is structured as follows:

*Main Statement:*

1. HM Treasury's People, Structures, and Processes
2. Economic and Fiscal Context
3. Economic Policy Objectives
4. Data, Modelling and Analysis
5. The Devolved Administrations
6. Inequalities, Impact Assessment, and Vulnerable Groups
7. Long Covid
8. Lessons Learnt on Economic Impacts and Economic Support

*Annexes:*

- A. Coronavirus Job Retention Scheme ("**CJRS**")
- B. Self-Employment Income Support Scheme ("**SEISS**")
- C. Loans to Businesses
- D. Covid Corporate Financing Facility ("**CCFF**")
- E. Business Rate Relief
- F. Grants to Businesses
- G. Statutory Sick Pay ("**SSP**")
- H. Uplift to Universal Credit ("**UC**")
- I. Eat Out to Help Out ("**EOTHO**")
- J. Changes to Insolvency Rules

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7. This corporate statement focuses on the economic impacts of Covid and the government's response, but it is important to note at the outset that the pandemic was first and foremost a crisis that caused the loss of many lives, as well as leading to previously unimaginable restrictions on personal freedoms.
8. Responding to Covid presented unprecedented challenges to the government, including HM Treasury, and the department worked collaboratively, nimbly and creatively with other departments and organisations to design and deliver a comprehensive suite of economic interventions, preventing a public health crisis from becoming an economic and financial crisis and providing vital support to households and businesses. HM Treasury also ensured the interventions were tailored around the government's evolving strategy to combat the virus and encouraged people and firms to comply with the Non-Pharmaceutical Interventions ("**NPIs**").
9. Since Covid, HM Treasury has conducted extensive evaluations of the economic interventions and reflected on lessons learnt to help prepare for a future similar crisis. It welcomes the opportunity to further reflect and looks forward to the Inquiry's eventual report and recommendations for Module 9.

## **Part 1: HM Treasury: People, Structures and Processes**

10. HM Treasury is the UK's finance and economics ministry, responsible for macroeconomic policy and promoting sustainable economic growth. HM Treasury works across government and with partner organisations to set economic strategy, maintain spending oversight and collaborate on ways to improve the UK's growth prospects. Amongst other areas, HM Treasury is responsible for:
- a) Managing the overall state of the UK's public finances and macroeconomic stability.
  - b) Public spending: including departmental spending ("DEL"), public sector pay and pensions, annually managed expenditure ("AME"), and capital investment.
  - c) Financial services policy: including banking and financial services regulation, financial stability, and ensuring competitiveness in the City.
  - d) Strategic oversight of the UK tax system: including business, property, personal and corporation tax.
  - e) Ensuring the economy is growing sustainably including by providing the conditions for businesses to be established and thrive in the UK.
11. Within the UK government, the Chancellor of the Exchequer ("**the Chancellor**") and Chief Secretary to the Treasury ("**CST**") attend Cabinet, and thus contribute to Cabinet-level decision making, with a focus on representing and advocating HM Treasury's objectives. These are set out in its Outcome Delivery Plan: to maintain sound public finances, deliver sustainable economic growth, and maintain macroeconomic and financial stability [BR/001-INQ00088020]. These objectives were equally valid and important during the pandemic period.
12. The Treasury's fundamental role, function and responsibilities did not change pre- and during the pandemic, although in some contexts it inevitably had to be more agile and, where appropriate, more flexible in its approach. During the pandemic, much of HM Treasury ministers' and officials' focus was on rapid design and implementation of economic support to mitigate the impact of public health measures on jobs, living standards and the wider economy.

### ***The Role and Responsibilities of Ministers***

#### *The Chancellor and Chief Secretary to the Treasury (CST)*

13. The Chancellor is the government's chief financial and economic minister and has overall responsibility for HM Treasury. They are accountable to Parliament and provide economic and fiscal considerations to Cabinet-level discussions and decision making.
14. 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.
15. During the relevant period, HM Treasury's other ministers included the Financial Secretary to the Treasury ("FST"), the Economic Secretary to the Treasury ("EST"), the Exchequer Secretary to the Treasury ("XST"), and a Treasury Lords Minister.
16. Throughout the pandemic, HM Treasury officials provided analysis and policy advice on the Covid pandemic to inform decisions made by the Chancellor, CST and other ministers on economic and fiscal related issues, including ahead of their participation in Cabinet level decision-making fora.
17. During the relevant period, HM Treasury ministers 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 acted as an economic adviser to the Chancellor.

*The Role and Responsibilities of the Permanent Secretary, the Second Permanent Secretary, the Chief Economic Advisor and Other Key Non-Ministerial Roles*

18. The Permanent Secretary is responsible for the delivery of the department'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, Tom Scholar served as Permanent Secretary and chaired the department's Executive Management Board ("EMB").

19. During the relevant period, HM Treasury had one Second Permanent Secretary, whose role was to support the Permanent Secretary in the running and oversight of the department. The Second Permanent Secretary during the relevant period had oversight of the department's economics ministry functions including financial services, growth, and infrastructure. During this period this role was filled by Charles Roxburgh.
20. The Permanent and Second Permanent Secretary worked closely with HM Treasury's Director Generals ("DGs") - who also sit on the EMB- 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.
21. During the relevant period, Beth Russell was DG responsible for Tax and Welfare, Philip Duffy for Enterprise and Growth (Director until May 2020 and then DG), and Katharine Braddick for Financial Services – and they led on the policy and delivery of the economic support schemes in their respective areas. Alongside Cat Little who was the DG for public spending, they focused on ensuring that departments had the required funding for the interventions. For completeness, Mark Bowman was the DG for international economic affairs.
22. Together they worked closely with Clare Lombardelli, DG and Chief Economic Advisor ("CEA"). The CEA is the primary official advisor to the Chancellor on macroeconomic and fiscal issues. The CEA also leads HM Treasury's relationship with the monetary policy side of the Bank of England ("BoE"), international economic organisations, the gilt investment community and the wider economics community. The CEA is responsible for the work of the Economics and Fiscal Groups in HM Treasury and also sits on the EMB.
23. Organograms outlining the EMB and key non-ministerial positions for the years 2020 [BR/002-INQ000609813], 2021 [BR/003-INQ000609815], and 2022 [BR/004-INQ000609814] are exhibited.

### ***HM Treasury Group Structure***

24. HM Treasury uses a Director-led group structure to organise its work. During the relevant period, there were 13 groups which collectively worked to achieve the department's core objectives. Specific areas of policy, analytical and delivery expertise are centred in these groups to ensure Directors are able to manage and respond to challenges in their areas of policy responsibility. Each Director worked under a DG.

25. The pandemic affected every aspect of HM Treasury's work, and each group played a part in the department's response. The ten groups that played a central role in designing and delivering economic interventions within scope of this Module are discussed below.

#### *Strategy, Planning and Budget Group*

26. The Strategy, Planning and Budget Group ("**SPB**") 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 coordination function. During the relevant period, Dan York-Smith was Director for SPB. SPB supports the EMB in setting strategic direction for HM Treasury, working with and alongside groups across the department to bring together HM Treasury's departmental objectives into a coherent strategy. SPB oversees the Budget and other fiscal events and delivers HM Treasury's overall business plan and permanent and flexible resource allocations to achieve that plan, amongst other functions.
27. Early in the pandemic, a dedicated team – called the Covid-19 Response Team – was established in SPB to lead and coordinate the department's work on Covid, with responsibility for:
- a) Synthesising Covid-related advice to the Chancellor and HM Treasury ministers. This brought together analysis on the economic impacts, business impacts, public services, costs, risks, distributional effects, international experience and other pertinent issues.
  - b) The relationship with, and HM Treasury input into, the central decision-making processes, particularly Cabinet Office and No.10 Downing Street.
28. The Unit was originally set up with two Deputy Directors working for Dan York-Smith, Director of SPB. The volume of work resulted in the Director role being split, with Kate Joseph taking over Dan's role as Director of the Covid-19 Response Unit from November 2020 and Dan continuing as Director of SPB.

#### *Business and International Tax Group*

29. The aim of the Business and International Tax Group ("**BIT**") is to provide strategic oversight of business, environmental, transport, property and excise taxes that together

raise over £250bn per year, including delivering policy change in consultation with key stakeholders, advancing the UK's interests on tax internationally and managing risks to the business tax base. The group works closely with HM Revenue & Customs ("**HMRC**") through the HM Treasury-HMRC policy partnership. During the pandemic this group led on tax reliefs to support businesses including in business rates and Value Added Tax ("**VAT**"), tax deferrals and the Eat Out to Help Out scheme ("**EOTHO**"). The Director of BIT during the pandemic was Mike Williams.

#### *Personal Tax, Welfare and Pensions Group*

30. The Personal Tax, Welfare and Pensions Group ("**PTWP**") is responsible for personal taxes, benefits, pensions, labour markets policy and analysis, and distributional analysis. It works closely with other government departments including the Department for Work and Pensions ("**DWP**") and HMRC and is responsible for setting and maintaining their budgets. Lindsey Whyte was PTWP Director at the start of the pandemic. Suzy Kantor became her co-Director in October 2020. Lindsey was in post until November 2021 and, until Vanessa MacDougall replaced her in March 2022, Chris Drane provided cover working alongside Suzy Kantor as co-Director. During the pandemic, this group led on the Coronavirus Jobs Retention Scheme ("**CJRS**"), the Self-Employment Income Support Scheme ("**SEISS**") and support delivered through the welfare system.

#### *Economics Group*

31. The Economics Group in HM Treasury 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 BoE, the Office for Budget Responsibility ("**OBR**") 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.

#### *Fiscal Group*

32. The Fiscal Group is responsible for ensuring that fiscal policy supports the government's economic and fiscal objectives, including its fiscal rules, in order to maintain the sustainability of the public finances. It provides oversight of key financial assets and liabilities on the public sector balance sheet and ensures that the government's strategic and operational financing needs are met, every day and in the medium term. It is responsible for publication of public sector finance statistics. Tom Josephs was the Director responsible for managing the department's Fiscal Group during the relevant period.

#### *Enterprise and Growth Unit*

33. The Enterprise and Growth Unit ("**EGU**") is responsible for growth related policy and spending. EGU works to ensure that government policy encourages private sector investment, enterprise, innovation and the transition to a low-carbon economy. The group also provides analysis and advice on the health of companies and sectors within the economy and on interventions to support specific sectors when required. During the pandemic, this group led on grants for businesses delivered via Local Authorities ("**LAs**") and other support to specific business sectors and companies who were adversely affected (including the Covid Corporate Financing Facility ("**CCFF**"). The responsible Director was Philip Duffy in the early months of the pandemic. From May 2020 onwards (when he became a DG), he continued oversight of EGU's work.

#### *Financial Services Group*

34. The Financial Services Group works to promote a stable and efficient financial services sector that supports growth in the UK economy and achieves good outcomes for customers and businesses. During the pandemic, this group led on the financial services related interventions including loans delivered via the Department for Business Energy and Industrial Strategy ("**BEIS**") and the British Business Bank ("**BBB**"). Gwyneth Nurse was the relevant Director of Financial Services during this period.

#### *Financial Stability Group*

35. The Financial Stability Group contributes to HM Treasury's objectives through ensuring the stability of the financial system, in a way that supports sustainable growth and public finances. The group's overarching aim is to secure the stability and operational

resilience of the UK financial system for the benefit of the economy. Lowri Khan was the Director of Financial Stability during this period.

#### *Public Spending Group*

36. The Public Spending Group is responsible for setting, controlling and reporting on public spending (including spending on the Covid economic support schemes); improving value for money, productivity and efficiency; and working across departments to improve finance and management information capability. Conrad Smewing was the Director of this group during the pandemic.

#### *Public Services Group*

37. The Public Services Group oversees spending on the main public services. Its strategic aim is the highest quality and best value for money public services. It seeks to achieve this by working with the government departments directly responsible for the provision of these services, including setting and overseeing their budgets. Will Garton, Jean-Christophe Gray and Philippa Davies were the Directors for public services expenditure during the pandemic.

#### ***Overview of HM Treasury Management Structures***

38. HM Treasury management boards and committees are used to oversee the department's approach to monitoring and oversight of the economic and fiscal environment, risk management, and assurance on delivery. See Annex K for a broad overview.

#### *The Treasury Board*

39. The Treasury Board is the most senior of the department's oversight committees and is chaired by the Chancellor. The board is made up of Treasury ministers, Executive Board members and Non-Executive Board members.
40. The Board draws together ministerial and civil service leadership with experts from outside government and meets periodically to consider long-term strategy for the

department. The Board benefits from members' experience to provide advice and challenge the Department's performance, risk management and progress.

#### *The Treasury Board Sub-Committee*

41. The Treasury Board Sub-Committee ("**TB(SC)**") is the second-most senior board and has delegated authority from the Treasury Board. It is chaired by the lead Non-Executive Director.
  
42. TB(SC) meets more frequently than the Treasury Board and challenges the Department's executive team on performance and key risks. It discusses the Department's performance and risk reports alongside policy issues and corporate strategic thinking and provides oversight of HM Treasury's Arm's Length Bodies ("**ALBs**"). The relevant HM Treasury Directors are responsible for ensuring that there is an effective risk management system in place to address risks to delivery and budgets within ALBs and other entities where they hold sponsorship responsibility. Each of HM Treasury's ALBs has their own Accounting Officer who is responsible and accountable for their organisations.

#### *The Executive Management Board*

43. HM Treasury's Executive Management Board ("**EMB**") is chaired by the Permanent Secretary who is responsible for the overall management of HM Treasury. This includes responsibility for governance, decision making and financial management of the department. As the most senior civil servant at HM Treasury, they are accountable to Parliament for the department's actions.
  
44. EMB is responsible for leading, motivating and challenging the department, and for ensuring that high quality advice is given to ministers and the department responds to – and delivers on - ministerial priorities. EMB is also responsible for risk management, ensuring sound internal controls, and for managing resources.
  
45. An annual business planning process, overseen by EMB, sets the department's priorities and resourcing plans for the year ahead. This focuses on the Treasury's core functions, ministerial priorities and identified risks.

46. EMB meets at a minimum weekly to lead the department's response to ministerial priorities. During the pandemic, EMB met more frequently to lead the department's response. The department was required to be quick and agile in leading the government's response to heightened and fast changing economic risks. EMB ensured the department had the right resources in the right place to be able to support the UK in its response.

#### *The Operating Committee*

47. The Operating Committee ("**OpCo**") is a sub-committee of EMB that, during the relevant period, was chaired by the Second Permanent Secretary. OpCo oversees the department's financial planning and operational risk management and provides additional oversight on operational issues that materially affect the level of risk arising in the broader Treasury Group. Any member of EMB can attend OpCo if they have an interest in the items being discussed.
48. OpCo's purpose is to ensure that the department has robust internal procedures and business processes that support the department's overall strategy and business needs and that they operate effectively and appropriately. Operational Risk Management covers aspects across HM Treasury's workforce, technology, security, safety, and information risks, as well as financial and fraud risks arising within the institution itself and its ALBs. OpCo also acts in an advisory capacity in relation to finance and staffing and provides approval for business cases for spending within the Treasury and its ALBs. OpCo does not have a role on issues related to government policy, or on delivery outside the department.
49. The Committee did not take on any additional or exceptional responsibilities beyond its standard terms of reference during this period and remained focused on internal operational risk management and providing additional oversight on operational issues that materially affect the level of risk arising in the Treasury Group.

#### *Audit and Risk Committee*

50. The Audit and Risk Committee ("**ARC**") is a sub-committee of the Treasury Board, chaired by an independent non-executive director. ARC supports the Permanent Secretary and the Treasury's additional Accounting Officers in their responsibilities

within the Treasury and its ALBs on financial reporting, systems of internal control, governance, and managing risk for funds and accounts including Treasury Group's Annual Report and Accounts.

51. Members of ARC are appointed by the Chair along with the Principal Accounting Officer. In accordance with the ARC Handbook, the Committee provide independent challenge on the robustness of the mechanisms in place for governance, risk management and internal control.
52. ARC provides oversight of activity performed by the department's external auditors, the National Audit Office and the Government Internal Audit Agency and approves both the external and internal audit plans for the year.
53. During the pandemic, the ARC continued to fulfil its existing remit of providing independent advice, oversight, and challenge on matters of risk, control, and governance for spending within HM Treasury and its ALBs. In particular, the ARC maintained its focus in the support of the Permanent Secretary and the executive team in reviewing the effectiveness of internal controls and risk management processes, which included risks associated with the pandemic for HM Treasury's spending and operations. The ARC did not take on any additional or exceptional responsibilities beyond its standard terms of reference during this period.

*Other HM Treasury committees focused on Risk.*

54. Economic and fiscal risk management forms an integral part of HM Treasury's governance, leadership and activities. EMB has two internal sub-committees focused on risk – the Economic Risk Group (“**ERG**”) and the Fiscal Risk Group (“**FRG**”). These committees contribute to HM Treasury's risk management framework by identifying and tracking indicators, horizon-scanning, and assessing the likelihood, probable impact and potential mitigation of risks, enabling EMB and senior managers to act where appropriate.
55. Risks across the department are consolidated into the Quarterly Performance and Risk Report (“**QPRR**”) which is circulated to EMB and the TB(SC). The QPRR reviews risks to departmental performance and delivery against priority outcomes, providing a

comprehensive overview for senior leadership to scrutinise plans that exceed the agreed risk appetite and agree mitigating actions in response.

#### *Economic Risk Group*

56. The ERG was established in 2010, following the 2008 financial crisis, to provide a regular senior-led forum to discuss HM Treasury's assessment of a wide range of risks to the economy and financial system. The ERG undertakes analysis that provides a timely and comprehensive view of the economy to best inform policy development.
57. The ERG is chaired by the Director of the Economics Group, with the Director for Financial Stability Group as co-owner. As per the Terms of Reference [BR/005-**INQ000088160**], ERG usually convened every 6-12 weeks, with the overriding objective to scrutinise trends and explore medium-term risks facing the UK's economy, markets, and institutions, as well as providing a forum for exchange and challenge. The ERG met 6 times in 2020 and 5 times in 2021.

#### *Fiscal Risk Group*

58. The FRG is chaired by the Director of Fiscal Group and met four times between March 2020 and the end of 2020 (July, September, October, December). It then moved to a quarterly cycle from the start of 2021. FRG reports to EMB on the most important risks to the fiscal position and actions being taken to manage these risks, contributing to the department's risk management framework, and helping EMB and senior managers to act where appropriate.
59. FRG's approach to managing fiscal risks follows a five-stage process, modelled on international best practice. This is to:
  - a) Identify the source, scale and likelihood of the risk.
  - b) Disclose the risk to raise awareness and ensure accountability.
  - c) Mitigate the risk where cost-effective and consistent with broader policy objectives.
  - d) Ensure provision for risks that cannot be mitigated but whose size and timing are relatively certain.
  - e) Accommodate residual risks when setting the overall fiscal policy stance.

60. This approach is underpinned by the principles outlined in HM Treasury's 'Orange Book'. This includes processes that support the maintenance of risk registers, regular reporting to governance fora, and regular discussion of the organisation's mitigation strategies.

*Global Economic Analysis and Risk Group*

61. HM Treasury also jointly chairs the Global Economic Analysis and Risk Group ("**GEARG**") with the Foreign, Commonwealth and Development Office ("**FCDO**"). The GEARG aims to improve coordination on country and cross-cutting international macroeconomic analysis among key departments, helping to develop a shared view on risks and opportunities. Prior to and during the pandemic, the core members of this Group were HM Treasury, the BoE, FCDO, Cabinet Office, Department for International Trade ("**DIT**"), and BEIS, with other departments invited as needed.

*Covid Response Board and Governance boards for specific interventions*

62. At the outset of the pandemic, HM Treasury's governance evolved rapidly and iteratively to coordinate the departmental-wide response. The 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. For example, during the early stages of the pandemic, the Board focused on matters such as approaches to Non-Pharmaceutical Interventions, the supply of PPE, and the potential longer-term impacts of public health measures on the economy. More targeted matters were addressed as required, as seen during preparations for winter, the costs and impacts of tiered systems of restrictions, and the approach to the 2020 festive period. The Board was chaired by Dan York-Smith and subsequently Kate Josephs. Membership included representatives of all teams involved in pandemic work.
63. The Economics and Business Covid-19 internal group was set up to provide strategic direction to economic and business policy development and analysis related to both Covid impacts and economic recovery. It was chaired by the Directors of Economics Group and the EGU in HM Treasury and shaped HM Treasury's input to the cross-department Economics and Business Response Implementation Group ("**EBRIG**") and wider cross-Whitehall decision making on Covid response.

64. In addition, HM Treasury also introduced governance boards for specific economic interventions during the pandemic. For example, boards were established (together with HMRC) for the CJRS and SEISS. As above, these were not decision-making fora but monitored development and delivery of specific interventions and coordinated advice for ministers.

#### *HM Treasury-HMRC Policy Partnership*

65. Since the creation of HMRC in 2005, there has been a long standing "policy partnership" between HM Treasury and HMRC. The two departments work together on tax, with HM Treasury leading on strategy and policy and HMRC leading on delivery.
66. The partnership is governed through the Policy Partnership Oversight board as well as HM Treasury being represented on HMRC's board and other ad hoc steering groups on key issues. This tried and tested way of working was already established before the pandemic and was utilised extensively to deliver schemes such as CJRS and SEISS.

#### ***Process for Advising HM Treasury Ministers***

67. The process for advising ministers in HM Treasury remained similar in the pandemic to the previous period, although the speed of advice and decision making was much faster. As before the pandemic, officials provide advice, but decisions are made by ministers.
68. Ministers can commission advice directly from officials on a given issue, or officials can proactively raise an issue, offer advice, and seek steers. HM Treasury officials closely evaluate each request and provide ministers with options and recommendations in a submission for their consideration. The process of providing advice is often iterative, with submissions to ministers each covering specific aspects of a broader decision. Policy leads will develop advice, with input from other teams where relevant and from senior officials and in some cases special advisers, before submitting to ministers via the minister's Private Office. Ministers and officials may then wish to have a discussion on the written advice to aid decision making. A minister may also request additional advice or analysis to further explore a specific point within the decision. Once the minister has reached a view, their private office will record their position and communicate with relevant officials. Briefings are also provided for cross-department meetings or bilateral meetings with the Prime Minister.

69. Standard practice for meetings with ministers is for a readout to be produced to represent the main points and actions taken. Private Offices also provide written readouts relating to written submissions produced by the Department. Similarly, where relevant, meetings and steers from submissions and meetings are communicated by HM Treasury Private Offices to other departments or No.10's Private Offices.
70. Due to the swift pace of work on the Covid economic support schemes, there was often minimal time between meetings – or (in the case of inter-departmental meetings) between receiving briefing materials and attending meetings. Therefore, on certain occasions, especially when dealing with rapidly evolving topics, information was communicated to the Chancellor and other ministers verbally. In these cases, ministers would often have had conversations with officials on the basis of draft documents or emerging thinking across Whitehall.
71. In terms of frameworks and guidance for policy making, support was available to HM Treasury officials via an internal Policy Skills Framework and training via the Policy Leadership Program which included teaching on scenario planning, problem framing and using data. This was training and guidance for policy staff put in place before the pandemic in line with the wider Civil Service Policy Profession Standards and overseen by the department Co-Heads of the Policy Profession at the time, Suzy Kantor and Gwyneth Nurse.
72. The analytical evidence underpinning decision making developed through the pandemic. HM Treasury used new modelling and assessment tools, both to understand what was happening in the economy and the potential impacts of specific economic interventions. More details on these analytical tools, including a description of HM Treasury's epi-macro modelling, are set out in Part 4: **Data, Modelling, and Analysis** below.
73. When bringing together advice and analysis for ministers, civil servants operate within the civil service code, ensuring that all information and material is provided with integrity, and is impartial, honest and objective. Civil servants are expected to work effectively with ministers and provide confident and challenging advice, where appropriate, to inform decisions, in accordance with the Civil Service Policy Profession standards. HM Treasury always aims to provide its ministers with evidence-based, objective advice and options, setting out a wide range of considerations. Treasury officials are expected to ensure their advice is honest, factual, and includes practical plans to implement the wishes of ministers.

74. From the beginning of February 2020, HM Treasury officials provided advice to ministers on the economic and fiscal impacts of the pandemic and various economic interventions [BR/05a -INQ000328752] [BR/05b-INQ000088044]. The advice informed judgments on the relative impact of different potential measures and aimed to equip ministers to take a well-informed view on some very difficult decisions - trying to control the spread of the virus while minimising the impact on the economy and society more broadly.
75. There was often input from multiple HM Treasury teams into specific pieces of advice for ministers, reflecting the need to take account of multiple different factors. Where there were differing views across the organisation, these were reflected in advice, or meetings were held to agree a single recommendation. This was sometimes also resolved through debates over email on the drafting of particular pieces of advice. Advice from officials was also informed by a range of sources including discussions with external stakeholders such as businesses, think tanks and others.
76. In addition to receiving advice from officials within HM Treasury, the Chancellor would also get input from external sources. These included his special advisers, business leaders, the Governor of the BoE, regulators, and Secretaries of State and ministers from other departments. Furthermore, he would receive regular updates from medical experts, including the Chief Medical Officer (“**CMO**”) and Chief Scientific Adviser (“**CSA**”). The CMO and CSA were invited to cabinet meetings which were held regularly, and HM Treasury officials used the information shared from them and from the Department of Health and Social Care (“**DHSC**”) to develop policy decisions and advice for the Chancellor and other HM Treasury ministers. It was well understood that the decisions on economic support needed to be guided by, and support, the decisions made on health interventions.

### ***HM Treasury’s Structures and Processes in Response to the Pandemic***

77. From March 2020, HM Treasury conducted a redeployment exercise to move officials, including senior civil servants (“**SCS**”), from standing roles to the highest priority, mainly Covid, pieces of work across the department. Over 70 people were moved between groups via the projects team and the redeployment exercise. The department also recruited or promoted staff, including increasing the number of Deputy Directors (with some dual running with two Deputy Directors covering together in some areas) to

increase bandwidth and resilience in leadership roles, and ensure the department had sufficient resource to manage pressures.

78. As described in HM Treasury's Module 1 evidence, a flexible cross-HM Treasury resource pool – the Strategic Projects Team – is maintained to provide rapid support to the highest priority areas of work across the department. It is designed to help deliver HM Treasury's strategic priorities and was implemented as a recommendation from the Review of HM Treasury's Management Response to the Financial Crisis (the "White Review"). This team sits in SPB, and the allocation of this flexible resource is reviewed on a quarterly basis. HM Treasury used the Strategic Projects Team to respond quickly and move people with crisis and project experience into key roles in March 2020, including running the initial response at the Budget.
79. A central team in SPB, led by two Deputy Directors, was set up to coordinate the Treasury's response to the Covid pandemic and liaise with the Cabinet Office Covid 19 Taskforce ("**the Taskforce**"), with an extra SPB Director recruited in summer 2020 to lead the department's response.
80. Directors also reprioritised staff within their own groups, with new teams set up in key directorates (PTWP; EGU; Financial Services) to develop and oversee delivery of the main economic interventions, as well as answering higher levels of correspondence. Expertise and experience from existing policy teams who owned core relationships (such as with spending departments or business groups), and understood the fiscal, economic and legislative implications of policy options, was essential. But these were reinforced with additional resource to deal with the volume of work needed to develop and operationalise the schemes.
81. Alongside these increases in resource, the department also stepped up its oversight and coordination. As set out above, EMB 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 described above was a key forum for updates on the path of the virus and the key workstreams in response, including on economic support.
82. Regular monitoring of the economy and public finances was intensified. Update packs, detailing the latest developments on the economy, markets and public finances, were sent to senior officials, EMB, the Chancellor, and other government departments daily.

The Economics Group also fed macroeconomic data into the Cabinet Office's data dashboards, through which regular updates were sent to the Prime Minister. From spring 2021, these daily updates were replaced by a weekly update pack (that replaced the weekly macro-monitor) and was distributed to EMB, the Chancellor and the Prime Minister.

83. The frequency of meetings of the ERG was increased, and the agenda was reduced to two items (a discussion on latest developments and a 'deep dive' on one topic), to enable more regular and in-depth discussions on risks to the economy and financial stability.
84. From the start of the year FRG meetings had moved to a quarterly basis, with a renewed focus on deep dives from key risk areas. This ensured more in-depth scrutiny of priority risks, to better inform policy development through fiscal risk related steers and the commissioning of further risk analysis, when required.
85. There were also new structures set up to oversee and manage the economic support schemes delivered jointly between HM Treasury and other departments. For example, there were regular meetings between HM Treasury and HMRC (building on their long-standing policy partnership on tax) to bring together policy, delivery, legal, and analytical capabilities to ensure the joint development, design, and delivery of the Statutory Sick Pay rebate scheme ("**SSPRS**"), the CJRS, and SEISS.
86. HM Treasury also conducted regular meetings with the BoE in relation to matters such as loans administration and other economic support. This is discussed in more detail at paragraphs 172-179.

### ***Ministerial Directions***

87. A Ministerial Direction is used where the use of public resources within that department's direct control does not meet the Accounting Officer standards of regularity, propriety, feasibility and value for money as set out in Managing Public Money ("**MPM**") [**BR/006-INQ000068420**], the document issued by HM Treasury setting out the main principles, specific requirements and good practice for dealing with public resources. A Ministerial Direction can be used to ensure that urgent and necessary activity can take place even where the requirements under the Accounting Officer standards are not met.

88. Where a departmental Accounting Officer determines that a proposal does not meet one or more of the standards set out in MPM, the expected next step is to consider whether the policy or proposed course of action can be modified to make it fit. If not, and the minister decides it is nevertheless appropriate to continue with the proposal, the Accounting Officer shall ask their senior minister for a formal written direction to proceed. An oral direction shall be confirmed promptly in writing. This direction is known as a Ministerial Direction.
89. HM Treasury's role is twofold in relation to the Ministerial Direction process. Firstly, as outlined in MPM, by their nature issues that might call for a Ministerial Direction are often novel, contentious, or repercussive, and therefore require explicit HM Treasury consent. Where this is the case, HM Treasury consent should be obtained before the Direction request is finalised. Treasury consent does not remove the need for a Direction if the Accounting Officer standards are not met. Secondly, the Treasury Officer of Accounts team within HM Treasury provides guidance to both Accounting Officers and ministers on the process and matters for consideration, both as part of the initial training of Accounting Officers and in relation to specific issues. For Ministerial Directions issued by the Chancellor themselves, advice on issuing a Ministerial Direction is provided by HM Treasury and in some cases joint advice with HMRC.
90. The ultimate judgement as to whether a Ministerial Direction is needed in each case lies with the Accounting Officer personally. Where HM Treasury officials are working with departments to help devise policy responses the expenditure undertaken would be allocated to the delivery department and the Accounting Officer would be the Permanent Secretary of that department. The decision whether or not to grant a Direction is the decision of the relevant minister in charge of the department to which the funding has been allocated. This is in line with the principle set out in Dear Accounting Officer letter 01/16. As such, even where there is an element of co-policy design it is the Chancellor's role to only approve novel expenditure not the Direction (unless the Direction request is from an HM Treasury or HMRC Accounting Officer)
- [BR/06a: INQ000625794]
91. There is no set form for requesting a Direction, though the Accounting Officer must be specific about the nature of the Direction needed and the standard or standards that is/are not satisfied.

92. During 2020, a record annual number of Ministerial Directions were made, mostly Covid-related. The majority of Directions included concerns over value for money, where the need to put in place urgent schemes of support meant some proposals did not have the usual level of supporting evidence that might be expected to justify the interventions made; and propriety, where the speed of setting up the scheme meant usual considerations about acceptable levels of fraud risk had to be adapted.
93. Owing to the timing of the pandemic occurring just before the end of the financial year, many departments were faced with costs of implementing appropriate Covid-related measures which went beyond the limits of the spending envelopes that had been authorised by Parliament for that financial year. Ordinarily where departmental spending is likely to exceed the existing spending limit, the Supplementary Estimates process will be followed. However, given the expediency demanded by the pandemic, flexibility was needed in the usual spending control process.
94. On 9 April 2020, Tom Scholar, the Permanent Secretary to the Treasury, wrote to all Accounting Officers of government departments to set out how the Treasury planned to support Accounting Officers with their responsibilities during the pandemic. **[BR/007-INQ000609801]**.
95. Following the Boardman review in December 2020, HM Treasury produced internal guidance, Spending Control in a Crisis, based on learning from the decisions and actions taken regarding spending controls in response to the Covid pandemic **[BR/008-INQ000399235]**. This included reflections on the need to provide targeted support to Accounting Officers in a crisis with guidance on taking difficult spending decisions and the role of MPM in that; and that Ministerial Directions are not a barrier to action, but a way to draw attention to the fact that the usual spending framework requirements are not able to be met in the circumstances. The guidance also noted that Ministerial Directions do not absolve Accounting Officers of responsibilities under MPM; mitigations to risks are still necessary and, where possible, steps should be taken to bring the policy back into line with the spending framework.
96. During the pandemic, the Ministerial Direction process was used on 15 occasions, as listed below. There were 14 Directions related to the pandemic in 2020 (a further Covid-19 related Direction was issued in January 2022). By contrast, there were six non-Covid related Directions in 2020, six in 2019 and seven in 2018. Each of these Ministerial

Directions is published on the gov.uk website BR/009 INQ000609917 Below are the Covid-19 related Directions made during the pandemic:

- a) 30 March 2020 – Coronavirus (COVID-19): Ministerial Direction on spend.
- b) 28 April 2020 – Coronavirus (COVID-19): Ministerial Direction for the support fund for retail, hospitality and leisure businesses.
- c) 28 April 2020 – Coronavirus (COVID-19): Ministerial Direction for the small businesses grant fund.
- d) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the Coronavirus Business Interruption Loan Scheme (“**CBILS**”).
- e) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the Coronavirus Large Business Interruption Loan Scheme (“**CLBILS**”).
- f) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for changes to the CBILS.
- g) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the Local Authority Discretionary Grants Fund.
- h) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the Coronavirus Bounce Back Loan Scheme (“**BBLs**”).
- i) 10 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the Future Fund.
- j) 12 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the early payment of grants.
- k) 18 June 2020 – Coronavirus (COVID-19): Ministerial Direction for the continuation of expenditure.
- l) 8 July 2020 – Coronavirus (COVID-19): Ministerial Direction on spend in the Department for Transport (“**DfT**”).
- m) 9 July 2020 – Job Retention Bonus: Ministerial Direction.
- n) 9 July 2020 – Eat Out to Help Out Scheme: Ministerial Direction.
- o) 12 January 2022 – Coronavirus (COVID-19): Ministerial Direction on independent sector contracting.

### ***Treasury Directions***

97. Treasury Directions are distinct from Ministerial Directions (as listed above). As set out above, Ministerial Directions are instructions from ministers to their Accounting Officers. Separate from that, there are a wide variety of directions issued by the Treasury that might be considered to fall within a definition of “Treasury Direction”; the term is not

specific to a particular direction making power or internal process of issuing such a direction. One such example of the Treasury's power to issue directions can be found in section 11 of the Commissioners for Revenue and Customs Act 2005, which gives the Treasury the power to issue general directions to HMRC. For clarity we will describe directions made under statutory powers as statutory directions. Where the statutory directions are made by Treasury ministers, we refer to them as Treasury Directions.

98. A statutory direction is generally drafted in a similar way to a statutory instrument, although it is not subject to a Parliamentary process.
99. During the pandemic, HM Treasury wanted HMRC to administer the CJRS. HMRC and its functions as a non-ministerial Department were established by the Commissioners for Revenue and Customs Act 2005. When HMRC was established, there was no expectation that a scheme like CJRS would form part of its functions and so additional powers and/or functions needed to be given to HMRC to enable it to administer the scheme.
100. Section 71(1) of the Coronavirus Act 2020 amended section 1 of the Treasury Instruments (Signature) Act 1849 which required instruments etc to be signed by two or more of the Commissioners of HM Treasury so that one or more of the Commissioners could sign. Section 71(2) of the Coronavirus Act 2020 provided that, in the context of the Treasury Instruments (Signature) Act 1849, any minister of the Crown in the Treasury who was not a Commissioner of HM Treasury was to be treated as if the minister were a Commissioner of HM Treasury. Taken together, these two amendments meant that fewer Commissioners were needed to sign a Treasury Direction, and that ministers who would not ordinarily be empowered to sign could.

#### *Treasury Directions Made Under the Coronavirus Act*

101. Treasury Directions under sections 71 and 76 of the Coronavirus Act 2020 were made on seven occasions. All were published on the gov.uk website BR/009

INQ000609917

- a) On 15 April 2020, the Chancellor made a HM Treasury Direction under sections 71 and 76 of the Coronavirus Act. This HM Treasury Direction applied to HMRC,

requiring it to be responsible for the payment and management of amounts to be paid under the CJRS.

- b) On 22 May 2020 the Chancellor made a further HM Treasury Direction under sections 71 and 76 of the Coronavirus Act 2020, reflecting the extension to CJRS to 30 June 2020 announced by the Chancellor on 17 April and clarifying some provisions within the original Direction.
- c) On 25 June 2020, the Chancellor made a further HM Treasury Direction under sections 71 and 76 of the Coronavirus Act 2020, reflecting the extension to CJRS to 31 October 2020, and the changes to the terms of the scheme from 1 July 2020 onwards, announced by the Chancellor on 12 May 2020.
- d) On 2 October 2020, the Chancellor made a HM Treasury Direction under sections 71 and 76 of the Coronavirus Act to set out the legal framework for the Job Retention Bonus. The Direction sets out that HMRC are responsible for the payment and management of amounts to be paid under the Coronavirus Job Retention Bonus, as set out in the Schedule to the Direction.
- e) On 13 November 2020, the Chancellor made a HM Treasury Direction under sections 71 and 76 of the Coronavirus Act to extend and modify the effect of the CJRS. The schedule to this Direction sets out the scheme applying for the period beginning on 1 November 2020 and ending on 31 January 2021. This schedule also withdraws the Coronavirus Job Retention Scheme (Job Retention) Bonus established by part 2 of the Schedule to the Direction made on 1 October 2020 by the Treasury in exercise of the powers conferred by sections 71 and 76 of the Coronavirus Act 2020 because the purpose of the Job Retention Bonus has been superseded by the provision made by part 1 of this schedule.
- f) On 25 January 2021, the Chancellor made a Treasury Direction under sections 71 and 76 of the Coronavirus Act to extend the effect of the CJRS. The schedule to this Direction sets out the scheme applying for the period beginning on 1 February 2021 and ending on 30 April 2021. Due to the overlap with the CJRS that was introduced in March 2020, this Direction modifies the rules to calculate the reference salary and usual hours.
- g) On 15 April 2021, the Lords Commissioners made a Treasury Direction under section 76 of the Coronavirus Act to extend and modify the effect of the CJRS. The schedule to this Direction sets out the scheme applying for the period beginning on 1 May 2021, and ending on 30 September 2021, providing for tapering of the support in July, August and September 2021, and extends the Real Time Information (“RTI”) cut-off date to 2 March 2021.

### ***HM Treasury's Spending Responsibilities***

102. HM Treasury codifies its responsibility for creating and maintaining public resource frameworks in the publication of MPM [BR/006-INQ000068420], which sets out how departments and ALBs should meet Parliamentary spending expectations through the Accounting Officer system. HM Treasury has specific teams to oversee the budgets of departments alongside a central coordination team, General Expenditure Policy (“GEP”). These teams broadly correspond to a range of government departments, for example, health, education, local government, and transport. Each spending team is responsible for overseeing spending policy for their department and HM Treasury works with departments to set budgets through the Spending Review (“SR”) process.
103. At SRs, HM Treasury sets DELs for each department. These are divided into Resource Departmental Expenditure Limits (“RDEL”), which is used for day-to-day expenditure, and Capital Departmental Expenditure Limits (“CDEL”) which is used for investment e.g., in rail or roads. DELs cover a large proportion of departmental spending, comprising of items that can be planned over extended periods. HM Treasury also holds a Reserve for both RDEL and CDEL for genuinely unforeseen and unavoidable pressures not known about in advance.
104. In addition, some spending may be classified as Annually Managed Expenditure (“AME”). Spending may be classified as AME if the spend is demand-led, and exceptionally volatile, such as most welfare spending and some compensation schemes (such as the Financial Services Compensation Scheme). This spend by its nature is less predictable and controllable than expenditure in DEL. This includes areas of spend so large (for example the BoE’s Asset Purchase Facility) that departments could not be expected to absorb the effects of this volatility with their DEL control totals. Generally, all areas of spend are in DEL unless the CST has determined that they should be in AME. There is no reserve for AME expenditure, with budgets set and revised through the Supply Estimates process. AME cover was provided for the payments made through many of the Covid schemes such as CJRS. The administrative costs were DEL.
105. The classification of expenditure related to the key interventions for spending purposes is listed in the table below:

Intervention	Spending classification	Relevant department
Coronavirus Job Retention Scheme	AME	HMRC
Self-Employment Income Support Scheme	AME	HMRC
Working Tax Credits £20 uplift	AME	HMRC
Working Tax Credit Eligible Recipients £500 one-off payment	DEL	HMRC
Universal Credit £20 top up	AME	DWP
Statutory Sick Pay	AME	DWP
Statutory Sick Pay Rebate	AME	Administered by HMRC on behalf of DWP. DWP has both policy responsibility and the associated AME funding for SSPR.
Grants to businesses	DEL	Transferred to BEIS budgets, then transferred to MHCLG to give to Local Authorities. The BEIS permanent secretary was the responsible Accounting Officer.
Eat Out to Help Out	AME	HMRC
Business Rates Reliefs	DEL (Reclassified to AME at Autumn Budget 2023)	MHCLG
Covid Corporate Financing Facility	AME (Contingent liability to the BoE via CCFF Limited)	HM Treasury
Loans: CBILS	Capital-AME (C-AME)	BEIS
Loans: CLBILS	C-AME	
Loans: BBLS	C-AME	
Loans: RLS	DEL	

106. In relation to local government, HM Treasury worked with the Ministry of Housing, Communities and Local Government (“**MHCLG**”) (subsequently renamed the

Department for Levelling Up, Housing and Communities (“**DLUHC**”) from September 2021), to agree the local government DEL budget, the main source of grant funding for English LAs. The details are set out by MHCLG through the annual Local Government Finance Settlement, but LAs 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 LAs by government. LAs also have the power to raise income locally through Council Tax, retained business rates and sales, fees and charges.

107. The funding arrangements for the Devolved Administrations (“**DAs**”) are set out in the Statement of Funding Policy. This policy sets out how HM Treasury funds the DAs and the sources of self-funding available and was first published in March 1999. It has since been updated nine times (with the most recent edition published alongside the Autumn Statement 2023 and an addendum published at Autumn Budget 2024 and the conclusion of Phase 1 of SR 2025.)
108. Further information as to the operation of the Barnett Formula and DA funding more generally is provided in Part 5 below.

#### ***Framework for Public Expenditure in Civil Emergencies***

109. SRs are the process by which HM Treasury decides how to distribute the total amount of money the government plans to spend on its departments and public services. SRs generally cover only expenditure which can reasonably be predicted and planned in advance. Where unexpected pressures arise, such as the pandemic, departments are expected to respond first by managing pressures down, deploying contingency from within their own budgets and re-prioritising where possible. The Consolidated Budgeting Guidance (“**CBG**”), which sets out the principles and standards underpinning the budgeting system mandated for use in central government, provides HM Treasury’s expectation that all departments identify a percentage of their DEL that could be reprioritised to fund unforeseen pressures. This can be made up of either having a list of contingency plans for how the department could reprioritise resources should it be necessary, by a Departmental Unallocated Provision (“**DUP**”), or a combination of the two.
110. Beyond that, HM Treasury also sets aside contingency at the centre for genuinely unforeseen and unavoidable pressures, known as the Reserve, and controls how this is

allocated. There is one Reserve for RDEL and one for CDEL. Access to the Reserve must be agreed by the CST, while the Reserve can also be augmented at subsequent fiscal events. At the SR 2020, HM Treasury increased the Reserves by £25.3bn in 2020-21 and £21.3bn in 2021-22 to account for further Covid costs.

111. The CBG sets out the process that departments should follow if they wish to make a call on the Reserve. As well as proposing and discussing any alternative courses of action with their HM Treasury spending team as early as possible, departmental proposals for Reserve access must set out:

- a) The size of the pressure.
- b) The cause and why it is unforeseen.
- c) Any offsetting actions to manage down the pressure – including cutting costs, cutting inefficiencies, cutting unnecessary programmes and cutting lower priority budgets.
- d) The residual pressure.
- e) Corrective actions they mean to take if Reserve access is granted.

112. If discussions conclude with no other alternative course of action identified, departments must submit a formal request to HM Treasury. The drawdown of funding from the Reserve is then subject to an assessment of need, realism, and affordability at the time at which funds are released. Where the CST agrees to provide support to a department from the Reserve, the amount may be repayable the following year by means of a reduction in the department's budget.

113. Though departments should always follow the Reserve process set out in the CBG where possible, there are occasions where a department's request for access to the Reserve may need to be approved to a much shorter timescale. In such circumstances, HM Treasury can agree to allow the department to access the Reserve in principle without following the standard approval process. These requests will still normally need ministerial approval and need to be confirmed during the Estimates process and funding will only be provided based on the need, realism, and affordability of the claim. HM Treasury relied heavily on this approach during the early stages of the Covid pandemic.

114. Budgets and any associated cash allocated through the Reserve still require voting in Parliament at either Main or Supplementary Estimates for departments to receive access to this additional funding. If departments need to incur urgent expenditure ahead

of it being voted in Parliament (and receiving Royal Assent), they can apply for a Contingencies Fund Advance (“CFA”). A CFA enables HM Treasury to make repayable cash advances to departments for urgent services, in anticipation of provision for those services by Parliament. HM Treasury may authorise issues out of the Fund subject to the limit set on the capital of the Fund by the Contingencies Fund Act 1974.

115. The level of the Contingencies Fund was increased using primary legislation amending the Contingencies Fund Act 1974 in both 2020-21 and 2021-22 to ensure that departments could access cash advances for urgent services in a timely manner, ahead of formal voting in Parliament at Main or Supplementary Estimates. The limit was fixed at 2% of the total of authorised Supply expenditure (i.e., the total of all authorised departmental net cash requirements) in the preceding financial year. For 2020-21 the Contingencies Fund Act 2020 increased the percentage to 50% from the usual 2% (from approximately £11bn to £266bn). For 2021-22, the Contingencies Fund Act 2021 increased the percentage to 12% (from approximately £17.5bn to £105bn). In 2022-23 the Contingencies Fund returned to the usual 2% (approximately £15.1bn).
116. AME does not have a reserve. Instead, the forecasts for AME are updated at each fiscal event by the OBR.
117. There are no special arrangements in place with Cabinet Office for funding civil emergencies, beyond the usual arrangements in place for all urgent and unexpected expenditure through application to the Reserve.

#### *Bellwin Scheme*

118. The Bellwin Scheme provides emergency financial assistance to LAs in England where an emergency or disaster causes destruction of or danger to life or property and, as a result, one or more LAs incur expenditure on, or in connection with, the taking of immediate action to safeguard life or property – or to prevent suffering or severe inconvenience.
119. The Scheme provides reimbursement to LAs to fund a response that will cost above a threshold of 0.2% of a LA's annual budget and is intended to reimburse the cost of LA actions taken in the immediate phase of an emergency, not those taken as part of the recovery phase. It is not intended to fund longer term repairs or costs. This is reflected

in the eligible spending period - one month from the date that the qualifying period comes to an end. Actions taken after one month would be unlikely to be considered immediate.

120. The Scheme is legislated for by section 155 of the *Local Government and Housing Act* 1989. There is no automatic entitlement to financial assistance. Instead, activation of Bellwin is a decision for the MHCLG Secretary of State (during part of the relevant period this was DLUHC) and requires HM Treasury approval.
121. Recent examples of the activation of the Bellwin Scheme include: £7m for the Grenfell Tower fire in the London Borough of Kensington and Chelsea (2017), £0.166m for Storm Arwen in Northumberland County Council (2021) and between £0.2m and £0.7m for Galpin's road gas explosion in the London Borough of Merton (2023).

#### *Devolved Administrations*

122. The Statement of Funding Policy sets out how the UK government funding for the DAs is determined and highlights other sources of funding available to them. Each DA manages its own Consolidated Fund and, consistent with the arrangements for UK government departments, DAs will normally be expected to accommodate additional pressures on their budgets by using existing tools available to them. They are responsible for ensuring sufficient arrangements are in place for the planning and control of spending on devolved services to mitigate and manage the impact of emerging pressures. Unforeseen pressures on DAs could be addressed by:
  - a) Re-allocating funding from other priorities.
  - b) Seeking offsetting savings.
  - c) Deploying Budget Exchange arrangements.
  - d) Raising revenue.
  - e) Accessing reserves or borrowings.
  - f) Adjusting the timing of spending across years, to manage underspends.
123. DAs have the freedom to adopt whichever arrangements they deem suitable for establishing DUPs or retaining budgets at the centre as contingencies.
124. For DA funding in civil emergencies, Chapter 8 of the Statement of Funding Policy sets out the arrangements for the DAs to access the UK Reserve. This should be considered

as a last resort. In summary, access will be considered by HM Treasury ministers in exceptional circumstances where either:

- a) A UK government department is granted access to the Reserve to enable it to meet exceptional pressures on a spending programme, and a DA facing similar pressures unforeseen at the time spending plans were set is unable to meet them using the range of alternative sources of funding or budgetary management tools available to it.
- b) A DA faces exceptional and unforeseen domestic costs which cannot reasonably be absorbed within existing budgets or managed using the additional tools and powers available to them, without a major dislocation of existing services.

125. DAs must send a ministerial letter to the CST setting out their case. Access is judged on largely the same criteria as claims by UK government departments but also considering the additional tools and powers available to DAs.

126. In 2020-21, the DAs were provided with an in-year funding guarantee of £16.8 billion, on top of their Spring Budget 2020 settlement. This meant that DAs could plan their response to the pandemic without having to wait for changes to UK government departments' budgets to be confirmed and without them having to make a claim on the Reserve. For 2021-22 onwards, Covid was largely taken into account through SR settlements, so a further funding guarantee was not required.

### ***Co-operation and Joint Working on Economic Policy***

127. HM Treasury is a core part of a set of institutions – within and outside government – that produce economic analysis and develop and deliver economic policy. HM Treasury works closely with other departments who deliver parts of the government's overarching economic strategy, as well as with all government departments to ensure that spending plans support high quality public services and value for money for the taxpayer.

128. HM Treasury worked very closely with a number of government departments and public bodies in the economic response to the pandemic, most notably HMRC; BEIS; DWP; the Department for Culture, Media and Sport ("**DCMS**"); MHCLG (from September 2021 to July 2024, DLUHC, though mostly referred to in this statement as MHCLG), DfT, BBB,

BoE and the Financial Conduct Authority (“FCA”). Many economic interventions were designed and delivered by more than one department.

129. 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 of them, HM Treasury was either solely or jointly responsible for developing the policy and was closely involved in overseeing delivery. HM Treasury’s role was also to ensure that the economic and fiscal impact of policies under consideration were understood and explained to ministers, and to provide spending cover.
130. During the pandemic, the Chancellor consulted the Prime Minister on all economic decisions, including, but not limited to, the support schemes announced in Spring Budget 2020 and 2021, the economic support packages that followed the introduction of NPIs in March and October 2020 and January 2021, and in the Plan for Jobs and Winter Economic Plan. No.10 and the Economic and Domestic Affairs secretariat in the Cabinet Office supported gathering both the Prime Minister’s agreement, and collective agreement from the Cabinet.
131. Cabinet-level decision-making structures evolved over the course of the government’s pandemic response. Decisions were initially made at Cabinet Office Briefing Room meetings (“COBR”). From March until late May 2020, the PM chaired daily meetings supported by four Ministerial Implementation Groups (“MIGs”). The Chancellor chaired an Economic and Business MIG, to address issues particularly relevant to HM Treasury presented by the pandemic [BR/011-INQ000181689].
132. The pandemic response was inevitably a government-wide priority, in which HM Treasury contributed by sharing analysis and assisting in the development of economic understanding across government, as well as working on design and delivery of the economic support interventions. Once the Cabinet Office had established the Taskforce, HM Treasury officials worked closely with it to ensure fiscal and economic considerations were included in decision making and worked closely with Cabinet Office officials to support them in analysing economic evidence. For example, HM Treasury was central to various reviews, such as the Roadmap and Social Distancing Review and developed assessments for ministers of the economic impacts of the pandemic, restrictions, and policies for No.10 and the Cabinet Office, many of which were shared with other ministers.

133. HM Treasury also used the analytical community across government to inform and strengthen its assessment of the economic outlook and to ensure Cabinet Office colleagues were able to draw on the latest economic analysis when synthesising information drawn from across government. For example, HM Treasury officials were an integral part of the Heads of Analysis group which was set up November 2020. This group, chaired by the Taskforce and containing representatives from the Joint Biosecurity Centre (“**JBC**”), DHSC, the Office for National Statistics (“**ONS**”) and Government Office for Science, met on a weekly basis to align the analytical efforts across government and produce integrated analysis which took into account the health, economic and social impacts of the virus and interventions.
134. The level of co-operation and joint working between HM Treasury and other departments is also evident in the design and delivery of economic support schemes. The HM Treasury-HMRC policy partnership helped deliver a number of key interventions, including CJRS and SEISS. Many economic support schemes were developed at very fast pace, from design to announcement in a matter of days, and required cross-departmental collaboration to ensure their rapid and effective implementation. How HM Treasury worked with other departments on the delivery of these schemes is expanded upon below.
135. The speed at which policies had to be developed and delivered was a significant challenge and the urgency of the situation occasionally prevented HM Treasury from giving as much advance notice of changes to certain schemes to other departments as would ideally be the case. Nevertheless, there was a shared sense of purpose and collaboration across government to overcome these challenges when they arose and ensure that support reached those who needed it as quickly as possible.
136. For each of the following relationships, the emphasis in this statement is on relative roles and responsibilities in policy development and the delivery of economic support. Additionally, HM Treasury had a responsibility to approve expenditures, as it would with any significant funding programmes. In certain cases, while HM Treasury contributed heavily to the policy design of schemes, the schemes themselves were implemented by departments and their respective ministers and Accounting Officers.

137. HM Treasury has a long-standing close relationship with HMRC. The current division of responsibilities and ways of working stretches back to the proposal to create HMRC in the O'Donnell Review **BR/012 INQ000609830** published in March 2004. The review recommended splitting responsibility for the tax system between strategic policy in HM Treasury, and operational policy in HMRC. Tax policy is therefore developed jointly, and this arrangement is known as the "policy partnership". HM Treasury cannot develop tax policies without HMRC, and HMRC cannot deliver them without HM Treasury. A HM Treasury minister is given responsibility by the Chancellor of the day for tax policy and also acts as departmental minister for HMRC. The XST is the current tax minister and acting departmental minister for HMRC. In the past – and during the pandemic – these responsibilities have sat with the FST.
138. A number of central interventions during the pandemic were designed and delivered jointly between HM Treasury and HMRC, starting with the SSPRS where lessons learnt delivering that support helped shape CJRS and SEISS. This meant senior HMRC officials were regularly advising HM Treasury ministers and submissions were often jointly written by teams across both departments ensuring policy, delivery, legal and analytical expertise and advice was brought to bear. HM Treasury officials had recourse to the professional skills of Knowledge, Analysis and Intelligence ("**KAI**") - HMRC's analysis, research and statistics function - throughout the pandemic. Joint working with KAI is a key element of the policy partnership; KAI are responsible for policy costings and routinely work with HM Treasury policy teams to agree the key assumptions underpinning these costings.
139. HM Treasury and HMRC have a well-established working relationship, particularly in co-developing and implementing tax and economic policies. During the pandemic, this collaboration was crucial in the successful formulation, announcement and roll out of deliverable policies at pace. While HM Treasury led formally on policy design and decision making, and HMRC provided operational expertise and was responsible for implementing many of the schemes, the two departments worked side by side. SCS from HM Treasury and HMRC met regularly, and their partnership ensured that policies could be swiftly developed, publicly announced, and efficiently rolled out. The relationship continued through to jointly-run evaluations which were published to ensure lessons were learnt.
140. **CJRS and SEISS:** HM Treasury and HMRC jointly developed CJRS and SEISS. The close working between HMRC and HM Treasury from the start, on both policy and

delivery, was a key aspect in ensuring rapid implementation. On 15 April 2020, the Chancellor made and published a Treasury Direction directing HMRC to be responsible for the payment and management of amounts to be paid under the CJRS, and on 1 May 2020, the Treasury Direction to provide HMRC with the power to make SEISS payments was published.

141. HMRC led on adapting its systems to deliver these schemes, while HM Treasury led on policy development. Engagement with other departments, such as BEIS, ensured necessary adjustments to policies like annual leave entitlements. CJRS and SEISS were subject to joint evaluations by HM Treasury and HMRC, assessing impact, value for money, fraud prevention, and lessons learnt. Despite the challenges of remote working and fast-paced policy development, strong communication and coordination between HM Treasury and HMRC enabled successful delivery.
142. **VAT and other tax easement policies:** HM Treasury and HMRC collaborated closely on VAT deferral and VAT policies for Personal Protective Equipment (“PPE”), vaccines, testing kits, disaster relief, and tourism and hospitality relief. HM Treasury led on policy design, with HMRC providing operational and technical insights to ensure effective implementation.
143. As the department responsible for collecting VAT, HMRC administered and monitored these interventions, including through compliance processes. Although no specific evaluations were conducted, HM Treasury and HMRC closely monitored and analysed the financial impact of VAT deferrals in particular. Long-standing collaboration with HMRC allowed for rapid response during the pandemic, with stronger relationships formed between HM Treasury and HMRC specialists to enhance policymaking.
144. **Eat Out to Help Out:** The EOTHO scheme was designed by HM Treasury and implemented by HMRC. HM Treasury officials developed policy options for the design of the scheme following the Chancellor’s decisions. Once the scheme was finalised, the Chancellor issued a Direction under the Coronavirus Act 2020, allowing HMRC to proceed with delivery.
145. HMRC rolled out the scheme between 3 and 31 August 2020 and played an important role in the provision of ongoing advice to the Chancellor on how delivery was progressing. HMRC was responsible for monitoring the programme, though no formal evaluation was conducted due to its short duration. The scheme was unique, sitting outside the usual

tax policy framework, but benefited from strong collaboration between the two departments.

146. **Welfare and SSP Rebate:** HMRC also played a role in the development and delivery of the SSPRS, and in the uplift/one off payment to Working Tax Credit households, working with DWP and HM Treasury.

*Department for Business, Energy & Industrial Strategy*

147. HM Treasury and BEIS have a long-standing collaborative relationship, particularly in areas related to financial services policy, industrial strategy, and economic growth. Prior to the pandemic, both departments worked together on financial initiatives such as ENABLE Funding (2014) and ENABLE Guarantee (2017), which laid the foundation for the swift and coordinated provision of business loans and grants during the Covid crisis. Throughout the pandemic, HM Treasury was responsible for the policy design of these schemes, while BEIS played a critical role in operational delivery, leveraging its expertise in business support mechanisms and working through the BBB, an arm's length body of BEIS, to implement loan schemes.
148. **Business Loan Guarantee Schemes:** HM Treasury worked closely with BEIS and BBB to develop and deliver schemes at pace such as the CBILS, CLBILS and the BBLS. In the extreme uncertainty created by the pandemic, these schemes needed to be delivered quickly to inject liquidity into UK businesses, so that they remained solvent and able to survive disruptions caused by the pandemic.
149. HM Treasury, working closely with BEIS and the BBB, designed key aspects of the loan guarantee schemes, including the eligibility criteria, size of the fund, size criteria for each individual loan, the engagement plan and delivery mechanism. As part of the policy design and evolution process, HM Treasury and BEIS also drew at different times on the expertise of the FCA, BoE and the financial sector (both individual lenders and UK Finance).
150. BEIS and BBB were responsible for operational delivery and implementation of the schemes, with the SoS BEIS the accountable minister and the BEIS Permanent Secretary, the Accounting Officer. The BEIS SoS issued the Ministerial Direction to implement the schemes. The BBB managed the schemes' implementation and was also responsible for lender guidance and legal documentation.

151. BEIS and BBB worked together to identify fraud risks and mitigate them where possible. The ongoing monitoring and evaluation of the loan portfolio is conducted by BBB and BEIS, with BEIS publishing quarterly data on the status of the Covid loans. This also includes monitoring of the fraud recovery work, which is led by BEIS, with support from BBB, the Public Sector Fraud Authority (“**PFSA**”) and lenders.
152. **Business Grants:** HM Treasury led the design of LA administered business grant schemes, as they were based on the business rate system. This included setting high-level eligibility criteria and funding allocations. BEIS led operational delivery, while MHCLG advised on LA funding and coordination. The BEIS Permanent Secretary was Accounting Officer and the SoS BEIS was the responsible minister. The Chancellor was responsible for making many of the policy decisions on the design and funding of the schemes, with the agreement of the SoS BEIS.
153. There were weekly working-level meetings between HM Treasury and BEIS on implementation, with MHCLG providing insights on LA interactions and implementation challenges. Based on feedback from LAs and stakeholders, the initial schemes were refined, such as introducing the Additional Restrictions Grant to deal with ‘hard cases’ that the initial design of the schemes did not cover. The grants were implemented by BEIS, with LAs selected to be the delivery agents of the programme due to their existing relationships with and knowledge of local businesses.
154. HM Treasury engaged frequently with MHCLG and BEIS at working level on the development of the schemes, with officials meeting multiple times a week. However, there were times throughout the pandemic where overall policy changed rapidly, particularly in response to last minute changes in NPIs, and this meant that it was not always possible to carry out an extensive engagement exercise before announcing new policy. Guidance on the operation of the schemes for LAs and businesses was published as soon as practicable after each iteration of the schemes.

*Ministry of Housing, Communities & Local Government*

155. HM Treasury regularly works closely with MHCLG, particularly in areas concerning local government financing, business rates and economic development. This collaboration pre-dates the pandemic, with clearly delineated roles that facilitated rapid policymaking during the crisis.

156. On business rates in particular, HM Treasury has ultimate responsibility for policy but works closely with MHCLG analysts and policy teams on potential changes. MHCLG holds the relevant legislation and is responsible for ensuring the effective administration and operation of the system. In line with this, during Covid, for those schemes based around the business rates system, HM Treasury was responsible for setting policy and assessing cost implications with MHCLG playing a crucial role in ensuring operational feasibility, leveraging its direct relationships with LAs.
157. This partnership was important for the swift rollout of business rates relief and the grant schemes for business based on business rates criteria, ensuring local government had the necessary guidance and resources to support businesses during the pandemic. HM Treasury officials advised ministers on scope, cost, and State aid considerations - and decision making on business rates was the responsibility of the Chancellor. MHCLG ensured policy operability and liaised with LAs on implementation. The Valuation Office Agency (“VOA”), an executive agency of HMRC, also provided data and valuation expertise to inform the design of the interventions.

*Department for Work and Pensions*

158. HM Treasury and DWP have a longstanding relationship in developing and delivering welfare, labour market and pensions policies, especially considering the size of potential implications both fiscally and economically. During the pandemic, DWP led development and delivery of welfare policies, and appropriate legislation where necessary (for example statutory instruments related to SSP), working closely with HM Treasury who were considering policies more widely that might reach individuals in need of financial support.
159. Changes to Universal Credit (“UC”) and other DWP benefits were developed by DWP and HM Treasury officials working together following No.10, HM Treasury and DWP ministerial decisions on approach and objectives. As the department responsible for UC, DWP designed the UC uplift, while HM Treasury gave spending approval and granted DWP discretion to relax rules, such as ID verification checks, to expedite support for individuals. Decision making on UC was, and remains, the responsibility of the SoS DWP working closely with HM Treasury ministers.

160. HMRC is responsible for administering tax credits and HMRC officials worked together with HM Treasury and DWP officials on policy advice to ministers on the accompanying Working Tax Credits uplift. Ministerial responsibility rested with HM Treasury, but HMRC implemented the increase.
161. SSP policy development required coordination between HM Treasury, DWP, DHSC, MHCLG, and the Cabinet Office. Decision making on SSP was, and remains, the responsibility of the SoS DWP working closely with Treasury ministers given the economic and spending implications. Collaboration also ensured financial support was available for individuals advised to shield. In preparation for the Chancellor's Budget announcement on 11 March 2020, HM Treasury worked with DWP and HMRC to develop and inform the design of SSP regulations.

*Department for Transport (“DfT”)*

162. Prior to and during the pandemic, DfT was responsible for the policy design and delivery of support for transport, including local transport, aviation, maritime, freight, active travel, rail, and DfT's Executive Agencies.
163. HM Treasury's role in the policy area during the pandemic was to consider spending requests made by DfT and sign off parameters for schemes that offered financial support to transport services, as well as to examine the conditionalities of existing schemes to determine continued suitability and need for change against the context of the pandemic.

*Department for Culture, Media & Sport (“DCMS”)*

164. Pre-pandemic, HM Treasury regularly engaged with DCMS to support sector growth in DCMS policy areas, while ensuring taxpayer money was spent wisely. During the Covid response, DCMS designed and implemented interventions across culture, charities, sport, performing arts, film and tv, museums and galleries, tourism and hospitality, consulting stakeholders to tailor support. HM Treasury played a role in supporting policy development and ensuring interventions targeted the hardest-hit sectors. The schemes included:
- a) Live Events Reinsurance.
  - b) Culture Recovery Fund.
  - c) Film and TV Production Restart Scheme.

- d) Sport Survival Package.
  - e) Arts Council England Emergency Response Fund.
  - f) Historic England Heritage Stimulus Fund.
  - g) National Lottery Heritage Emergency Fund.
165. HM Treasury assessed DCMS business cases, signing off proposed expenditure and monitoring DCMS Covid interventions. Communication between departments was frequent, with detailed policy analysis shared regularly, and ministerial engagement taking place via correspondence where necessary.
166. DCMS primarily administered the schemes, outsourcing certain programmes to third parties such as PricewaterhouseCoopers for the Voluntary Community and Social Enterprise programme and the National Lottery Community Fund for grants. Most interventions covered the UK, except the England-only Culture Recovery Fund.
167. Both departments had robust monitoring arrangements to track sector health and schemes effectiveness. DCMS business cases included evaluation plans, and HM Treasury received regular updates, including detailed reporting on the £750m Voluntary Community and Social Enterprise package.

#### *Cabinet Office*

168. During the Covid pandemic, HM Treasury worked closely with the Cabinet Office to manage the government's response to the crisis. This evolved over time as Cabinet Office structures and processes changed. HM Treasury's Module 2 evidence described these arrangements in detail. As the pandemic unfolded, HM Treasury's collaboration with the Cabinet Office became increasingly crucial in shaping government policy and response strategies.
169. The Cabinet Office leads cross-government processes for collective agreement on policy, and during the pandemic, the COBR served as the central mechanism for agreeing on the government's response to the crisis. HM Treasury worked alongside the Cabinet Office and other departments to foster a more predictable and transparent approach to implementing and lifting restrictions. This collaboration was vital in supporting economic recovery and the phased withdrawal of exceptional support measures, like the furlough scheme.

170. Throughout this period, HM Treasury officials held frequent meetings with Cabinet Office counterparts, including formal standing weekly bilateral meetings that intensified to a daily rhythm before major announcements. **Part 4: Data, Modelling, and Analysis** Part 4: **Data, Modelling, and Analysis** of this statement sets out further detail on HM Treasury's engagement and collaboration with Cabinet Office in relation to data, modelling and analysis.

#### *Economics and Business Response Strategy Group*

171. HM Treasury worked closely with other government departments, beyond the bilateral interactions above, to share economic analysis and coordinate on economic support measures. For example, the Economic and Business Response Strategy Group was an official level forum for discussing the cross-government economic and business response to the pandemic. The membership was Permanent Secretaries and Director-Generals from economic departments including BEIS, HMRC, MHCLG, DCMS, DIT, the Department for Environment, Food and Rural Affairs ("**DEFRA**"), DWP and the Department for Education ("**DfE**"). The meetings effectively shadowed the ministerial Economic and Business Response Implementation Group. The meetings were chaired by the HM Treasury Second Permanent Secretary during the relevant period, Charles Roxburgh, and held between April 2020 to July 2020.

172. As provided by the meeting's initial Terms of Reference, its purpose was to support a cross-Whitehall approach to the economic recovery by providing a forum for sharing intelligence on the business environment and impact of Covid and to consider the strategic and policy approach to the post-pandemic economic and business recovery [BR/013-[INQ000625750](#)].

173. At the inaugural meeting on 8 April 2020, attendees agreed that the most productive role for meetings of this type covered four themes, including "*consideration of how to deliver the best evidence base to ensure this could inform overall decisions, including getting closer to real time data and the realities of impacts on different cohorts and places.*" Over subsequent meetings taking place through the summer, discussions considered issues including long-term economic objectives as the UK recovered from the pandemic and impacts on different sectors as they reopened, and HM Treasury provided updates on the economic outlook [BR/014-[INQ000236541](#)]. Over time, the agendas for these discussions more closely aligned with weekly meetings that the Prime Minister was

taking on the state of the UK economy. Discussions at the meetings of Permanent Secretaries received supporting papers, including analysis conducted across government where HM Treasury often produced joint papers with BEIS and Cabinet Office [BR/015-INQ000236534], [BR/016-INQ000236577], with an aim of the meetings being to support a common view at senior official level of challenges facing the UK economy.

#### *UK Government Investments ('UKGI')*

174. UKGI is a government company with HM Treasury as its sole shareholder. It provides expertise in corporate finance and corporate governance to government departments, advising in support of their policy objectives. Independently managed, UKGI brings together the functions of the Shareholder Executive (Shareholder Executive was formerly part of the Department for Business, Innovation and Skills) and UK Financial Investments Ltd (UKFI) under a single holding company. UKGI is accountable via its independent Board to Treasury ministers and – through the Chancellor – to Parliament. UKGI played a particularly important role during the pandemic on the CCFF (as outlined in Annex D).

#### ***Other Institutions Relevant to the Economic Response***

##### *The Bank of England*

175. The BoE holds specific statutory responsibilities for setting monetary policy, protecting and enhancing financial stability and, subject to this, supporting the government's economic policy. Both HM Treasury and the BoE share information with one another, particularly on financial crisis management, for which the BoE has primary operational responsibility.

176. The BoE supported HM Treasury with economic data throughout the pandemic. Additionally, the BoE acted as an agent for HM Treasury in delivering some economic support, in particular the CCFF. Alongside HM Treasury, the BoE played a central role from the outset in the design of the CCFF and led the delivery. BoE's work on CCFF is set out in more detail in Annex D on the CCFF.

177. The Monetary Policy Committee ("MPC") of the BoE has statutory responsibility for monetary policy and operational independence from the government to carry out this responsibility. During the pandemic, the BoE implemented a range of measures to

support businesses, protect jobs, and minimise long-term economic damage. It worked closely with HM Government to ensure a coordinated response with maximum impact. This includes decisions on Bank Rate and assets held in the Asset Purchase Facility (“**APF**”). The APF is a creation of the BoE designed to support economic growth through quantitative easing. It involves purchasing assets, primarily UK government debt (gilts), and sterling-denominated, non-financial investment-grade corporate bonds to enhance monetary policy effectiveness. The Bank of England Act 1998 (“**the Act**”) sets the objectives of the BoE in relation to monetary policy as maintaining price stability and, subject to that, supporting the economic policy of the government. To comply with the Act, the Treasury must, at least once every 12 months, specify in writing to the MPC (“the remit letter”) what price stability shall be taken to consist of and what the economic policy of the government shall be taken to be. It is up to the MPC to judge how it sets monetary policy consistent with its remit.

178. The BoE and FCA are also responsible for managing risks to the financial services sector. In particular, the role of the BoE’s Financial Policy Committee (“**FPC**”) is to identify, monitor and take action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the financial system. This helps to prevent financial sector issues which could have negative economic spillovers from arising, and ensures that the financial system is resilient, and therefore able to support the broader economy during times of stress.
179. HM Treasury supports the FPC by setting its remit, making external appointments, and managing the overall macroprudential framework through legislation – for example, by prescribing macroprudential tools designed to ensure the stability of the financial system. HM Treasury also has mechanisms in place to coordinate closely with the UK financial authorities during a shock, for example, The Authorities’ Response Framework (“**ARF**”) which is a formal way for UK financial authorities to coordinate with each other. It is used when there is an incident or threat that could cause a major disruption to financial services. The Framework can be invoked for any operational incident that affects, or has the potential to affect, the finance sector. It can also be invoked for other reasons where cross-authority coordination is needed. These arrangements can be used to monitor any signs of stress in the system, coordinate communication by relevant regulators under their respective mandates, and to contingency plan for policy or supervisory interventions as necessary.

180. The BoE also supported HM Treasury's Financial Services team in development of some aspects of the Covid loan guarantee scheme. In particular, HM Treasury worked with BoE closely on the development of CLBILS given the target gap between CBILS and their CCFF scheme. BoE provided analytical capability to support HM Treasury's assessment and design of CLBILS. Secondly, BoE supported HM Treasury in identifying the appropriate interest rate for BBLs as this was provided as a fixed rate facility.
181. Throughout the pandemic, the BoE produced forecasts as part of its Monetary Policy Reports. Due to the difficulty in assessing some impacts of the pandemic using existing sources, HM Treasury officials worked closely with the BoE to develop improved sources of data. HM Treasury discussed economic analysis widely with the BoE throughout the pandemic. This engagement took place both informally at working level, considering the economic impact of NPIs on the BoE forecast, and formally, including during in a number of sessions between July and October 2020 with the Bank's FPC and MPC on the Covid response. HM Treasury has records of sessions held on 3 July with the MPC [BR/16a-INQ000625764], on 23 July with the FPC [BR/16b-INQ000625795] and on 13 October with both the FPC and MPC [BR/017-INQ000236559]. These meetings were an opportunity to share information and test thinking at the highest levels of the Bank, including on the potential economic implications of the pandemic in a number of different scenarios. The covid team in HM Treasury commissioned the analysis for the discussion and teams from across HM Treasury contributed to the meetings.
182. The BoE and HM Treasury's Financial Stability team regularly conduct joint exercises and teach-ins to strengthen understanding of their respective functions and responsibilities in the event of a financial crisis. The BoE and HM Treasury, under S65 of the Financial Services Act 2012, maintain a Memorandum of Understanding ("MOU") on financial crisis management. The current MOU on resolution planning and financial crisis management was published in October 2017. The MOU sets out a framework for coordination of financial crisis management between HM Treasury and the BoE (including the Prudential Regulation Authority ("PRA")). This MOU makes clear that the BoE (including PRA) had primary operational responsibility for financial crisis management. Where the BoE identifies risk to public funds, it has a statutory obligation to notify HM Treasury, with the Chancellor and HM Treasury being responsible for keeping Parliament and the public informed of actions taken to manage the crisis. No notifications relevant to Covid were received during the period of the pandemic. The BoE will also carry out stress-testing exercises annually to assess the resilience of major UK

banks – this helps identify the risk to UK financial stability in the event of an economic shock.

#### *The National Audit Office*

183. The National Audit Office is an independent public spending watchdog which supports Parliament in holding departments to account for its spending, primarily by means of detailed audits. The National Audit Office also supports the work of the Public Accounts Committee (“**PAC**”) which uses its reports to hold evidence sessions and make recommendations. During the course of the pandemic, the National Audit Office produced a number of reports relevant to or directly about HM Treasury’s policies during this period – from which the department sought to learn. For example:

- a) Overview of the UK government’s response to the COVID-19 pandemic (May 2020).
- b) Investigation into government funding to charities during the COVID-19 pandemic (March 2021).
- c) The government’s preparedness for the COVID-19 pandemic: lessons for government on risk management (19 November 2021).
- d) Delivery of employment support schemes in response to the COVID-19 pandemic (October 2022).

#### *The Office for Budget Responsibility*

184. The OBR is an executive non-departmental public body, sponsored by HM Treasury, created in 2010 to provide independent and authoritative analysis of the UK’s economy and public finances.

185. The OBR produces, twice yearly, independent economic and fiscal forecasts – during the pandemic period, these were published in March 2020 (alongside the Budget), November 2020 (alongside the SR) and then in March and October 2021 alongside the two fiscal events in that year. The OBR additionally published a reference scenario in April 2020 setting out an economic and fiscal scenario based on an assumed set of NPIs and policy measures announced at that point and published further analysis in July 2020 which considered the impacts of the pandemic and policy announced at that point. While the government’s response came at a significant cost, the costs of inaction would have been far higher. In July 2020, the OBR commented that despite the impact of Covid on

the economy clearly being significant, the “*outlook would have been much worse without the measures the Government has taken*” and “*They should also help to limit any long-term economic ‘scarring’, by keeping workers attached to firms and helping otherwise viable firms stay in business*”.

186. Throughout the pandemic HM Treasury worked closely with the OBR to inform decision-makers on the potential economic impact of the pandemic - for instance, the OBR published various scenarios to assist HM Treasury, and the department shared that information more widely to inform ministerial discussions. An example of this is the Chancellor’s speaking note during a meeting with the PM referencing the OBR’s modelling [BR/018-INQ000088050].
187. Similarly, HM Treasury shared official-level analysis undertaken within HM Treasury and other departments with the OBR to support their forecasting process. For instance, in October 2020, HM Treasury officials shared with the OBR a wide-ranging analysis including, but not limited to, the impact of various lockdown scenarios and sectoral analysis.
188. Part of the OBR’s role is to produce publicly available material on future risks and potential scenarios, and it performed this function throughout the pandemic. Two examples are: (1) In November 2020, the OBR published their latest economic forecast, this included several scenarios setting out how the country’s economic outlook remained highly uncertain and dependent on the virus, NPI-stringency, and variables surrounding the vaccine; (2) The OBR published its third Fiscal Risks Report in July 2021 [BR/019-INQ000119291] – this report moved away from the ‘encyclopaedic approach’ taken in previous reports, which identified more than 90 different fiscal risks. The new approach focused on ‘three sources of potentially very large fiscal risks: the coronavirus pandemic, climate change, and the cost of public debt’. HM Treasury carefully examines the recommendations provided by the OBR in these reports – analogous to how it responds to National Audit Office reports – and incorporates the lessons learnt into future policy development and delivery.

### ***The Role of External Bodies in the Economic Policy Response***

189. In developing its analytical tools and policy response, HM Treasury sought a wide range of views from credible and trusted institutions and academics from the outset and

throughout the pandemic. The level of engagement outside the department was above that which HM Treasury had typically undertaken prior to the pandemic.

190. While economic interventions during the pandemic were developed at pace, understanding the views of recipients or the views of key stakeholders involved in delivery (e.g., lenders for CBILS) was central to the design of policy. HM Treasury worked both widely and deeply with a range of external bodies in the development and delivery of the economic response to the pandemic. Across the range of economic interventions, HM Treasury had extensive engagement with business representative bodies (e.g., the Confederation of British Industry (“CBI”) and Federation of Small Businesses (“FSB”) and the Trade Union Congress (“TUC”), as well as directly with businesses. For example, on loans schemes, HM Treasury held extended calls, workshops and feedback sessions with the main contact groups, senior executives from several lenders, and Chief Executives of challenger banks, as well as alternative finance providers. For CJRS and SEISS, HM Treasury regularly spoke to external stakeholders like the TUC, the British Chamber of Commerce, the CBI, and other groups representing sectors such as hospitality, theatres and airlines. This included in some cases checking guidance in draft before publication. For the Events/TV/Film schemes, HM Treasury worked with Lloyds and the insurance sector to provide support. The Second Permanent Secretary and other members of EMB held regular breakfasts with a rotating set of business leaders to hear their priorities and concerns directly. This kind of direct engagement with stakeholders for specific interventions is set out in further detail in the annexes to this statement.
191. In developing analysis, HM Treasury also engaged with work undertaken by think tanks and academics. For example, HM Treasury officials, including the then CEA, met regularly with think tanks including the Resolution Foundation and Institute for Fiscal Studies (“IFS”). This included discussions with the IFS on the inequality impacts of Covid (5 May 2020), covering age, income and ethnic disparities [BR/020-INQ000236568] [BR/021-INQ000236571].
192. A key part of the department’s engagement with academics was facilitated by the Royal Economic Society. This involved a combination of established contacts such as Lord Stern, and those at the frontier of developing novel analytical techniques, including on epi-macro analysis and strategy. [BR/021-INQ000236571]. Other topics ranged from the implications for future healthcare provision (9 April 2020) and restarting the economy (28 April 2020), to sectoral reopening (3 June 2020) and epi-macro strategy (21 July

2020) [BR/022-INQ000236570] [BR/023-INQ000236540]. HM Treasury's use of external bodies in relation to forecasting and modelling are explained in greater detail in Part 4 of this statement.

### ***International Advice, Data and Comparisons***

193. Throughout the pandemic, HM Treasury officials focused on what could be learnt from international comparisons of measures and mitigations, particularly driven by sustained interest from the Chancellor about the detailed approaches that other countries were taking both in seeking to manage the pandemic and developing programmes to support their economies.
194. By May 2020, the Foreign & Commonwealth Office and Joint Intelligence Organisation had established the International Comparators Joint Unit ("ICJU") which sought to provide rapid thematic analysis of relevant international comparisons to inform cross-government decision making. Comparative work conducted by both the ICJU and within HM Treasury was initially particularly relevant in the development of the reopening timetable announced in May 2020. For example, the Cabinet briefing from 6 May 2020 noted that the UK was "at a comparable position to other countries announcing changes to restrictions in early to mid-May", with the briefing further noting that "the longer the current economic disruption persists, the greater the risk of permanent scarring" and highlighted that businesses required certainty on the timetable for reopening. Such information on economic consequences was also used later in the summer to inform options around the phases of the reopening of non-essential retail (where some European countries had reopened smaller shops before larger ones), in supporting decision making over easing the two-metre social distancing rule, and subsequently on a continuous basis throughout the pandemic in informing decisions over the imposing and easing of restrictions.
195. International comparisons informed HM Treasury's advice to ministers on, among other issues, (i) comparisons of the development and implementation of other countries' economic support measures, which could be used to inform the development and implementation of our own economic support package (including throughout the iterations of the CJRS [BR/024-INQ000226503]) (ii) how the pandemic and associated proposed NPIs were affecting, and how any changes might affect, the economy, and how economic activity might affect the progress of the virus, (iii) how government support and wider policy responses might offset these impacts (or create unintended

consequences), (iv) the relationship between the epidemiological and economic outlooks, and (v) how the government's response including on NPIs compared to other countries' responses.

196. During the pandemic, HM Treasury also continued its practice of engaging proactively with international institutions, including the International Monetary Fund (“**IMF**”) and Organisation for Economic Co-operation and Development (“**OECD**”), and drawing on their analysis and modelling. For example, the IMF developed modelling estimates that compared the relative impact of the virus and NPIs on economic activity. The OECD conducted extensive work on governments’ policy responses to Covid, including a report which evaluated the impact of Covid containment measures on activity and spending [BR/024-**INQ000226503**], and HM Treasury officials closely monitored OECD’s Economic Outlook and engaged with OECD staff regarding the Economic Survey [BR/026-**INQ000236537**].

## **Part 2: Economic and Fiscal Context**

197. Prior to the onset of the pandemic, the UK economy was navigating a complex landscape marked by the after-effects of the Global Financial Crisis (“GFC”) in 2008-2010. In the years following the GFC, the UK saw modest growth in Gross Domestic Product (“GDP”) ranging between 1.1 percent and 3.2 percent from 2010 to 2019, with an average of approximately 2.0 percent growth per annum over that period, lower than the pre-crisis average of approximately 2.8 percent over 2000 to 2007.<sup>1</sup>
198. In the period immediately prior to the pandemic, inflation was low and relatively stable, with the inflation rate, as measured by the 12-month change in the Consumer Prices Index (“CPI”), gradually decreasing from 3.1 percent in November 2017 to 1.3 percent in December 2019. Interest rates were at historically low levels. The Bank Rate was 5.75 percent in July 2007, before being rapidly reduced in response to the GFC, reaching 0.5 percent in March 2009, and being lowered further to 0.25 percent in August 2016 [BR/031 – INQ000609837]. A modest increase to 0.5 percent occurred in November 2017; Bank Rate was 0.75 percent at the beginning of the pandemic.
199. The UK labour market was relatively strong, characterised by high levels of labour market participation, particularly among women, and low unemployment. The unemployment rate showed a consistent downward trend post-GFC, steadily declining from 8.4 percent in Quarter 4 2011 to reach a low of 3.7 percent in Quarter 4 2019. This steady decline in unemployment in the UK mirrored similar trends across other Group of Seven (“G7”) nations as economies gradually recovered from the aftermath of the GFC.
200. While broad macroeconomic conditions remained stable, the UK economy faced relatively low productivity growth and a persistent trade deficit. In the decade leading to the global financial crisis (1997-2007), productivity (output per hour worked) output per worker in the UK grew at an average annual rate of 2.1 percent per annum. Following the Global Financial Crisis there was a global slowdown in productivity growth which has persisted post-GFC. UK productivity growth averaged just 0.6 percent per annum in the

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<sup>1</sup> ONS data is subject to revision and amendment from its original estimate. We have used their final estimates, which are considered final after a three-year period, rather than any initial readings published closer to the time. The data shown here may or may not be different to that available at the time. The mean revision for ONS data is around 0.1 percentage points. However, during periods of high uncertainty, such as the pandemic, revisions can be larger, with revisions ranging from negative 0.9 to positive 1.9 percentage points for some quarters.

decade post-GFC (2009-2019). [BR/032 – INQ000609865]. The UK's average level of productivity was consistently lower than that of several comparable economies. Data from 2017 indicated that output per hour in the UK was approximately 13 percent lower than in France and 15 percent lower than the United States. Prior to the pandemic, GDP was estimated to have increased by 1.6 percent in 2019, above the 1.4 percent growth seen in 2018. In addition to productivity concerns, the UK's trade deficit persisted following the GFC, despite efforts to boost exports during the recovery phase [BR/033 – INQ000609838], reflecting both global economic imbalances and domestic imbalances.

201. Despite these challenges, the UK's economic performance in the years leading up to the pandemic was largely in line with broader global trends, particularly within the G7 and the European Union ("EU"). Much like its G7 counterparts, the UK experienced moderate economic growth, low inflation, and low interest rates. In 2019, the UK economy was the fourth-fastest growing among the G7 countries, outperforming Japan, Germany, and Italy.
202. The UK officially withdrew from the EU on 31 January 2020. The transition period meant that trading terms between the UK and EU were unchanged until January 2021 when the provisions of the Trade and Cooperation Agreement came into effect. The economic impacts of the uncertainty caused by the referendum result and subsequent exit from the EU emerged gradually. Business investment was weaker than anticipated by the OBR in the period immediately following the referendum in 2016 and remained significantly below the 2009-2015 trend up to the pandemic. Subsequent productivity growth may also have been hindered by the diversion of resources away from productive activities in preparation for Brexit, particularly in anticipation of a potential 'no-deal' scenario.
203. In 2019-20, public sector borrowing (Public Sector Net Borrowing – ("PSNB")) was £60.8 billion (2.7 percent of GDP) – this was a reduction of £99.6 billion from £160.4 billion (10.3 percent of GDP) in 2009-10. According to the IMF, UK net borrowing was 2.5 percent of GDP in 2019, lower than the G7 average of 3.8 percent [BR/30 – INQ000609832].<sup>2</sup>

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<sup>2</sup> Note that IMF data uses general government metrics. Data is taken on a calendar year whereas ONS figures are presented on a financial year basis. These and other methodological differences mean IMF and ONS figures may differ.

204. Government debt (Public Sector Net Debt – (“**PSND**”)) was £1.8 trillion or 85.4 percent of GDP in 2019-20 – this was an increase of £788 billion from £1.0 trillion (64.7 percent of GDP) in 2009-10.

205. The government’s approach to fiscal policy from 2010 was that ‘borrowing must be brought under control and debt as a percentage of GDP must be placed on a downward path’ [**BR/035 – INQ000142195**].

206. In March 2020, the government’s fiscal rules were:

- a) To have the current budget at least in balance by the third year of the rolling forecast period,
- b) To ensure that public sector net investment (“**PSNI**”) does not exceed 3 percent of GDP on average over the rolling five-year forecast period,
- c) If the debt interest to revenue ratio is forecast to remain over 6 percent for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling.

207. This approach was consistent with statements from the OBR in:

- a) Its 2010 pre-Budget forecast: “keeping public debt at a low level can support the creditworthiness of the government and its ability to raise debt finance, support growth by reducing the ‘crowding out’ of private activity, reduce upward pressure on the tax burden by keeping debt service costs low, lessen the transfer of resources across the generations which can arise from public sector borrowing, and provide fiscal ‘space’ to absorb future shocks.”
- b) Its 2017 Fiscal Risks Report: “the public finances need to be managed prudently during more favourable times to ensure that when these shocks do crystallise, they do not put the public finances onto an unsustainable path.”
- c) And its 2021 Fiscal Risks Report: “In the absence of perfect foresight, fiscal space may be the single most valuable risk management tool.”

208. Therefore, prior to the onset of the pandemic, the UK economy was relatively stable, with steady (albeit below pre-GFC trend) growth, low inflation, and a strong labour market with low unemployment. The public finances would also likely have been in a worse position had the government not undertaken the fiscal consolidation that occurred since 2010, and as stated in Budget 2021, this action “enabled the government to fund

a comprehensive package of support for the economy when most needed” [BR/035 – INQ000142195].

### ***How the Economic and Fiscal Position Changed During the Pandemic***

#### *The UK Economy at the Onset of the Pandemic (January to Early March 2020)*

209. First identified in Wuhan, China, in December 2019, Covid began to spread internationally by January 2020. This prompted the World Health Organisation to declare a Public Health Emergency of International Concern on 30 January 2020. Throughout February 2020, the virus spread rapidly across Europe and the UK, reducing the likelihood of geographic containment and increasing the potential of a significant economic impact on the UK and global economy. The period between early February and early March 2020 saw Covid-19 transform rapidly in the UK from an international economic issue to a domestic public health concern. During this time, assessments of the pandemic's severity and duration varied, with many experts initially underestimating the long-term global impact, while others warned of a prolonged crisis that could last years. HM Treasury did not make its own assessment as to the nature, severity and duration of the pandemic and relied on experts from the Department of Health and elsewhere, especially the assessments of the Chief Medical Officer and Chief Scientific Adviser and the Scientific Advisory Group for Emergencies (“**SAGE**”). HM Treasury ministers’ and officials’ focus was on assessing and understanding the potential economic consequences and necessary economic response, based on the health assessment from those experts. For example, officials contributed to Cabinet Office co-ordinated work examining the economic impact of a potential package of NPIs on 5 March 2020 [BR/036 – INQ00088046]. HM Treasury’s overall assessment of the economic and fiscal impact of the pandemic is detailed in paragraphs 249 to 254 of this statement.
210. On 11 March 2020, the OBR published its Economic and Fiscal Outlook (“**EFO**”) alongside Spring Budget 2020. At that point the OBR concluded that Covid was likely to have a significant adverse effect on the economy and public finances, but that neither the size nor the duration of this effect was possible to predict with any confidence. The OBR forecast that Covid would likely reduce both the demand for goods and services in the economy and the ability of businesses at home and abroad to supply them [BR/037 – INQ000609848].

211. On 16 March 2020, the Prime Minister recommended avoiding "all non-essential contact and travel", preceding the official lockdown that began on 23 March 2020. Consequently, around 16 percent of Quarter 1 2020 was subject to either formal or informal economic restrictions. This led to a significant deceleration in economic activity during the early months of 2020.
212. GDP fell as the pandemic reduced both the demand for goods and services in the economy and the ability of businesses, both domestic and international, to supply them. As a result, there was a reduction in household and business incomes and consumer spending (and consequently tax revenues), while placing upward pressure on government spending to address the outbreak. This, in turn, led to additional pressure on the budget deficit and public debt.
213. Economic estimates for Quarter 1 2020 were subject to greater uncertainty than usual due to the challenges faced in data collection during the pandemic's outbreak. Monthly data can offer a clearer indication of the economy immediately prior to the first lockdown. GDP had risen by 0.4 percent in December 2019, 0.1% in January 2020, before falling 0.5 percent in February 2020, and falling sharply by 7.2 percent in March 2020.
214. Household consumption declined significantly during this period, with ONS reporting a 2.8 percent drop in Quarter 1 2020 [**BR/038 – INQ000609843**]. At the time this marked the largest quarterly decline in household consumption since Quarter 3 1979, reflecting reductions in spending across key sectors including transport, restaurants and hotels, and clothing and footwear. This decline was primarily driven by growing uncertainty within the UK economy regarding the pandemic and the potential for economic instability. With households across the UK reducing non-essential spending, the household saving ratio increased significantly to 7.2 percent in Quarter 1 2020, up from 6.1 percent in Quarter 4 2019 [**BR/039 – INQ000609839**].
215. Despite this, the UK labour market remained relatively stable during this time. The Office for National Statistics reported that the estimated employment rate from the Labour Force Survey was 76.4 percent in December 2019, 76.5 percent in January 2020, and 75.9 percent in February 2020 [**BR/040 – INQ000609856**]. Meanwhile, the UK unemployment rate was estimated at 3.9 percent from December 2019 through to January 2020. These figures suggest a robust labour market, with high employment.

216. The business landscape during early 2020 reflected a growing sense of caution among firms regarding future investments and decisions. The Composite Purchasing Managers' Index ((**PMI**) – a bell-weather survey of economic activity presented as diffusion index, where a reading above 50 indicates an expansion on the month prior) remained relatively stable and moderately positive at 53.3 in January 2020, while the UK services PMI was 53.9 in January 2020, up from 50.0 in December 2019 [**BR/041 – INQ000609835**]. However, the UK Services PMI dropped to 34.5 in March 2020, down from 53.2 in February [**BR/042 – INQ000609858**]. At the time this marked a record low for the survey, reflecting a sharp decline in business activity due to emergency public health measures implemented to curb the spread of coronavirus. The March reading surpassed the previous record low of 40.1 in November 2008. Fast-growing economic uncertainty, alongside the emerging threat of a pandemic, created a challenging environment for businesses during this period.
217. Inflation showed moderate fluctuations during this period. The CPI showed a 12-month inflation rate of 1.8 percent in January 2020 [**BR/043 – INQ000609845**]. However, inflation began to slow in the following months; in February 2020, the CPI inflation rate fell slightly to 1.7 percent, and by March 2020, it dropped further to 1.5 percent [**BR/044 – INQ000609847**]. The largest contribution to the CPI inflation rate in March 2020 came from water, electricity, gas, and other fuels. Specifically, the most significant downward pressure on the CPI inflation rate between February and March 2020 was driven by declines in the prices of motor fuels and clothing. This reflected changes in consumer spending behaviour as consumers reduced discretionary spending.

#### *The First Lockdown*

218. The first UK lockdown was imposed on 23 March 2020. Originally announced for three weeks, the lockdown was subsequently extended, with some restrictions being lifted on 23 June 2020. During this time, the nature of the Covid pandemic was still unfolding, with its global spread rapidly accelerating. The virus was highly contagious, and its severe effects on public health led to widespread concern about its potential impact. The pandemic was marked by uncertainty, at first little was known about the virus's full scope, long-term effects, or the best methods for controlling its spread [**BR/045 - INQ000521931**]. During this period, the need to address the public health shock was the priority [**BR/046 - INQ000251931**]. To do this, and as set out later in this statement, numerous economic support measures were announced alongside the lockdown for

individuals and businesses, with varying expiry dates and qualifying criteria. These economic interventions – including CJRS, SEISS and the first loan schemes – were designed to provide support in line with NPIs, with the objective of encouraging compliance with those health restrictions as well as supporting individuals and businesses affected by them.

219. ONS data shows that in April 2020, GDP was 25 percent lower compared to February. From February to March 2020, GDP fell by 7.2 percent and from March to April, it dropped by a further 19.6 percent [**BR/047 – INQ000609854**]. In May 2020, GDP experienced a modest rebound of 2 percent compared to April, as some lockdown restrictions were eased. However, household consumption remained sharply reduced during this period. In Quarter 2 2020, household consumption fell by 23.1 percent compared to Quarter 1 2020, having already declined by 2.9 percent in Quarter 1 2020. This was largely driven by decreases in expenditure on hospitality, transport, and recreational activities. Consequently, the lockdown period saw a substantial increase in household saving. The saving rate rose from 6.1 percent in Quarter 4 2019 to 27.3 percent in Quarter 2 2020, the highest level since records began in 1963. The previous peak was 15.0 percent in Quarter 2 1993 [**BR/048 – INQ000609836**].
220. The CJRS – also known as “furlough” – and SEISS, which supported incomes of workers and the self-employed during this period, contributed to the high saving rate. These schemes (especially furlough) 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 re-gain 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 [**BR/049 – INQ000583638**]. Between October and March 2020, the CJRS subsidised the wages of 9.6 million employees at its peak, representing approximately a third of the workforce. SEISS supported the incomes of people who were self-employed. However, there were still 2.4 million starts to UC in the first two months after lockdown started - six times more than the average number of starts in the 12 months to March 2020 [**BR/050 – INQ000609859**].

221. The economic impact and the cost of government support for businesses and individuals 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).
222. The severity of the pandemic was evident in the rapid rise in infections and fatalities worldwide, straining healthcare systems and prompting governments to take significant measures to prevent further escalation. Social distancing, quarantine measures, and the closure of borders became the immediate response. The severity of the health shock was compounded by the unknowns surrounding the virus, such as its ability to spread asymptotically and its unpredictable effects on different age groups and health conditions.
223. 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 uncertain at the time [BR/046 - INQ000251931].
224. The duration of the pandemic in March 2020 was also uncertain. Initial projections suggested that the pandemic could be contained within a matter of months, but as the situation evolved, it became clear that the pandemic would persist for much longer, with multiple waves of infection. 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 [BR/046 - INQ000251931].

#### *The Nature of the Shock*

225. In Q2 2020, the height of the first national lockdown, GDP fell by 20.3 percent before rebounding by 16.9 percent as the country reopened over the summer. This level of change in GDP has not been seen since consistent ONS data begin in 1955 [BR/047 – INQ000609854]. The nature of the pandemic’s economic shock was also unique. The Covid pandemic involved the intentional suppression of economic activity on an unprecedented scale. It required the temporary shutdown of parts of the economy to limit close contact and reduce the spread of the virus [BR/051 – INQ000609804]. Action

taken to reduce transmission of the virus, while disruptive in the short term, was driven by public health priorities that were in alignment with the UK's long-term economic interests.

226. The government's objective was to prevent the spread of Covid and protect the economy. The response was grounded in scientific evidence, with the primary focus on protecting lives and containing the virus [BR/051 – INQ000609804]. The government recognised that controlling the virus was essential for protecting both public health and the economy, leading to the decision to restrict close contact between individuals [BR/051 – INQ000609804]. While this approach resulted in immediate economic challenges, it was necessary to support long-term stability and recovery.
227. 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. Government policies to support businesses and workers helped to mitigate the impact and reduced the potential for long-term economic scarring.
228. As a result of the virus, as well as subsequent public health restrictions and behavioural changes, the UK experienced the largest decline in output among the G7 economies over Quarter 1 to Quarter 3 2020 (see table below) [BR/052 – INQ000252690].

G7 country	Real GDP change Quarter 4 2019 to Quarter 3 2020 (percent)
United Kingdom	-9.4
Canada	-4.8
Italy	-5.5
Germany	-3.0
Japan	-2.2
France	-3.8
United States	-2.1

229. However, there are differences in how national statistical institutes measure GDP, particularly concerning government output in health and education, where market prices are typically unavailable. This means these statistics may not be directly comparable. For example, during the pandemic, the UK experienced a greater decline in gross value

added from healthcare and education compared to other developed economies. The UK measures public sector output by the volume of services delivered, such as the number of medical procedures or classroom hours. The disruption to these services led to a decrease in public sector output as measured by the ONS, despite increased government expenditure, contributing to the UK's sharp economic downturn during the first lockdown. In contrast, other countries more consistently measure public sector output with reference to levels of expenditure not activity [BR/053 – INQ000609851].

230. In the late spring and early summer of 2020, ONS data<sup>3</sup> shows UK GDP fell by 25.4% between February and April 2020, and then grew by 2.0% in May, 9.4% in June 2020, and again by 6.6% in July 2020. Overall, this left the level of UK GDP 11.2% lower in July 2020 than February 2020. Between March and July, payrolled employees fell by around 688,000<sup>4</sup>. In May 2020, the Bank of England's Monetary Policy Report projected UK GDP to fall by 14% over 2020 as a whole<sup>5</sup> [BR/49a INQ000616237]. At this time, the government decided to start to relax the health restrictions as the prevalence of the virus in the population reduced. In line with this, the government also introduced a series of economic measures aimed at restarting activity and encouraging consumption where it could safely take place [BR/055 – INQ000609855]. These economic interventions were not based on a separate HM Treasury assessment as to the nature, severity and duration of the pandemic. Instead, the department continued to rely on experts from the Department of Health and elsewhere, especially the assessments of the Chief Medical Officer, the Chief Scientific Adviser and SAGE. These assessments had a high degree of uncertainty regarding how quickly the population would respond to the loosening of restrictions and – critically – regarding the likely future path of the virus. HM Treasury officials therefore prioritised work that sought to minimise potential longer-term economic and fiscal impacts from the lockdown, eventually announced by Ministers as part of the Plan for Jobs published in July 2020, as detailed subsequently in this statement.

231. By the autumn of 2020, as the second wave of the virus took hold, the Treasury again adapted its view of the likely economic impact and necessary economic interventions in light of the evolving public health approach and the latest advice from health experts.

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<sup>3</sup> [Monthly GDP and main sectors to four decimal places - Office for National Statistics](#)

<sup>4</sup> [Labour market overview, UK - Office for National Statistics](#)

<sup>5</sup> <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020.pdf>

This included working on measures like the Job Support Scheme (“**JSS**”) to respond to a situation where the government had decided to impose NPIs on a geographical basis and through a more complex set of rules on permitted activity in the tiering system. This was then superseded by the resumption of full national lockdowns in the late autumn and winter, which HM Treasury responded to by extending CJRS and other economic support measures. This exemplifies how the trajectory of the virus evolved throughout 2020, and how HM Treasury’s work on economic interventions adapted in line with the changing health restrictions.

### *Second and Third Lockdowns*

232. The second national lockdown was implemented on 5 November 2020 and ran until 2 December 2020, when a three-tier system of restrictions was introduced [**BR/056 – INQ000308886**]. The restrictions imposed in November 2020 coincided with a 2.1 percent fall in monthly GDP, marking the first monthly contraction since April 2020. However, GDP rose by 1.5 percent in December as restrictions eased. Despite this recovery, GDP in December 2020 remained 7.1 percent lower than in February 2020.
233. On 25 November 2020, the OBR forecast that the second lockdown would further suppress economic activity. However, the impact was expected to be less severe than during the original lockdown, with the fall in output predicted to be three-fifths of that seen during the first lockdown, as schools and businesses were encouraged to continue operating where possible [**BR/110 INQ000114451**].
234. The severity of the economic impact during the second lockdown 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, as well as having increased certainty over the government’s support measures [**BR/046 - INQ000251931**]. The economy evolved in response to both the virus and the measures put in place. Individuals and businesses adapted their behaviours to the ongoing restrictions, testing procedures, vaccination rollouts, and the economic support available [**BR/058 – INQ000609857**].
235. 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.

236. 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. This began to change the impact of the pandemic, with the GfK consumer confidence index rising each month from -28 in January 2021 to -7 by July 2021 when all adults were eligible for the vaccine (a reading above zero indicates optimism; below indicates pessimism) [**BR/058 – INQ000609857**].
237. On 3 March 2021, the OBR said the economic outlook was highly uncertain: a faster vaccine rollout, effective new treatments, or a quicker use of household savings could lead to a quicker economic recovery and less long-term damage. In this scenario, GDP was expected to grow 4 percent in 2021 and to regain its pre-pandemic level in the second quarter of 2022. However, there remained downside risk that delays in vaccination, new vaccine-resistant variants, or reduced compliance with health measures could result in further lockdowns, negatively impacting the economy [**BR/059 – INQ000114450**].
238. By this point, the economy was dealing with the cumulative effects of multiple waves of lockdowns, which led to deeper concerns about recovery [**BR/046 - INQ000251931**]. UK GDP fell by 1.0 percent 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 percent decline in January 2021 (compared to December), GDP increased by 1.4 percent in February and by 3.0 percent in March, signalling a recovery in the latter part of the quarter.
239. 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 percent of GDP) in 2019-20 to a record peacetime figure of £314.5 billion (15.1 percent of GDP) in 2020-21. Government debt (PSND) rose from £1.8 trillion (85.4 percent of GDP) in 2019-20 to £2.2 trillion (96.6 percent of GDP) in 2020-21.

240. As in earlier stages of the pandemic, HM Treasury did not do its own assessment of the likely future path of the pandemic but attempted to evolve its economic support package in line with the assessment made by the health experts and the government's overall approach on public health restrictions. The duration of the pandemic also became clearer during these phases, with lockdowns stretching well beyond the initially anticipated timeline. The virus had demonstrated a capacity to surge in waves, making it difficult to predict when restrictions would ease. This prolonged uncertainty continued to affect both public confidence and economic activity. However, by the time the third lockdown ended in the summer of 2021, the vaccination programme had made significant progress, offering a pathway out of the pandemic, though the full economic recovery would take much longer to materialise.
241. Given the adjustments within the economy, each subsequent lockdown was less directly economically damaging than the first. UK GDP contracted by 25.4 percent between February and April 2020, following the announcement of the first national lockdown in late March. The economic impact of subsequent lockdowns was less severe, with activity standing 8.9 percent below pre-pandemic levels (December 2019) in November 2020 and 10.6 percent below in January 2021. Moreover, as individuals and businesses became more equipped at managing the challenges posed by the pandemic, the economic repercussions of each subsequent lockdown were less severe, reflecting a process of adaptation and learning from earlier experiences. In the spring 2020 lockdown, more than 75 percent of businesses in arts, entertainment, recreation, were temporarily closed, according to the ONS Business Insights and impact on the UK economy survey (Wave 7). By January 2021, this had reduced to approximately 50 percent. In the construction sector, around 24 percent of firms ceased trading in spring 2020. Similarly, workforce participation showed some improvement over time. During the early 2021 lockdown, approximately 45 percent of the workforce operated from their normal place of work, down from 51 percent during the autumn and winter 2020 restrictions, but up from 36 percent in the initial national lockdown [BR/060 – INQ000609925].

### ***Role of Fiscal Policy and Associated Institutions in Responding to the Shock***

242. The government's fiscal position – including the amount the government is borrowing and the size of the stock of debt – is a factor in determining its capacity to respond effectively to economic shocks and emergencies. Maintaining a sustainable fiscal position can help to enable effective responses to unforeseen shocks such as the

pandemic, as it provides the flexibility to implement policies to stabilise the economy, alongside support to affected businesses and individuals.

243. The government's objective for debt management is to minimise, over the long term, the costs of meeting the government's financing needs, taking risk into account, while ensuring that debt management policy considers the context of monetary policy and the wider macroeconomic policy framework of the UK.
244. Government expenditure is primarily financed through wholesale financing operations which involve the sale of fixed income securities – conventional gilts, index linked gilts, and Treasury Bills (“**T-bills**”) – to investors. T-bills are zero-coupon debt securities which are issued through weekly or ad hoc tenders to recognised counterparties, subject to certain conditions. They can be used for debt or cash management purposes. They are short-term debt instruments maturing in less than a year, and can be used for both cash and debt management purposes. The majority of public sector borrowing is done through the sale of UK sovereign bonds (“**gilts**”). Gilt and T-bill operations are conducted by the Debt Management Office (“**DMO**”), the government's actor in wholesale debt and cash markets. Once issued, these instruments can be traded on the secondary market, where their prices fluctuate based on interest rates and economic conditions. The sale/issuance of gilts is fundamental to the government's ability to finance itself.
245. The day-to-day operational management of the UK government's debt is run by the DMO, carrying out the government's debt management objective – to minimise its financing costs over the long term, while taking account of risk. The DMO also provides loans to LAs for capital purposes and manages the funds of selected public sector bodies. HM Treasury provides the DMO with confidential forecasts of daily cash flows into and out of the Exchequer, providing the net Exchequer cash requirement. The DMO then either arranges funding (through borrowing cash) or invests surpluses in the money markets. The DMO has a formal risk management framework covering all the activities conducted and overseen by the Office. It publishes a summary of the principal risks and uncertainties along with the actions it is taking to manage and mitigate them.
246. On 20 March 2020, the DMO held its usual weekly T-bill tender. The 1- and 6-month tenders were fully covered (i.e., receiving more bids than the amount on offer) and completed successfully; however, £2 billion of 3-month T-bills was on offer and the DMO

received bids amounting to only £1.75bn. This left the 3-month tender uncovered, with a cover ratio of 0.87. The remaining £0.25 billion was raised through cash markets. A DMO T-bill going uncovered had not occurred in over a decade. There have been no further uncovered T-bill tenders since.

247. The issuance of UK government gilts was ramped up quickly after the onset of the pandemic. All subsequent operations were fully covered, despite the unprecedented increase in financing needs/debt issuance.

248. In unforeseen situations where the government is unable to finance itself through the market, HM Treasury and the BoE may utilise the Ways and Means Facility. This facility is akin to a government overdraft at the BoE and can be used to provide a short-term source of additional liquidity to the government, if needed, to smooth its cashflows and support the orderly functioning of markets. The facility was unused during the pandemic, with the government being able to finance itself fully from the market. The role of the BoE, including in a crisis, is set out in more detail in Part 1.

### ***Overall Economic and Fiscal Impact of the Pandemic***

249. The scale of the economic shock caused by the Covid pandemic was difficult to assess during the lockdowns, leading HM Treasury to utilise novel sources for a better analysis and understanding of the macroeconomic outlook. Although in the longer run economic measurements of the impact have become more precise, this must be understood in the context of other external factors that came into play 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 EU created challenges for the UK economy, compounding the already significant economic disruptions caused by the pandemic.

250. 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. It could take a significant time to fully understand all the economic consequences of the pandemic and the measures taken to support the economy. The unique challenges faced by governments led to the deployment of new and previously unthought-of policy

tools, making this a critical area of economic study that will enhance future understanding of economics and policy making.

251. Overall, the pandemic's economic support measures played a crucial role in mitigating immediate hardship for individuals and businesses, helping to prevent widespread job losses and stabilising 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. The HM Treasury and HMRC evaluation of CJRS showed that 83% of all individuals who had participated in CJRS were employed in June 2022, of which 54% of those on furlough had returned to their previous employer.
252. Since the pandemic the participation rate in the labour market in the UK has not recovered to the same extent as in other countries. Despite analysis by government and externally, the evidence is not clear on the connection between those increases in economic inactivity and the support introduced during Covid. Lower labour market participation appears to be driven by a combination of factors including long-term health issues, early retirement, and shifts in workforce preferences, including increased participation in education. To support future policy making, the government has conducted extensive evaluations of the Covid support schemes and broader policies to better understand their effectiveness and refine future approaches to supporting long-term economic growth (please see Part 8 for more detail). HM Treasury officials continue to undertake work, with DWP and others, on how to prevent and tackle inactivity effectively.
253. 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 [BR/030-**INQ000609832**], 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*".
254. In response to the Covid pandemic, the government borrowed over £300 billion additional across 2020-21 and 2021-22, with record peacetime borrowing recorded in 2020-21. As a result, government debt (PSND) rose from £1.8 trillion (85.4 percent of GDP) in 2019-20 to £2.4 trillion (96.4 percent of GDP) in 2021-22.



### **Part 3: Economic Policy Objectives**

255. Whilst HM Treasury's overarching objectives remained largely consistent throughout the pandemic to support the economy, businesses, and households through the immediate impact of the pandemic, to reinforce the public health response, and to enable rapid recovery once restrictions eased. Due to the fast moving nature of advice through the pandemic, objectives were not always formally codified; nonetheless, at various points during the pandemic, the department advised on – and reconfirmed with the Chancellor – the overarching approach ( ). HM Treasury's overall approach was to evolve its approach to economic interventions to mirror and support the government's approach to the health restrictions.
256. In the early stages of the pandemic, significant uncertainty surrounded the virus – including its severity, transmissibility, the timeline for vaccine development, the efficacy of any vaccines developed, and the effectiveness of public health measures. As understanding of the virus evolved, so too did the government's response to the pandemic.
257. Alongside the public health risks, the factors critical to understanding the economic impacts of the virus were also uncertain. It was unclear how individuals and businesses would respond both to the virus and to the restrictions imposed to control it, creating challenges in predicting the depth and duration of economic disruption. Consequently, there were high levels of uncertainty around how long economic support schemes would need to be in place.

#### ***Overarching Objectives and Challenges***

258. Throughout the pandemic, HM Treasury worked closely with the rest of government to understand the economic implications of both the pandemic and the NPIs. Economic interventions were designed alongside, and in response to, public health measures.
259. 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 see an inherent tension or conflict between these objectives. The department 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.

260. In a typical economic downturn – one where demand for goods and services slows and falls, pushing expected inflation below its target level - the typical macroeconomic policy response (in the UK from the BoE's MPC) is to stimulate economic activity. Fiscal policy can also have a role, as it did in the wake of the 2008 financial crisis, through allowing the automatic stabilisers to operate freely (elements of the tax and welfare system that support household income as the economy slows) and potentially via discretionary policy action (such as cutting taxes or raising public spending). While HM Treasury's overarching aims – sustainable public finances, macroeconomic stability, increased employment, productivity and growth – remained consistent with those before the pandemic and in previous crises, the pandemic presented a fundamentally different challenge.
261. 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.
262. 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.
263. 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 interventions.
264. In this context, HM Treasury had several key economic objectives during the pandemic which, as in ordinary times, were set by its ministers, based on advice from officials:
- a) **Preventing unemployment and supporting living standards:** HM Treasury's most immediate fear for the economy was that restrictions would lead to very high levels of unemployment; this was the case in the US, where unemployment had

reached 14.7 percent by April 2020. The correlation between unemployment – both short term and long term – and hardship for individuals, families, and communities is well-established. In the short term, the primary concern was that Covid restrictions would strain household incomes and significantly impact people’s ability to support themselves and their families. Without intervention, the sudden shock could have led to severe financial hardship for individuals and communities. In the long term, economic history highlights the lasting economic and social costs of very high levels of unemployment; for instance, in 1984, UK unemployment hit 11.9 percent and remained in double digits for much of the 1980s. However, unlike past economic downturns driven by economic shocks or deeper structural issues, the Covid shock was expected to be more temporary in nature. This provided a clear economic case for the government to step in, temporarily, to help ensure people remained connected to their employers and retained an income. Once NPIs were lifted, those same jobs would largely be viable again in the medium term. Addressing these short and long-term risks shaped key policies such as the CJRS and the 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:** Businesses faced a significant reduction in demand, and disruption to their workforces, as well as further issues with supply chains and export markets, leading to increased costs and disruption to cashflow. As set out in the BBB evaluation, many businesses had insufficient cash reserves to survive the disruption that would be caused by the pandemic [BR/055a; INQ000096931], so preventing the failure of many otherwise viable businesses was a central concern for HM Treasury. As above, the likely temporary nature of the shock from Covid and intentional suppression of economic activity meant that there was a very clear case for government intervention to help reduce costs for business and bridge cashflow problems arising from the pandemic and

therefore prevent otherwise healthy businesses from closing and the destruction of productive capital.

HM Treasury was aware that the impact of NPIs would not be uniform across sectors. Businesses that relied on in-person settings, such as hospitality, were particularly exposed. Many of these sectors also operated on thin margins, leaving them with little financial resilience to prolonged disruptions, and they tended to have a high concentration of younger and lower-income workers, making them particularly vulnerable to unemployment. HM Treasury recognised that these differential sectoral impacts necessitated a targeted response. Other government departments, with their sector-specific expertise and objectives, played a crucial role in shaping tailored interventions. 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.

- 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 from the outset for HM Treasury 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. HM Treasury considered ethnicity, age, geography, gender, income and different sectors to help build a picture of variations in impact. HM Treasury also drew on external analysis. For example, in July 2020 the IFS found that low earners were seven times as likely to work in a sector closed by restrictions, people under 25 about 2.5 times as likely, and women about one third more likely to work in a closed sector [BR/056a INQ000610857]. 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,

while 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 [BR/057- INQ000610856].

- 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, which is known as “scarring”, including higher unemployment, lower wages and reduced capital investment. To mitigate against these risks and enable a swift recovery once restrictions eased, HM Treasury – alongside preserving jobs and preventing the failure of viable businesses – sought to ensure that economic activity was taking place where permitted under NPIs. This objective influenced the evolution of some support measures to address instances where activities and businesses that could operate safely were not doing so, for instance, the EOTHO scheme.

At the same time, ensuring that support schemes were wound down at the right moment was also crucial to avoid holding back economic activity that could otherwise resume. Prolonged financial support, if maintained beyond necessity, risked distorting incentives or delaying the natural adjustment of the economy. 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:** While support measures were designed and implemented at pace, HM Treasury remained committed to ensuring policy development followed due process as far as practical. From the outset, this meant not only balancing the need for urgent intervention with good policy design and operational feasibility, but also a strong emphasis on value for money considerations, compliance, and safeguards against fraud and misuse.

HM Treasury was also acutely aware of the overall fiscal cost of the economic support during the pandemic and the importance of maintaining market confidence, including ensuring there were no issues with the government’s ability to sell gilts. Fiscal sustainability was also critical in maintaining a stable, productive and sustainable economy. Measures were therefore designed to be timely, targeted, and temporary - ensuring that assistance was provided quickly, to those who needed it, but only for as long as needed. This approach helped strike a balance

between providing immediate economic support whilst safeguarding long-term fiscal sustainability, but it was also the right approach for ensuring a quick and sustainable economic recovery beyond the immediate crisis.

265. HM Treasury worked in concert with other departments – especially the Cabinet Office – to ensure that economic objectives were considered alongside the policy decisions made elsewhere, as detailed in Part 1: **HM Treasury: People, Structures and Processes**, and set out in more detail in evidence for Module 2, with the Chancellor consulting the Prime Minister on all economic decisions and working with the Cabinet Office to ensure collective agreement through Write-Rounds and Ministerial Groups.

### ***The Evolution of HM Treasury's Objectives***

266. HM Treasury's overarching objectives remained largely consistent throughout the pandemic. However, the context in which these objectives were pursued was unprecedented and fast-moving. 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.
267. 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. For instance, whilst initially the government envisaged a quick bounce back to pre-pandemic economic conditions, as the crisis persisted the focus shifted towards 'rebuilding' BR/173 INQ000114447. This adaptability was essential to managing the immediate and unforeseen challenges posed by the pandemic, as reflected in the transition from the initial Covid loan schemes to the Recovery Loan Scheme ("RLS"). Similarly, the introduction of the Live Events Reinsurance Scheme after the third lockdown ended demonstrated how government intervention evolved to support sectors particularly vulnerable to ongoing uncertainty.
268. The fast-evolving nature of the public health crisis and associated NPIs meant that, on occasion, envisaged economic support schemes were modified or replaced at speed as the health outlook evolved. For example, in the autumn of 2020, HM Treasury worked up a new version of CJRS: the JSS. This was devised to address a set of NPIs in which some businesses were closed whilst others were open but with reduced activity.

However, before it could be introduced, a full national lockdown was instigated which consequently required an extension to CJRS. Another such example was the Job Retention Bonus which was worked up in the summer of 2020 but not ultimately introduced due to the evolving landscape.

269. One of the most significant aspects of HM Treasury's response was the scale of economic support provided. The unprecedented scale of these interventions led to substantial increases in borrowing and public debt, with 2020-21 marking the highest levels of peacetime borrowing in recorded history. As above, fiscal sustainability was a key objective and a cause for concern. But it was felt that more significant economic and fiscal issues would arise if the schemes were not in place and the government let unemployment rise and business failures take place, resulting in far greater economic and social costs.
270. In addition to stabilising household incomes and business finances, a key objective was to preserve millions of jobs and keep capital invested in the hundreds of thousands of viable, productive businesses that were temporarily disrupted by Covid. By maintaining these links, HM Treasury sought to ensure that once restrictions were lifted, the UK economy would be positioned for a faster recovery.
271. Throughout the pandemic, HM Treasury's approach to economic support reflected the government's strategy for NPIs. HM Treasury ministers and officials actively contributed to shaping these strategies, ensuring that the level and nature of financial assistance evolved in response to the changing public health measures. For example, HM Treasury ministers rapidly decided to extend CJRS and SEISS when further lockdowns were put in place.

#### *Initial Response to the Pandemic*

272. After the emergence of Covid, HM Treasury monitored the disease and started work on its potential economic implications in late January 2020. This was led by the Global Economics Team and drew on in-house analyses prepared during the 2006 H5N1 Bird Flu and 2009 Swine Flu outbreaks [BR/059a INQ000609205] [BR/060a INQ000609206] [BR/061- INQ000128604]. HM Treasury's initial advice to the Chancellor on 4 February 2020 noted high levels of uncertainty but expected the primary short-term impact to be on the Chinese economy, with the global and UK economy only modestly impacted, mainly through the slowdown of the Chinese economy [BR/062- INQ000609802].

273. As cases began to increase in late February and early March, the Chancellor's primary focus was on the upcoming Budget scheduled for 11 March. This Budget included a package to respond to what at the time was thought to be a "short temporary shock". HM Treasury officials relied on guidance from the health experts (e.g., DHSC, SAGE and the CMO) on the likely path/duration of the virus and government health response to inform the introduction of economic support measures. Consequently, the Budget was informed by DHSC health data, as well as SAGE's work on the Reasonable Worst-Case Scenario for an outbreak of pandemic influenza [BR/063- INQ000088103].
274. The £12 billion package of measures announced in the March 2020 Budget [BR/064- INQ000106194] aimed to support public services, including the NHS, by ensuring they had the necessary resources needed to respond to the pandemic. It also provided support to individuals unable to work because they had Covid, and businesses experiencing increased costs or disruptions [BR/060a] flow. For instance, the government relaxed the rules for Statutory Sick Pay ("SSP") and allocated £500 million in new grant funding to LAs in England to support economically vulnerable people and households in their local area. Additionally, small and medium-sized businesses received support through refunds for SSP costs. Small businesses were also supported by the Small Business Grant Fund, offering up to £10,000 per business. Shortly after, the CCFF and the CBILS were launched to support liquidity in larger firms and provide financial support to smaller businesses respectively [BR/065- INQ000609249]. In line with the early expectation that the pandemic would be short lived, and to help maintain fiscal sustainability, the approach at this stage emphasised that the measures should be temporary and reversible.

#### *Introduction of NPIs*

275. In the weeks following the Budget, the scale of the potential economic and social impacts of Covid became increasingly clear. On 16 March, the government introduced an initial set of NPIs [BR/066- INQ000609229], followed by the announcement of a full national lockdown on 23 March. Given the significant disruption these measures would cause to businesses and individuals, it was evident that further economic support would be required.
276. HM Treasury had already begun preparations for this next phase, allowing the department to respond rapidly in alignment with the evolving public health context. As a

result, a significant expansion of economic support was announced during this period. This included the introduction of the CJRS and the deferral of VAT payments on 20 March and the SEISS on 26 March [BR/067- INQ000609294]. The Retail, Hospitality and Leisure Grant Fund was announced on 17 March 2020 to support small businesses in retail, hospitality and leisure sectors, which were particularly exposed to NPIs, with grants of up to £25,000. Iterations were also made to the loan schemes, with the introduction of the CLBILS, to support medium and large businesses, and the BBLs, to support SMEs, on 20 April and 4 May respectively. In addition, a £20 per week uplift to the Universal Credit Standard Allowance and to Working Tax Credits was announced on 20 March and implemented from the 6 April. As set out above, these economic interventions were designed to provide support in line with the NPIs, with the objective of encouraging compliance with those health restrictions as well as supporting individuals and businesses affected by them.

277. Due to the unpredictable trajectory of the pandemic, there was considerable uncertainty over how long these economic support schemes would need to remain in place. While HM Treasury initially designed them with the expectation that they would be short lived, the evolving nature of the crisis meant that officials had to continuously assess and adapt policies in response to changing circumstances. For example, the CJRS and SEISS was initially introduced for three months, but an extension was announced less than a month later [BR/068- INQ000609338]. HM Treasury's economic interventions were consistently guided by the approach on NPIs at any given time, with the aim of ensuring that economic support remained aligned with the government's broader public health response.
278. In the initial phases of the pandemic, HM Treasury ministers prioritised a more expansive approach to support, aiming to reach as many businesses and individuals as possible [BR/069- INQ000609213]. The scope of this assistance was also shaped by what was operationally deliverable at speed. As the virus evolved, this approach was supplemented by more targeted interventions designed to provide focused support to those most severely impacted and to incentivise a return to economic activity where it could safely take place.
279. The need to deliver support quickly meant there was a short window to develop the initial versions of many of the economic support schemes. Ministers had to balance the risk of not supporting individuals and business quickly or comprehensively enough on one hand,

and opportunity for fraud and error on the other. Given the extreme uncertainty surrounding the crisis, the usual standard of evidence the government would typically rely on was simply not available. As a result, ministers had to make trade-offs – not only between fraud and error risks, but also between value for money, deliverability and the speed at which support could reach those in need. Designing policies around existing data sets and systems allowed for support to be delivered earlier and quicker – and with lower fraud and error risk – than if bespoke levers had been created.

280. Around this time interventions were also made to support charities and transport infrastructure. The government provided an initial £750m to civil society, largely delivered through existing infrastructure such as the national lottery (£200m), direct funding to hospices (£200m) and small specific funds established by departments. The government also established a match fund (£90m) to encourage philanthropic donations to charities. The National Emergencies Trust, a charity established prior to Covid to provide quick and targeted support to areas affected by emergencies, received £20m.
281. Rail emergency measures temporarily suspended normal franchise agreements with rail operators and transferred all revenue and cost risk to the government from 1 March 2020 to 20 September 2020. The principal backstop for the rail passenger services prior to the pandemic was the Operator of Last Resort (DfT OLR Holdings Ltd.), which could step in if private Train Operating Companies (“TOCs”) failed. For bus operators, mechanisms already existed for LAs to provide support to bus networks where required. These mechanisms were extended to enable support from central government during the pandemic using a bespoke support formula that covered operational losses and ensured continuity of essential services.
282. Prior to the pandemic, the DfT together with the Cabinet Office's Civil Contingencies Secretariat were responsible for developing contingency plans for the transport sector to ensure continuity and resilience in the event of an emergency. Overall, the existence of mechanisms such as the DfT Operator of Last Resort in rail, established frameworks such as the Air Travel Organisers' Licensing scheme (“ATOL”) and the development of bespoke support enabled HMT to provide financial assistance to maintain essential transport infrastructure throughout the pandemic.

### *Roadmap to Lift Restrictions*

283. In April 2020, the government began developing a roadmap for the easing of restrictions, with HM Treasury officials contributing from the outset. This work culminated in the publication of 'Our Plan to Rebuild: The UK Government's Covid-19 Recovery Strategy' on 11 May [BR/070- INQ000198892]. Recognising the importance of providing businesses with clarity, Treasury officials worked with Cabinet Office and No.10 on a structured timeline for reopening the economy while balancing the need to maintain public health protections.
284. Alongside preparations for reopening, HM Treasury also assessed how economic support measures should evolve to facilitate recovery and not prevent or discourage permissible economic activity from taking place. While ongoing support remained essential, policies were adjusted to encourage a gradual return to economic activity. For instance, the CJRS was extended until October, but with increased flexibility to allow furloughed employees to return to work part-time. To ensure the scheme was targeted at businesses that genuinely needed it, an employer contribution was introduced to encourage firms to use CJRS only where necessary rather than as a default option. Similarly, the second SEISS grant was introduced on 29 May, with the grant rate adjusted to 70% of average monthly trading profits compared to the initial 80%. This reduction mirrored the employer contribution aspect of the CJRS, reflecting the government's intention to gradually reduce the level of support as the economy began to recover [BR/071- INQ000609702].
285. Throughout this period, advice from HM Treasury officials tried to carefully balance multiple objectives – supporting economic recovery, managing fiscal sustainability, and avoiding long-term economic damage. Officials, during this period and later in the pandemic, looked into options to extend CJRS and SEISS to businesses and individuals not previously covered because of concerns about the potential fraud risk. As explained further in Annexes A and B, ministers ultimately decided that the risks were too great to make significant changes but as covered in those annexes, rule changes were made in some instances for example in relation to access for those on maternity leave. HM Treasury officials also closely monitored international responses to gain insights into best practices and potential policies that could be implemented quickly, with the Chancellor taking a particular interest in how other countries were adapting their strategies to both manage the pandemic and encourage economic recovery [BR/072- INQ000184605].

### *Summer 2020 Relaxing of Restrictions*

286. After the 4 July 2020 reopening of the hospitality, leisure, personal care and accommodation sectors, HM Treasury officials shaped economic support around the realities of the health response. With no vaccine in sight, the priority was to maximise economic activity within the context of the public health restrictions that were still in place, thereby seeking to minimise long-term economic and fiscal scarring [**BR/073-INQ000585046**].
287. The two main issues identified in relation to the long-term adverse economic impacts of the period of lockdown were economic scarring and consumer behaviour. HM Treasury ministers and officials were concerned about the freezing effect in the labour market that resulted from CJRS and SEISS in particular, and the risk that this would turn into higher long-term unemployment [**BR/074- INQ000609457**]. At the same time, there was a strong emphasis on restoring consumer confidence and encouraging spending to accelerate economic recovery. The Chancellor was especially keen to ensure that households felt financially supported and motivated to spend where it was safe to do so, recognising that consumer demand would be a key driver in sustaining businesses and jobs.
288. This approach guided the development of policies for the Chancellor's Plan for Jobs, announced in the Summer Economic Update [**BR/075-INQ000086677**], ensuring support was responsive to restrictions and targeted at sustaining recovery. Pay As You Grow options were introduced for BBLS borrowers on 24 September 2020, having been developed from early August. This was part of creating forbearance options for businesses who would struggle to repay their BBLS after payments began to be required after the first 12-month period. The aim of this approach was to balance fairness to struggling business and supporting their long-term recovery with taxpayer value, giving businesses a chance to repay through a more realistic payment schedule for their needs [**BR/076- INQ000609475**].
289. This phase marked a shift towards more targeted policies aimed at supporting those most in need, alongside broader efforts to drive economic recovery and minimise long-term structural damage to the economy and public finances. For instance, the EOTHO Scheme was introduced to encourage consumers to return to legally permitted activities which in-turn provided employment, particularly for young people and the lower paid. Similarly, the temporary change in the Stamp Duty threshold aimed to stimulate the

housing market, which is closely linked to consumer confidence. Additionally, the Kickstart scheme was implemented to support 16–24-year-old UC claimants at risk of long-term unemployment by paying employers who took them on a grant which included start-up costs, employability support, and the cost of wages and overheads for six months.

### *Continued Targeted Support*

290. Throughout September 2020, HM Treasury refined its approach, aiming 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 was now on a geographical basis and through a more complex set of rules in the tiering system), avoiding measures that might inadvertently stifle economic activity where it could safely take place, and focusing on supporting or encouraging economic activity where permitted.
291. On 24 September 2020, the Chancellor announced his Winter Economy Plan, introducing a package of targeted measures designed to support economic growth and recovery [BR/076- INQ000609475]. For example, there were flexibilities to help businesses pay back loans and an extension of the tourism and hospitality sector VAT cut. 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.
292. Another key announcement in the Winter Economy Plan was the proposed transition from the CJRS to the JSS, which aimed to be a more targeted scheme to support part-time working, and reflect the need for differentiating support between businesses that were able to start reopening (albeit often at a lower level of activity) and those that remained closed. By providing targeted support, the government sought to promote a measured return to normalcy while gradually reducing reliance on direct subsidies.

### *Rising Cases and the Second National Lockdown*

293. However, cases of Covid continued to rise at pace and HM Treasury's work on tailored assistance for open and closed businesses to operate alongside a tiered system of health restrictions was superseded by the announcement of a new four-week national lockdown on 31 October 2020.

294. On the same day, the Chancellor received advice on how the economic interventions should evolve in light of this and he publicly announced that evening that the introduction of the JSS would be postponed, and the CJRS would be extended until December 2020 instead [BR/076a INQ000611614] [BR/076b INQ000609135] [BR/076c-INQ000657568]. The Chancellor recognised the need to increase the generosity of financial support in response to the fast-moving health situation, and the simplest and quickest way of reaching people was by extending the CJRS, rather than implementing a new scheme. This also had the advantage that employers and employees were already familiar with CJRS and therefore understood how it worked and could receive support more quickly.

295. Along with the extension of CJRS, further extension and enhancement of economic support was also announced on 31 October, including an extension of mortgage payment holidays; business grants of up to £3,000 per month for businesses required to close; and a further £1.1 billion provided to LAs to allow them to support local businesses more broadly [BR/077 INQ000625770] [BR/077A INQ000625771] [BR/078-INQ000609524].

296. When the national lockdown came into force on 5 November, the Chancellor announced the further extension of the CJRS to the end of March 2021. This extension was intended to provide certainty after a period of changes to the policy and avoid a 'cut off' in support close to Christmas. It was also in recognition of the need for support to continue for a short period after lockdown even if the path of the virus improved. The CJRS was further extended to April 2021 in December 2020. Support was also increased for the self-employed, with a rise in the overall level of the SEISS grant to 80% of trading profits covering November to January. The application deadlines for the CBILS, CLBILS and BBLs were also extended to January 2021, giving businesses two extra months to make loan applications [BR/078- INQ000609524].

### *Third National Lockdown*

297. In early January 2021, the Prime Minister announced a third national lockdown, emphasising the necessity of these measures to control the virus's spread and protect the NHS. In response, the Chancellor provided an update on the economy on 11 January 2021 [BR/079- INQ000609771], acknowledging that whilst the new national restrictions were essential for public health, they would have a significant economic impact.
298. As with previous lockdowns, HM Treasury recognised the need to continue to provide a bridge for people and businesses until the economy reopened and took steps to extend and increase the financial support available. CJRS had already been extended until March, and a further SEISS grant was being paid. In addition, it was announced on the 11 January 2021 that all businesses in England forced to close could claim one-off grants up to £9,000 through the Closed Businesses Lockdown Payment; on top of the Local Restriction Support Grants worth up to £3,000 a month. In addition, LAs were allocated an extra £500 million in discretionary funding to support other impacted businesses not eligible for the primary grants.

*Roadmap for Exiting Lockdown and Spring Budget 2021*

299. Alongside announcing the lockdown in early 2021, the Prime Minister had announced a plan, subject to health indicators, to reopen schools after the February half-term and that regions would subsequently be moved down tiers from then depending on the path of the virus.
300. To support this aim, over the remainder of January and February HM Treasury worked closely with the Taskforce and other government departments on developing what became the February 2021 Roadmap for exiting lockdown, including providing input on the economic impacts of different NPIs to inform the sequencing of easing restrictions [BR/080- INQ000610848] [BR/081- INQ000609592]. Providing some level of certainty by having an expected path out of lockdown was critical for re-establishing economic confidence.
301. The timings set out within the February Roadmap [BR/080- INQ000610848] informed the extensions of elements of the package of Covid-related economic support that were subsequently announced at the Spring Budget on 3 March 2021 - which reiterated HM Treasury's key objectives of supporting the country to recover from Covid, rebuilding the economy, supporting jobs, and helping those most affected.

302. Broadly the Spring Budget maintained the previous package of economic support albeit with some refinements to better target those in need and support the recovery phase. Changes included the introduction of the Recovery Loan Scheme to help businesses transition out of emergency support and modifications to the fourth and fifth SEISS grants, including the introduction of a financial impact test to ensure support was directed towards those who had experienced significant income loss.
303. Spring Budget notably provided clear exit routes and end-dates for the economic support schemes, such as increasing employer contributions to the CJRS from July and exiting the scheme at the end of September, a final SEISS grant from May-September, removing the £20 UC increase after another six months and confirmation that the temporary VAT reductions for the tourism and hospitality sector would come to an end on 30 September (albeit with a temporary reduced rate until March 2022). Other policies announced at the Budget are more fully detailed in the Policy Decisions chapter of the Spring Budget 2021 document [**BR/082- INQ000610869**].
304. Throughout the period from November 2020 until the Budget in March 2021, HM Treasury officials had – at the Chancellor’s request – worked on options to better target the CJRS and SEISS schemes [**BR/083- INQ000609191**] [**BR/084- INQ000609138**]. This was driven by the objective of ensuring that people who could work were given as much incentive as possible to do so; and from a value for money perspective to focus support on those businesses and individuals who needed it the most rather than take a more blanket approach. Ultimately, HM Treasury ministers decided that it was not possible to design more targeted schemes in a way that was fair and guarded against unacceptable levels of fraud and error – especially given the lack of granular and timely data, in particular on the self-employed population and on employer’s turnover/profits. Further detail on the CJRS and SEISS can be found in Annexes A and B, respectively.
305. These commitments to economic support intentionally extended well beyond the dates of exit from the NPIs in the February Roadmap to provide a buffer in case the easing of restrictions needed to be delayed. This turned out to be necessary when the spread of the Delta variant led the Prime Minister to announce a four-week delay to the progression to Step 4 of the Roadmap [**BR/085- INQ000113740**].

306. As the country began to exit the pandemic lockdowns, HM Treasury officials worked with the Chancellor to confirm – and where needed calibrate – the phased withdrawal of major emergency economic support measures.
307. HM Treasury also adapted to new issues as they became apparent. For instance, in August a Live Events Reinsurance Scheme was launched to support live events such as music festivals, concerts and business events to obtain Covid cancellation insurance [BR/086- INQ000609663].
308. The end of the furlough scheme was a totemic moment in the withdrawal of Covid economic support, especially given the ending of several major loan schemes earlier in 2021. On 13 September, the Chancellor provided an update on the Plan for Jobs [BR/087- INQ000236929], reiterating the rationale for ending the CJRS and SEISS as planned at the end of September. This update emphasised that, with businesses now able to operate without the constraints of health restrictions, economic support should shift towards helping people return to work through the Plan for Jobs. This approach sought to strike a balance between maintaining support through the summer when businesses were still recovering while ensuring that incentives were in place for individuals to re-enter employment as demand returned.
309. The Autumn and Winter Plan 2021 [BR/088- INQ000520714], published the day after, on 14 September, set out the government’s strategy for managing Covid through the winter period, including a ‘Plan B’ package of measures to be considered if the NHS came under unsustainable pressure.
310. Whilst noting the potential economic impact of the reintroduction of working from home included under Plan B measures, HM Treasury officials advised ministers to support the overall plan and underscored the potential benefits of introducing a limited set of restrictions at an early stage to prevent a deterioration in the epidemiological situation, which could ultimately necessitate more stringent and economically damaging measures. Economic support was gradually phased out up to early autumn 2021 as NPIs were lifted.

*Emergence of Omicron Variant*

311. In response to the rapidly spreading Omicron variant in December 2021, the government reintroduced stronger international border restrictions and implemented Plan B measures, which included guidance to work from home where possible, mandatory face coverings in certain settings, and the expansion of the Covid Pass system.
312. This was a fundamentally different scenario compared to earlier waves, as the government did not reintroduce stringent restrictions such as national lockdowns or widespread business closures. However, HM Treasury recognised the risk of significant economic disruption due to falling consumer demand—particularly in sectors such as hospitality and leisure—alongside increased workforce absences due to rising case numbers. To mitigate these risks, the Chancellor announced a targeted £1 billion package on 21 December 2021, to provide financial support to businesses most affected by Omicron [BR/089-INQ000609807]. This included grants for hospitality and leisure businesses, the reintroduction of the SSPRS for small and medium-sized employers, and additional funding for LAs to provide discretionary support.
313. During this period, HM Treasury officials closely monitored economic developments and stood ready to advise on additional measures if the public health situation worsened and more stringent restrictions became necessary. The Treasury’s objective remained to balance providing support where economic activity was restricted with enabling businesses to operate and people to work where possible, thereby mitigating long-term economic scarring. However, the success of the vaccine booster campaign and the high level of population immunity helped the UK navigate the Omicron wave without requiring further restrictions and hence no additional economic support was introduced.

#### *Living with Covid Strategy*

314. Through January and early February 2022, HM Treasury officials worked with the Taskforce to shape the Living with Covid strategy, as promised by the Prime Minister in his 19 January statement. The Autumn and Winter Plan had been focused on using Pharmaceutical Interventions over NPIs, such as maximising uptake of the vaccine among those eligible but had not yet taken up the offer, offering booster doses to individuals who received vaccination in Phase 1 of the Covid vaccination programme and offering a first dose of vaccine to 12-15 year olds. Additionally, advances in antivirals and therapeutics continued to provide additional tools to manage the virus. The Living with Covid strategy continued to focus on the appropriate ongoing level of

Pharmaceutical Interventions as the country explicitly moved away from an emergency Covid footing.

315. On 21 February 2022 the Prime Minister announced the Living with Covid strategy in the House of Commons, signalling an end to most Covid policy measures [BR/090-INQ000146514]. Some public health measures continued in more targeted form: for example, the published document set out that government would be ending the free universal testing offer and moving to a more targeted testing approach focusing on the highest risk groups. This was consistent with HM Treasury objectives: with the population having much stronger protection through vaccination and natural immunity, the value for money of an expansive testing offer had vastly decreased over time.

#### **Part 4: Data, Modelling, and Analysis**

##### *HM Treasury's Structure and Governance on data, modelling and analysis*

316. Part 1: **HM Treasury: People, Structures and Processes** sets out the overall structures and governance of HM Treasury's work on Covid including with regard to data, modelling and analysis and managing economic and fiscal risks.
317. As set out there, the Economics Group in HM Treasury provides economic analysis and modelling to inform policy. The Fiscal Group similarly provides analysis on public finance sustainability and financing needs. Analysts and senior officials in these groups assess the UK economy's short-term and long-term trends and regularly update the Chancellor, a process maintained during the pandemic. Analysts are also embedded in other HM Treasury teams.
318. The OBR is the government's official independent economic and fiscal forecaster. It is the OBR's duty to examine and report on the sustainability of the public finances, as set out in the Budget Responsibility and National Audit Act 2011. In fulfilling this duty, the OBR must prepare fiscal and economic forecasts on at least two occasions for each financial year. In between those forecasts, HM Treasury analysts produce (where needed) scenarios for the future path of the economy and public finances, but these are not full or detailed forecasts and are generally for internal use. During the pandemic, as discussed in Part 1: **HM Treasury: People, Structures and Processes** of this statement, HM Treasury shared official-level analysis undertaken within HM Treasury and other departments with the OBR to support their forecasting process and worked

closely with the OBR to inform decision-makers on the potential economic impact of the pr Put simply, OBR forecasts are comprehensive economic and fiscal forecasts which are produced under its remit as the government's official independent economic and fiscal forecaster and made publicly available. The forecasts are produced independently with a range of inputs including official level analysis (for example from HMRC and DWP analysts) and other material (i.e., during a budget, proposed major policy measures) provided to them by HM Treasury. Internal scenarios are analysis that HM Treasury conducts as part of its usual work, that is not normally shared outside of the department but is used to inform advice to ministers. It might consider how the latest data has affected the near-term outlook. Or a shift in another countries' trade policy might affect UK economic prospects. Internal HM Treasury analysis (where based on OBR forecasting) uses the OBR's overarching forecast methodology but often in a reduced form, for instance a reduced number of economic variables or fiscal analysis is produced using ready reckoner models instead of using inputs from HMRC and DWP. Scenarios can also be produced using other tools, such as the National Institute of Economic and Social Research's macroeconomic model (see para 329 for detail).

319. As set out in Part 1: **HM Treasury: People, Structures and Processes**, the CEA is the primary adviser to the Chancellor on economic and fiscal issues. They work to deliver the government's macroeconomic objectives of promoting sustainable economic growth and setting and implementing fiscal policy. The CEA leads HM Treasury's relationships with the BoE on monetary policy and markets, the IMF and OECD on surveillance of the UK economy, the gilt investment community and the wider economics community. The CEA has oversight of analysis across HM Treasury and manages the Economics and Fiscal Groups in HM Treasury, sits on HM Treasury's EMB, and is head of the Government Economic Service.
320. Macroeconomic and fiscal analysis produced in the department is overseen by the Directors of Economics and Fiscal respectively and in some cases also signed off by the CEA. Senior analysts are responsible for model development and quality assurance processes. Analysts ground their quality assurance processes in the guidance laid out by the cross-government Analytical Function and/or their specific profession [BR/091-**INQ000609916**] During the pandemic, as before, outputs fed into advice to ministers as explained in Part 1. Analysis can both be requested by ministers or proactively produced by the department. In many cases during the pandemic, analysis was also shared with the Cabinet Office to feed into wider presentations to ministers or formal reviews.

321. Within HM Treasury, the economic modelling and analysis produced during the pandemic was also shared and scrutinised in a number of the internal boards and structures set out in Part 1: **HM Treasury: People, Structures and Processes**, including the ERG, the FRG, the Economics and Business Covid-19 internal group and the Covid Response Board.

### ***HM Treasury's Approach to Data and Economic Analysis***

322. Under normal circumstances, official statistics - which provide high-standard and quality assured data - are the best data for understanding the state of the economy and informing assessments of the outlook. However, these take time to produce. For example, the earliest official GDP data is published 45 days after the end of each month, which was too slow for real-time decision making in such a fast-moving crisis as the pandemic. Economic modelling faced similar challenges. Typically, economic models provide a simplified version of an economy, reflecting key theoretical and empirical relationships to help explain trends and developments, and support policymaking. However, during the pandemic, the relationships between economic variables kept shifting, making some existing models less reliable. For example, as GDP fell, unemployment did not rise as might be expected in a typical recession or business cycle, because of the effects of government policy and behaviour of economic agents.

323. The economy's response to the pandemic also evolved over time, with businesses and individuals demonstrating a remarkable ability to learn and adapt as restrictions and guidance became more targeted, allowing for greater economic activity. For example, during the first lockdown in March 2020, 24% of firms reported pausing trading. By the second lockdown in November, this had fallen to 11% of firms. The shift was even more pronounced in the food and accommodation sector: in April 2020, 82% of firms had ceased operations, whereas by the second lockdown, that number had fallen to 55%. This adaptability meant that estimating the economic impact of later lockdowns based on early pandemic data would have significantly overstated the associated costs.

324. To overcome the challenges presented during this time, and to ensure analysis produced in the department could support the best possible advice to ministers, HM Treasury employed several key approaches:

- a) **Enhanced Official Statistics** - official statisticians rapidly adapted the production of key statistics, launching the Coronavirus Infection Survey and the Business Impacts and Conditions Survey (“**BICS**”). They also introduced new data on prices, spending and trade so economic activity could be tracked closer to real-time. Some of these surveys were up and running by early April 2020 – just ten days after lockdown began. These statistics gave officials and ministers in HM Treasury and across departments a much clearer picture of what was happening.
- b) **Use of Alternative Data Sources** - HM Treasury turned to new measures of activity, using a variety of data sources from the private sector as indicators of economic activity. Platforms such as OpenTable openly provided restaurant booking trends, while Google mobility data helped assess transport and retail activity. Other companies, such as Revolut, privately shared real-time financial transaction data with the government to enhance understanding of consumer behaviour.
- c) **International Comparisons** – Throughout the pandemic, HM Treasury sought to learn from experiences in other countries. Lessons were drawn from countries that experienced the virus earlier, such as China and Italy, as well as comparisons between similar countries taking different approaches, such as Sweden and Norway. These insights helped to better compare how economic activity responded to the virus and guidance, and how economic activity responded to restrictions. International comparisons were also used to inform the development and implementation of economic support measures. For example, comparisons of successful wage subsidy schemes in other countries were used during the development of the CJRS. The structures that delivered analysis of international comparisons to inform decision making are set out in Part 1, and examples are included in the annexes to this statement.
- d) **Engagement with the Economics Profession** - HM Treasury reached out to economists in academia, research institutes and the private sector to discuss this assessment of what was happening. The Royal Economic Society helped to develop a rapid match-making service with these groups. Officials asked specific questions, or discussed particular topics we were grappling with, and the best placed academics gave us their advice on topics, such as the impacts on inequality or implications for future healthcare provision.
- e) **Sharing insights with other departments** – HM Treasury relied on extensive joint working with other departments when it came to sharing data to inform economic decisions and designing relevant schemes. Analytical and policy teams in HM Treasury gathered real-time indicators and quantitative data from

departments like BEIS, DWP and HMRC – as well as getting their more qualitative input and views – and integrated it into advice. Similarly, HM Treasury data was shared to help inform the thinking in other departments (e.g., via the Cabinet Office Dashboard which we fed into). There was extensive collaboration with HMRC on CJRS and SEISS, BEIS on loans and grants, and MHCLG on local government delivery, as well as DCMS and DfT for sector-specific support. Policy design and decisions on one economic intervention was informed by how it would fit with other support already in place (either from before the pandemic or introduced during it). For example, the interaction between the support for those sick or isolating with the support provided through CJRS. HM Treasury officials also joined economic statistics user groups convened by ONS, utilised existing relationships with BoE analysts at working level to share expertise and exchange views on data sources. Further detail of HM Treasury's work with other departments on data and analysis is set out below.

- f) **Administrative data:** HM Treasury worked with other departments to use administrative data where relevant, particularly to help design and implement support schemes. For example, the information HMRC collects from employers through Real Time Information "was pivotal to the government's ability to operationalise CJRS. Similarly, information from DWP on applications for UC was an important indicator.

325. Although these approaches helped to mitigate some uncertainties, the lack of historical precedent for assessing the impacts of the virus and the restrictions implemented to control it remained.

326. From the beginning of the pandemic, HM Treasury used economic modelling to provide insights into the way the virus may impact the economy and the case for, and design of, the economic support policies. It helped the department understand the possible scale and speed of different aspects of the impact, for example the number of workers who would be impacted by closing specific sectors and the possible impact of closing one sector on other parts of the economy.

327. To understand the near-term outlook for economic growth, HM Treasury officials routinely used its 'Nowcasting' framework – similar to the BoE's methodology [BR/092-INQ000609870]. This uses a range of data from external bodies and a set of equations to assess changes in GDP in current and (a limited number of) future months. Given that the circumstances of the pandemic reduced the reliability of established data

sources and their interrelations, this framework was rapidly updated to incorporate new data sources and real-time and high frequency indicators, such as those produced by the ONS and private businesses. The results from this framework were used extensively and regularly in economic monitoring products shared with ministers.

328. Another technique HM Treasury used was the long-standing National Institute Global Econometric Model (“**NiGEM**”) [BR/093-INQ000609883]. This model can be used for several purposes, including to assess how shocks — both internal and external — affect key macroeconomic variables. In April 2020 HM Treasury officials used NiGEM to assess the impacts on the UK of other countries' adoption of NPIs. These suggested that around a third of the economic impact of Covid in the UK would be accounted for by global spillovers, predominantly through reductions in global demand in 2020. A summary of the results was then shared with the Chancellor and referenced in the Chancellor's 2020 Plan for Jobs' economic aid package [BR/094-INQ000088027].
329. In addition to its standard economic tools, HM Treasury used further techniques to analyse the economic impacts of the unprecedented policy choices faced by ministers. One such technique was an aggregate labour supply model developed rapidly in March 2020. This analysis was conducted at pace ahead of the first national lockdown. The analysis drew on assessments of the direct impact of workforce absences under different NPI scenarios by the DHSC and SAGE [BR/095-INQ000184562]. This body of analysis supported briefing products and was incorporated into speaking notes for ministers [BR/096-INQ000184563].
330. The department's economic assessments went beyond impacts at the macroeconomic level. In July 2020, the department procured a firm-level model that takes illustrative macroeconomic assumptions and converts them to micro-outputs looking at the effects on firms' solvency and employment levels. The objective of using this model was to add a further dimension to HM Treasury's analysis by giving a firm-level view, and to assess how policy interventions interacted with trading conditions. For example, in September 2020, this informed a briefing to the Chancellor on the economic impacts on firms of a potential 'circuit breaker' [BR/097-INQ000184589]. Moreover, HM Treasury used household-level distributional analysis to estimate the impact of Covid on working households' incomes as of May 2020, based on data from the UK Household Longitudinal Study (“**UKHLS**”). This analysis assessed the short-term changes in net incomes for working households, comparing May 2020 to February 2020, and evaluated

the direct, quantifiable effects of government interventions against earnings and job losses.

331. As demonstrated above, various types of economic modelling provided key insights to enable the department to systematically address economic issues during the pandemic. Models - whether through forecasting, offering a structured way to understand how different parts of the economy interact, or simulating shocks or policy interventions – help convert complex economic data into useful insights that can help shape policy decision making. The use of economic models ensured HM Treasury was able to help ministers make evidence-based decisions that were as strategically sound as possible during the pandemic.
332. This capability also helped HM Treasury identify crucial parameters like voluntary behaviour, compliance, and immunity to inform economic policy responses including the development of the NPIs. However, such modelling was not always suitable for rapid policy design due to the fast-evolving understanding of the virus and individual responses to restrictions. In addition, HM Treasury's development of epi-macro modelling (which integrates epidemiological and economic relationships – set out in more detail below) faced challenges due to a lack of established empirical evidence, unlike standard economic modelling, which relies on historical data to estimate relationships. The effects of NPIs also varied over time, influenced by the virus's progression and adaptations by individuals and businesses. To understand the economic impact and support development of health restrictions, HM Treasury employed diverse analytical techniques and data sources, utilising existing and new data to refine understanding. HM Treasury also monitored public health advice and its economic implications, building capability in epi-macro modelling and advising ministers on health impacts.
333. HM Treasury did not rely solely on economic models for its economic assessments during the pandemic. Instead, HM Treasury's approach involved a comprehensive analysis of all available data and evidence, incorporating both quantitative and qualitative analyses. This included looking at other countries to better compare how economic activity responded to the virus and guidance, and to restrictions. The analysis also included examining data across various demographic groups to better understand the distributional impacts of the virus. For example, the IFS found that low earners were seven times as likely to work in a sector closed by restrictions.

334. HM Treasury produced scenario analysis that sought to map out how differing paths of the virus and subsequent restrictions might affect headline macroeconomic variables and the fiscal position. For example, HM Treasury conducted analysis of how different paths of the virus could cause economic scarring – the medium to long-term economic damage that can occur following a severe economic shock which then leads to a recession – and how this could be mitigated through policy. This analysis informed policy decisions, such as in education policy to limit the impacts of education-driven scarring. The analysis also informed the OBR's assessment of economic scarring from Covid, initially produced in their November 2020 EFO and revised in subsequent EFOs. Such analysis built on the OBR's reference scenario analysis published on 14 April 2020. One such example of this HM Treasury scenario analysis, produced in May 2020, detailed how a "V-shaped" recession might differ from a more protracted "U-shaped" or "L-shaped" recession, and how this might affect tax receipts with subsequent pressures on public spending [BR/098-INQ000184606]. This allowed the Chancellor to understand the outlook against which he might make further decisions on economic support and what medium-term challenges he might face at future fiscal events. This scenario analysis is different from a forecast, which the OBR are responsible for as discussed in paragraphs 181-185 and 312 above; instead, it was a stylised projection to analyse different impacts on the fiscal position.
335. In summer 2020, HM Treasury developed new epi-macro modelling and analysis for autumn and winter planning, using a Susceptible Infected-Recovered Removed ("SIR") model combined with the NiGEM model [BR/093-INQ000609883]. This was used to study voluntary social distancing. Research indicated it significantly reduced mobility, spending, and employment during the first Covid wave in the US. The outputs were dependent on the modelling assumptions used. By 18 August, HM Treasury presented the Chancellor with analysis on different virus management strategies. It proposed a potential "sweet spot" with an 'Advise' strategy, stressing effective communication [BR/099-INQ000236542]. The modelling showed health and economic outcomes' sensitivity to factors like social distancing and NPI compliance, guiding policy focus.
336. In autumn 2020, with vaccines approved, it was clear that mass vaccination would change the link between epidemiological and economic impacts. The department adapted its epi-macro model to study how vaccine rollout and NPI policies would affect the virus and economy. This analysis refers to the need for policymakers to consider both the economic impacts and associated harms alongside the epidemiological assessment. Early results, shared on 18 December, considered vaccine effectiveness

and lifting restrictions after vaccinating priority groups [BR/100-INQ000116404]. Findings suggested vaccines could allow some NPI removal, but another wave was possible if immunity did not reduce the reproduction number (R) below 1. The analysis was used to inform economic policy by modelling various scenarios for the easing of NPIs and changes to economic support measures, with a focus on the speed and effectiveness of the vaccine rollout. The virus's path relied on vaccines preventing transmission, supported by early modelling from Scientific Pandemic Influenza Group on Modelling ("SPI-M"), a SAGE sub-group [BR/101-INQ000114467]. Given the importance of vaccine speed and effectiveness, the Chancellor asked HM Treasury officials to model different scenarios for NPI easing and economic support changes. Updated results, including input from Imperial College and the University of Warwick, were sent on 15 January 2021 [BR/102-INQ000113711] [BR/103-INQ000114448] [BR/104-INQ000114449].

337. HM Treasury officials worked with the Taskforce to develop what became the February 2021 Roadmap for exiting lockdown and provided input on the Taskforce's commission to SPI-M for modelling of infections and hospitalisations under different scenarios. In advice and briefing to the Chancellor on the Roadmap, officials presented a range of evidence including SPI-M modelling, alongside the economic impact of closing different sectors, incorporating sectoral Gross Value Added ("GVA") analysis to show those most adversely affected by restrictions.
338. The emergence of the Alpha and Beta variants in late 2020 posed risks to the government's Roadmap for easing restrictions. The JBC created a model to understand how new variants interacted with vaccines and NPIs, with input from HM Treasury and other officials. This model helped assess variant characteristics like transmissibility but did not replace SPI-M modelling. In spring 2021, the JBC model was used to create scenarios focusing on the Beta variant, illustrating variant risks in relation to vaccine efficacy. These scenarios were shared with the Chancellor on 6 May 2021. By December 2021, with Omicron's emergence, HM Treasury used the JBC model to predict infection and hospitalisation outcomes. Preliminary results were sent to the Chancellor to guide policy decisions, with further analysis using SPI-M modelling when available.
339. The Inquiry have specifically asked about the 58<sup>th</sup> SAGE meeting which referenced work being undertaken by HM Treasury under the auspices of the Chief Economist. It is not clear what the author was referring to in the 58<sup>th</sup> SAGE meeting minutes in reference to work being undertaken by HM Treasury. As described above, HM Treasury undertook

extensive economic analysis, which fed into advice alongside analysis of other factors such as business impacts, costs, public service impacts and inequality, which are also described elsewhere in this statement.

### *Epi-macro Modelling*

340. As set out above, epi-macro modelling, which integrates epidemiological and economic relationships, was used by HM Treasury during the pandemic to estimate how much the virus's characteristics influenced both transmission and economic activity. While epi-macro analysis had long been undertaken by health economists, it understandably gained prominence as the pandemic emerged, and internationally renowned researchers combined macroeconomic modelling with analytical tools from epidemiology. HM Treasury closely examined academic literature on epi-macro modelling and benefited in its development from its observer status at SAGE, as well as discussions with leading academics and government analytical networks.
341. Epi-macro modelling provided valuable insights into how changes in one variable could influence outcomes across complex systems. It highlighted the significant economic costs associated with an uncontrolled virus and demonstrated the effectiveness of targeted NPIs in mitigating these impacts. However, the model's predictive reliability was contingent on accurate input data, which was often uncertain due to the rapidly evolving health situation. Even with precise data, any modelling is inherently a simplification of reality and thus contains inaccuracies. To better understand the context of complex systems, the government employed a wide range of data and expert advice in its modelling, aiming to gain a comprehensive view for decision making. When HM Treasury was developing policy, wider data, analysis and input from stakeholders proved useful alongside theoretical models as the situation was fast-moving and novel, and ministers were designing detailed policies.

### *Sources of Data*

342. The pandemic and government response rapidly evolved, affecting economic activity with unprecedented speed and severity, which disrupted normal data collection and meant the department had to seek more frequent and new data sources [BR/105-INQ000184619] [BR/106-INQ000184624] [BR/107-INQ000184627] [BR/108-INQ000184631]. As such, HM Treasury officials worked with others across government and external experts to widen the scope of the review of data, acknowledging the

benefits and importance of drawing upon a wide range of external views to facilitate diversity of sources and to expand the evidence base under consideration. For instance, officials made use of data that had not previously been used to consider economic impacts, such as DfT and DfE data to understand levels of mobility across the UK and school attendance and absences. HM Treasury officials also drew from public source data collected by the private sector, for example, mobility data from Google on transport usage and time spent in different locations.

343. To address data gaps during the pandemic, HM Treasury collaborated with the ONS and BoE to develop new data sources and faster indicators [BR/109-[INQ000271314](#)] like card spending and traffic activity, and adapted surveys such as the BIC, while also using existing rapid data sources like mobility apps and hospitality bookings from Google Maps, Citymapper, and OpenTable. Agreements were secured with companies like Revolut and other financial institutions, including to gather anonymised credit card usage data. HM Treasury also worked with the BEIS to assess sector-specific data and international evidence to understand global economic impacts. HM Treasury also used international data and evidence to understand how the virus was affecting other economies around the world to draw any lessons for the UK economy.

#### *Challenges Faced by HM Treasury in Economic Analysis and Modelling*

344. Any attempt to estimate the specific economic impacts of precise changes to individual restrictions for a defined period of time is subject to wide uncertainty. Many factors determined the short and long-term economic impacts of the restrictions, including the path of the virus in the UK; the effectiveness of and degree of compliance with the restrictions; the proportion of the country under certain restrictions, and how that proportion changes over time; the behaviour of consumers and businesses in response to the virus and restrictions, including the overall change in consumption and investment and businesses' ability to adapt, displacement to other sectors, and how changed activity in one sector affects another; the effectiveness of other measures, including community testing and vaccines, which in turn depends on vaccine roll-out, take-up and efficacy; and the path of the virus globally, including the possible development of new strains, and the approach to restrictions in other countries. Estimating the economic effects of changes in restrictions also requires knowledge of what would have happened to the path of the virus and the economy with different restrictions, or no restrictions. As the evolution of the virus and the restrictions required to mitigate changed over time,

and given the complex interactions between the two, it was not possible to know with a high degree of confidence what would otherwise have happened. Any assessment of a given change to restrictions was therefore unavoidably only partial in nature.

345. The central forecast set out in the OBR's November 2020 EFO [BR/110-INQ000114451] estimated that the combined impact of the virus on the economy and the government's fiscal policy response would push the deficit to £394 billion (19% of GDP) for the year, its highest level since 1944-45, and debt to 105% of GDP, its highest level since 1959-60. Borrowing was projected to fall back to around £102 billion (3.9% of GDP) by 2025-26. But in the EFO the OBR also drew attention to the very high degree of uncertainty attached to the projections in the scenarios they set out, noting that they "make no attempt to assign probabilities to any particular outcome" and that "ultimately these are judgement-based scenarios". Any forecaster would face the same challenges – and even at the best of times, and in the most stable economic conditions, forecasting is an uncertain business.
346. In that context economic analysis could only ever be a tool to inform understanding and judgement. Furthermore, identifying the specific impact of government policy on the macroeconomy is challenging, as it is difficult to attribute economic outcomes to supportive policies rather than the effects of restrictions. It remains uncertain what would have happened to unemployment in the absence of the furlough scheme. However, based on historical trends and the significant decline in GDP in 2020, it is estimated that unemployment could have risen to between 9 and 12 percent. UK unemployment peaked considerably lower, at 5.2 percent. According to the CJRS evaluation, without the furlough, the level of economic output could have been around 1.8 percent lower in 2021 as a result of reduced employment, resulting in a long-lasting and significant scarring effect on the economy.
347. In developing its analytical tools for economic and epi-macro analysis, the department sought a wide range of views from other departments and from credible and trusted institutions and academics – more on that is set out below. The level of engagement outside the department was above that which HM Treasury had typically undertaken prior to the pandemic. However, in some instances, the department was limited in what it could share with other government departments or external bodies due to the sensitivities of policy under consideration – both on the support schemes themselves but also likely future restrictions under the NPIs.

348. Looking across the analysis and modelling provided through the course of the pandemic, HM Treasury officials produced invaluable analysis to support decision making on NPIs and the associated support schemes (for example see exhibits [BR/105-INQ000184619] and [BR/111-INQ000184609]). If at some point in the future the government once again has to consider imposing NPIs or similar measures, the experience of 2020-22 will mean that future analysts will have invaluable previous evidence and data to guide their work, which was not available to the department in the spring of 2020 due to the unprecedented nature of the pandemic experienced.

### *Capability Building*

349. For many years there has been economic modelling capability built across HM Treasury, which pre-dates the pandemic. For example, Computable General Equilibrium (“CGE”) modelling capability was developed within the Treasury starting before 2015, where the department was part of a cross-Whitehall consortium using CGE to model the impact of trade policy. Beyond this, the department has made use of labour supply, Input-Output and micro-simulation models right across the department over many years. Data Science techniques were also being used prior to the pandemic, with a number of analysts from across different groups using a range of statistical programming software to underpin their analysis. In 2019 these analysts formalised a Community of Interest on programming and data science, sharing best practice and approaches, and it was that community which led the development of the data platform used during the pandemic. The purpose was to provide a consistent access to tools, standards and best practice which would remove the barrier for more analysts to introduce these techniques into their work. That platform was live at the end of 2020 at which point it was promoted to more analysts to underpin their work. The launch of the platform represented a point where a broader set of tools were available more widely in a specialised environment, not the first availability of those tools. Groups were also taking advantage of tools such as Power BI, Tableau & Alteryx from 2019 to automate stages of analysis and data presentation.

350. HM Treasury continually encourages and makes provisions for staff learning and development as an offer to its employees, including during the pandemic at a time when new, faster data was of utmost importance, and analytical tools and modelling was being used in nascent ways (for example epi-macro modelling). Specifically, those working in

particularly data-focused and analytical roles were supported to continue to upskill to respond to the demands for analytical insights through access to formal and informal training, time spent researching and reading latest academic papers, and learning from others across government and in the academic community.

351. In recent years, HM Treasury has also undertaken significant efforts to further strengthen its capability in risk reporting by reassessing its risk appetite and updating internal guidance, which has improved the consistency of risk reporting and escalation through the organisation. This was covered in more detail in our statement for Module 1 of the inquiry.
352. HM Treasury is committed to learning from crystallised economic and fiscal risks and incorporating these into its risk management framework, while recognising that some responses may be unique to specific risks and not universally applicable. To support this, strategy sessions and lessons learnt exercises are conducted on major risks and issues including with our EMB.

### ***External Engagement on data and analysis***

#### *Engagement with Other Departments on Data and Analysis*

353. HM Treasury collaborated extensively with other departments to share, better understand and utilise government expertise and data. Prior to the pandemic, HM Treasury circulated weekly economic data and analysis within the department and to the Cabinet Office, No.10 and BEIS every Friday [BR/112-INQ000184607]. This continued during the pandemic and was shared with other departments outside HM Treasury, including the Cabinet Office and key decision-makers.
354. HM Treasury in turn used the cross-department analytical community to enhance its economic outlook assessments and support Cabinet Office with the latest economic analysis. HM Treasury officials were key members of the Heads of Analysis group, established in November 2020, which coordinated analytical efforts across government to consider the health, economic, and social impacts of the virus [BR/113-INQ000236549] [BR/013-INQ000236550].
355. How HM Treasury shared analysis changed as the relationships and structures at the centre of government changed. For instance, as the pandemic progressed, the collating

and sharing of data within government improved further, with HM Treasury's relationship with Cabinet Office and the UK Health Security Agency ("UKHSA") in particular becoming increasingly close, as demonstrated by the work undertaken with the UKHSA on the Universal Testing Offer in 2021 [BR/115-INQ000113764].

356. From the onset of the pandemic, HM Treasury fed analysis directly into meetings set up through the Cabinet Office's COBR structure. In the run up to the Prime Minister's announcement of the first social distancing measures on 16 March, HM Treasury ministers' and officials' main contributions to cross-government decision making on public health measures were through analysis of the possible economic impacts and in particular the potential supply disruption to the UK economy of proposed health restriction measures. For example, the Cabinet Secretary requested advice from HM Treasury on the likely impact of Covid on the economy and financial stability, which was submitted on 14 February 2020 [BR/05b INQ000088044]. HM Treasury officials also contributed to Cabinet Office-coordinated work examining the societal and economic impact of a potential package of NPIs on 5 March 2020 [BR/117-INQ000088046].
357. HM Treasury also provided the economic analysis underpinning – and included in – the May 2020 and February 2021 "Roadmaps", [BR/118-INQ000181691] [BR/119-INQ000114431] the November 2020 Covid-19 Winter Plan, [BR/120-INQ000114433] and the Autumn and Winter Plan 2021 [BR/121-INQ000137065].
358. Additionally, HM Treasury held meetings to brief the Prime Minister directly on recent economic data starting in June 2020, with their frequency changing throughout the pandemic. The meetings were weekly until March 2021, when they became monthly, finally ending in May 2022. Usually, the Chancellor would also attend these meetings alongside others from No.10, Cabinet Office, and HM Treasury.
359. By early June 2020, the Taskforce had been established, having grown out of the initial Cabinet Office coordination function, which allowed for more formalised sharing of analysis. The economic analysis and modelling undertaken by HM Treasury was shared with the Taskforce alongside other analysis conducted by HM Treasury. The interaction between the Taskforce and HM Treasury was led by the SPB group in HM Treasury. Analysis packs were produced jointly between HM Treasury and the Economic and Domestic Secretariat in the Cabinet Office. It was the responsibility of the Cabinet Office through the Taskforce to synthesise HM Treasury's economic advice, SAGE scientific advice and other advice concerning social impacts relating to Covid. For example,

following the 10 May 2020 announcement of a conditional, phased plan for lifting lockdown restrictions in England, HM Treasury officials contributed to Cabinet Office advice to the Prime Minister on the reopening of non-essential retail [BR/122-INQ000184571] [BR/123-INQ000184570].

360. Alongside this, the Taskforce was responsible for collating public health advice and recommendations from DHSC and public health authorities, as well as views and input from other departments. For example, to inform decision making on the February 2021 Roadmap, HM Treasury officials worked with the Taskforce on a data commission to Public Health England, NHS England, the Vaccines Taskforce, ONS, the CMO and CSA. The Taskforce then used this input to produce the options that informed Cabinet-level decisions. For example, the Taskforce circulated an initial proposal to senior officials in DHSC, No.10, HM Treasury and the JBC on 4 September 2020 setting out an ambition to agree a system of tiering [BR/018-INQ000088050].
361. HM Treasury analysis was also central to various Cabinet Office and No.10 reviews. This included the review of two metre social distancing guidance in June 2020, which was chaired by the No.10 Permanent Secretary and included the CSA, CMO and HM Treasury's CEA [BR/124-INQ000181693]. Further reviews announced in early 2021 covered Social Distancing, Global Travel, Covid-Status Certification and Mass Events, and were the forums for bringing together scientific and international evidence, along with consideration of the social and economic impacts. HM Treasury was particularly closely involved in the Social Distancing Review, given the widespread impact on the economy from social distancing measures [BR/125-INQ000182182].
362. HM Treasury also worked closely with other government departments, beyond Cabinet Office, to share economic analysis and data. As mentioned above, 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 including HMRC, MHCLG, DCMS, DIT, DEFRA, DWP and the DfE. These meetings were convened by the Cabinet Office, effectively shadowing the ministerial Economic and Business Response Implementation Group that had been convened in mid-March. The formal record of the inaugural Permanent Secretaries' meeting on 8 April 2020 indicates that attendees agreed that the most productive role for meetings of this type covered four themes, including "consideration of how to deliver the best evidence base to ensure this could inform overall decisions,

including getting closer to real time data and the realities of impacts on different cohorts and places” **[BR/126-INQ000236533]**.

363. Over subsequent meetings taking place through the summer, discussions considered issues including long-term economic objectives as the UK recovered from the pandemic and impacts on different sectors as they reopened, and HM Treasury provided updates on the economic outlook **[BR/014-INQ000236541]**. Over time, the agendas for these discussions more closely aligned with weekly meetings that the Prime Minister was taking on the state of the UK economy. Discussions at the meetings of Permanent Secretaries received supporting papers, including analysis conducted across government where HM Treasury often produced joint papers with BEIS and Cabinet Office **[BR/015-INQ000236534]** **[BR/016-INQ000236577]**, with an aim of the meetings being to support a common view at senior official level of challenges facing the UK economy.
364. HM Treasury regularly shared labour market data with HMRC (and vice versa) as part of its work on the CJRS and SEISS. For example, HMRC shared management information on the characteristics of those using the schemes and HM Treasury shared analysis on the economic performance of different sectors to identify which could be most impacted by future NPIs **[BR/127-INQ000236572]** **[BR/128-INQ000236573]**. The department also used analysis of UC declarations from DWP to inform the unemployment outlook during the pandemic.
365. HM Treasury officials also worked with BEIS and UK Government Investments to monitor the impact of the pandemic on the UK corporate sector and to assess individual company circumstances as required. The monitoring made extensive use of data from ONS, BoE and Companies House, feeding into a weekly dashboard produced by BEIS to track the financial health of sectors. A team within HM Treasury also created a bespoke firm-level model that used financial accounts for publicly listed and private UK companies, and modelled different pandemic scenarios and policy interventions, to understand the potential scale and path of corporate distress **[BR/129-INQ000236558]**. Selected outputs from this model were shared with BEIS, for example when evaluating the impact of an end to the rent moratorium on company distress **[BR/130-INQ000236579]**.

#### *Engagement with Other Public Bodies on Data and Analysis*

366. As is standard practice, HM Treasury officials routinely engaged with key institutions in the macroeconomic framework, such as the OBR and BoE, to share ideas and test thinking. Open discussion took place between the department and the OBR, with the latter offering its expertise and views on the outlook for the economy beyond what it normally would do (supporting HM Treasury in the run up to a fiscal event). As usual, the department also shared official-level analysis with the OBR to support their forecasting process. For instance, in October 2020 HM Treasury officials shared wide-ranging analysis including, but not limited to, the impact of various lockdown scenarios, HM Treasury's approach to using novel data sources, potential scarring impacts and sectoral analysis [BR/131-INQ000236561] [BR/132-INQ000236562].
367. HM Treasury also discussed economic analysis widely with the BoE, exchanging evidence on potential impacts. This took the form of sessions across July and October 2020; for example, on 13 October 2020 where HM Treasury officials presented to the Bank's FPC and MPC on the Covid response [BR/017-INQ000236559]. Another example of this was a BoE organised research away-day for the MPC on epi-macro modelling on 14 July 2020, which was attended by HM Treasury officials [BR/133-INQ000236539].
368. HM Treasury proactively engaged with – and learnt from – international institutions such as the IMF and the OECD. The OECD conducted extensive work on governments' policy responses to Covid, including evaluating the impact of containment measures on activity and spending [BR/024-INQ000226503]. HM Treasury officials closely monitored the OECD's Economic Outlook and engaged with their staff regarding the Economic Survey [BR/026-INQ000236537]. HM Treasury officials further attended the OECD's Short-Term Economic Prospects forum to discuss OECD forecasts before publication. The IMF also developed models comparing the virus's relative impact and NPIs on economic activity, while the OECD produced projections on the economic impacts of single versus multiple lockdown scenarios and a real-time economic activity Nowcast.

*Engagement with External Bodies, Epidemiologists, Scientists and Academics on Data and Analysis*

369. During the pandemic, HM Treasury closely engaged with the work undertaken by think tanks and academics to an unprecedented degree, seeking to understand and learn from them and vice versa. For example, HM Treasury officials, including the CEA, met

regularly with think tanks including the Resolution Foundation and IFS [BR/134-INQ000236532]. This included discussions with the IFS on the inequality impacts of Covid, covering age, income and ethnic disparities [BR/020-INQ000236568] [BR/021-INQ000236571].

370. A key part of the department's engagement was with academics, which was facilitated by the Royal Economic Society, including on epi-macro analysis and strategy. These involved a combination of established contacts such as Lord Stern [BR/135-INQ000236538], and those at the frontier of developing novel analytical techniques. Topics where approaches to analysis and evidence were shared ranged from the implications for future healthcare provision (9 April 2020) and restarting the economy (28 April 2020), to sectoral reopening (3 June 2020) and epi-macro strategy (21 July 2020) [BR/022-INQ000236570] [BR/136-INQ000236567]. Topics ranged from future healthcare provision (9 April 2020), restarting the economy (28 April 2020), inequality and Covid (5 May 2020), sectoral reopening (3 June 2020), Covid and ethnicity (3 July 2020), epi-macro strategy (21 July 2020), structural sectoral impacts (28 July 2020) and data (16 September 2020).
371. HMT also engaged extensively with think-tanks, such as the Resolution Foundation and Institute for Fiscal Studies, as well as with international institutions (e.g. the IMF and OECD), on such subjects as macroeconomic scenarios, inequalities, the relative impacts of the pandemic in different countries, and the impact of NPIs. Some of the inputs provided by these institutions were shared with Ministers including the Chancellor [BR/136a- INQ000655217] ( [BR/136c/INQ000236537].
372. More broadly, HMT hosted academics for policy discussions, including inviting academics from the University of Cambridge, the University of Chicago and Birmingham University to discuss advances in epi-macro modelling in November 2020. The Department also commissioned and utilised analysis from consulting firms, who provided industry analyses on sectors likely to be most affected by the pandemic.
373. In July 2020, HM Treasury hosted a strategy session inviting directors from the Royal Economic Society and academics from Imperial College London and the London School of Economics to present their latest epi-macro research. HM Treasury officials shared their own analysis to test findings, focusing on effective strategies, the impact of voluntary social distancing on trade-offs, and optimal strategies under uncertainty. Academics discussed challenges and inefficiencies with general restrictions and

potential impacts of NPIs. Though NPIs were expected to perform well on health and economic outcomes, academics did highlight the implications of uncertainty (such as if expectations were for a vaccine to arrive earlier, then stricter NPIs should apply – though if immunity was expected to wane quickly then the opposite holds) for NPI strategy [BR/023-INQ000236540].

374. Following this, on 25 November 2020, HM Treasury invited academics from the University of Cambridge, the University of Chicago, and Birmingham University to discuss advances in epi-macro modelling and its policy applications. The objective of the session was to focus more closely on modelling approaches and take stock of the latest technical thinking. Experts highlighted key insights from the epi-macro modelling framework, including that voluntary social distancing could slow virus transmission but would reduce economic activity. The discussion also highlighted the effectiveness of smarter lockdowns over harder lockdowns or ‘doing nothing’ approaches, and the role of uncertainty in the balance between health and outcomes. These discussions were broadly in line with the conclusions of HM Treasury officials. Other engagement included discussions on sectorial economic impacts with the Centre for Economic Performance (London School of Economics), along with presentations on recovery policy from the Energy Transitions Commission, CBI and the London School of Economics.
375. HM Treasury officials prioritised understanding the health landscape and virus trajectory due to the rapidly changing public health situation and its impact on NPIs and economic policy. From March 2020, senior officials attended SAGE meetings as observers and received papers from sub-groups like SPI-M, Scientific Pandemic Insights Group on Behaviour (“SPI-B”), and the New and Emerging Respiratory Virus Threats Advisory Group. SAGE advice consistently informed HM Treasury’s guidance to ministers during the pandemic. For instance, in February 2020, HM Treasury’s advice to the Chancellor was based on SAGE’s Reasonable Worst-case Scenario and DHSC health data, emphasising guidance from the CMO and SAGE on decision-making triggers. SPI-M modelling was crucial in developing the February 2021 Roadmap [BR/137-INQ000116407] [BR/138-INQ000113750] and advising ministers on case and hospitalisation implications from new variants towards the end of 2021 [BR/139-INQ000113786].
376. Alongside analysis and modelling from HM Treasury officials, the Chancellor also spoke directly to a range of external economists from academic and financial market

institutions, as well as the CMO, CSA and others, during the pandemic to get a range of views to feed into his policy decisions.

377. HM Treasury does consider, with hindsight, that it could have benefited from a more systematic approach to external engagement during the pandemic. Under both the last Chancellor and the current Chancellor, HM Treasury officials have sought to improve and better coordinate external engagement including with think tanks, academics and businesses. For example, in 2023-4, HM Treasury undertook structured engagement with academics on growth-related issues facilitated by the British Academy. Under the current Chancellor, a number of formal processes have been set up to engage with business and other experts. For example, the British Infrastructure Taskforce was established to co-design policy that suitably involves private investment, including by building business confidence in UK infrastructure investments. Launched in October 2024, this includes some of the UK's biggest financial companies including Lloyds, HSBC, and M&G.

#### *Transparency and External Publication of Analysis*

378. HM Treasury did not produce or publish academic-style papers to be discussed at regular structured meetings in the way that SAGE did but instead focused resources on undertaking analysis that best informed decision making in the fast-changing circumstances. As set out above, the department did step up the sharing of analysis and was central in developing economic understanding with other departments and more widely.
379. HM Treasury analysis was published during the pandemic, for example, as part of the May 2020 and February 2021 "Roadmaps", [BR/118-INQ000181691] [BR/119-INQ000114431] the November 2020 Covid-19 Winter Plan, [BR/120-INQ000114433] and the Autumn and Winter Plan 2021 [BR/121-INQ000137065]. In addition, it contributed to the publicly available Social Distancing Review [BR/125-INQ000182182] and other reviews on Global Travel, Covid-Status Certification and Mass Events, as referenced above.
380. As per usual practice, all fiscal decisions taken by HM Treasury were set out transparently in publications at fiscal events: at Budget 2020 (11 March 2020); A Plan for Jobs 2020 (8 July 2020); Winter Economy Plan (24 September 2020); Budget 2021

(3 March 2021); Autumn Budget and SR 2021 (27 October 2021). These documents each included a 'policy decisions' chapter which summarised every policy decision taken and the scoring implications of those measures. They also included the latest economic and fiscal forecasts as provided by the OBR.

381. Moreover, HM Treasury published distributional analysis [BR/125a-[INQ000609926](#)] examining the impact of policy decisions on household incomes, as is standard practice at fiscal events. In addition to this, HM Treasury produced an ad hoc publication in July 2020 [BR/125b-[INQ000609890](#)] summarising the impact to date of government support packages against the impact of earnings and job losses.
382. HM Treasury recognises that there is a legitimate debate to be had about how much economic analysis HM Treasury can or should publish but this is ultimately a decision for the Chancellor at the time.
383. It is worth noting 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. As above, much of our modelling was inherently uncertain.
384. HM Treasury is open to considering ways in which more detailed underpinning analysis could be shared in a timely way that does not jeopardise economic stability further during such economic shock events. For example, sharing underlying methodologies or analytical and modelling approaches used when producing key headline analysis cited in published documents, as this would provide a more granular account of the analysis produced. As set out above, decisions on what to publish are ultimately for ministers.

#### *SAGE for Economics*

385. During the pandemic, there was a proposal to create an economic equivalent to SAGE to independently advise the government on economic policy [BR/140-[INQ000235261](#)]. Although there was public discussion and informal discussion about the proposal within Whitehall [BR/141-[INQ000236536](#)], it was never formally proposed to HM Treasury, and no advice was sent to the Chancellor on this question. While HM Treasury could have set up such a body, it was already consulting various economic experts. Furthermore,

the government possesses greater internal economic expertise compared to fields such as epidemiology, including through its partnership with the BoE and OBR, allowing it to be less reliant on external advisory groups like SAGE for decision making.

386. For example, to inform government decision making, HM Treasury already brings together economic data published by the ONS, and the forecasts and projections prepared by the OBR, the BoE and others [BR/142-INQ000226505]. Both the OBR and BoE also already draw on external expertise themselves, Like SAGE, they routinely engage with experts from outside of government, such as academics, to inform the delivery of their responsibilities – and that insight then informs the advice and analysis they give to HM Treasury.
387. An additional public advisory group discussing sensitive economic information might also have posed economic risks due to market sensitivities, potentially causing financial instability and affecting jobs and investment.
388. HM Treasury officials did use the information shared at scientific committees and cross-government analytical groups to inform briefing or advice for the Chancellor and other HM Treasury ministers ahead of the cross-government ministerial decision-making meetings and to inform internal policy development. For example, ahead of a forthcoming Roadmap review point in May 2021 the Chancellor received briefing from HM Treasury officials which included an assessment of the latest SAGE advice and briefing on prior SAGE modelling and the latest data [BR/143-INQ000088057] [BR/144-INQ000088056].
389. During the pandemic, HM Treasury’s collaboration with the scientific and economic academic community was beneficial for shaping its analysis and policy, and for understanding the pandemic’s economic impact. However, the department’s external engagement was constrained to some extent by the fast pace of policy changes and the sensitivity of issues. In hindsight, and as mentioned above, a more structured approach to external engagement could have been advantageous.
390. Throughout the pandemic, the Chancellor also had regular contact with key economic experts within the public sector, especially the Governor of the Bank of England (Andrew Bailey) and the Chair of the OBR (Robert Chote and later Richard Hughes) as well as Finance ministers from around the world. He also spoke to a range of external economists from academic and financial market institutions as the need arose. HM

Treasury officials also engaged with a range of external economists with diverse expertise throughout the pandemic.

### *Council of Economic Advisors*

391. On 21 January 2021, HM Treasury advised the Chancellor on re-establishing a Council of Economic Advisers, suggesting a structure and potential members [BR/145-INQ000236554]. Although members would not create papers or recommendations, the council aimed to offer the Chancellor independent insights and discuss leading economic research [BR/146-INQ000236569]. At the time, the Covid vaccine rollout was beginning, and key economic concerns included post-pandemic recovery. The Chancellor approved HM Treasury's proposed structure, but the Council was not formed [BR/147-INQ000236566]. This occurred during a busy period with the Roadmap announcement and Budget 2021.
392. In April 2021, the Prime Minister also showed interest in a Council of Economic Advisors, and No.10 proposed topics for policy seminars with various speakers. HM Treasury agreed with the suggested topics and approach. On 20 May 2021, HM Treasury emailed No.10 for an update on the advice given to the Prime Minister and any guidance for moving the plan forward. A further follow-up email was sent on 10 June due to no response, and by 27 June 2021, HM Treasury still had not received a reply, with no explanation for No.10's lack of engagement.
393. In October 2022, the then-Chancellor (the Rt Hon Jeremy Hunt MP) set up the Economic Advisory Council, comprising leading experts who provide independent advice on UK and international economies and financial markets – similar to the previous Treasury Academic Panel [BR/148-INQ000226506]. Unlike SAGE, this council did not produce papers or policy recommendations and was a private forum for candid discussions on economic policy, without published minutes.
394. The current Chancellor (the Rt Hon Rachel Reeves MP) established a new Council of Economic Advisors supported by a commitment to work in partnership with businesses to drive growth and address the opportunities and challenges facing the economy, with ministers and officials meeting with representatives from the private sector, including trade bodies, on a regular basis. Additionally, HM Treasury has recently published its

Areas of Research Interest, demonstrating its openness and desire to engage with academic thinking on key areas of interest.

## **Part 5: The Devolved Administrations**

### ***Operation of the Barnett formula***

395. Devolved governments receive funding settlements at SR, with in-year changes in funding determined through UK government fiscal events and the annual Parliamentary Estimates processes. As part of the UK's constitutional settlement, the majority of a devolved government's funding is provided via a block grant from the UK government. The UK government generally has no role in deciding how funding is allocated between devolved government responsibilities (like health, education etc.) nor in assessing or assuring value for money of devolved government spending, which is the responsibility of the respective devolved legislatures.
396. The quantum of block grant funding provided to the devolved governments by the UK government is primarily based on the longstanding Barnett formula. Under the Barnett formula, a population-based share of changes in UK government departmental funding for areas that are devolved in Scotland, Wales and Northern Ireland are added to existing devolved government funding. For example, additional funding for the Department for Health and Social Care in England automatically leads to additional funding (or "Barnett consequentials") for the devolved governments through the Barnett formula. The Barnett-based block grant funding is adjusted for tax and welfare devolution (through agreed formulae) and there are a small number of non-Barnett uplifts which are usually ringfenced for the devolved governments to spend on certain purposes. Alongside this, the devolved governments have their own agreed tax and borrowing powers and other revenue raising powers (including fees, charges and sales of goods, services and assets).

### ***Statement of Funding Policy***

397. The funding arrangements for the devolved governments are set out in the Statement of Funding Policy, which was first published in March 1999 and has been updated nine times with the most recent edition published alongside Autumn Statement 2023 and an addendum published at Autumn Budget 2024 and the conclusion of Phase 1 of SR 2025. The Statement of Funding Policy sets out how HM Treasury will fund the devolved governments as well as the sources of self-funding (and financial flexibilities) available to the devolved governments.

398. The Statement of Funding Policy is a HM Treasury policy document that is subject to consultation with the devolved governments, though much of the document now reflects agreements reached with the devolved governments about their funding arrangements. In particular:

- a) **Scottish Government:** The Statement of Funding Policy reflects the jointly agreed Scottish Government Fiscal Framework, which sets out the funding arrangements that underpin the latest Scottish devolution settlement (Scotland Act 2016). In particular, the UK and Scottish Governments agreed through the Joint Exchequer Committee (Scotland) that: the Barnett formula will continue to determine changes to Scottish Government block grant funding in relation to changes in departmental spending (DELs); this Barnett-based block grant funding will be adjusted in relation to tax and welfare devolution through an agreed Block Grant Adjustment methodology; the Scottish Government can borrow up to £3 billion for capital purposes and up to £1.75 billion for certain resource purposes (notably tax/welfare forecast error); and the Scottish Government can operate a £700 million Scotland Reserve. Following a review of the Fiscal Framework, which concluded in August 2023, the capital and resource borrowing limits and Reserve limits was increased from 2023-24 onwards using the GDP deflator and there are no longer annual drawdown limits for the Scotland Reserve.
- b) **Welsh Government:** The Statement of Funding Policy reflects the jointly agreed Welsh Government Fiscal Framework, which sets out the funding arrangements that underpin the latest Welsh devolution settlement (Wales Act 2017). In particular, the UK and Welsh Governments agreed through the Joint Exchequer Committee (Wales) that: a needs-based factor will be added into the Barnett formula to uplift changes to Welsh Government block grant funding in relation to departmental spending (DELs); this needs-based factor will be 5% while Welsh Government funding is above its independently assessed relative need compared to equivalent UK government spending in England of 115% and 15% if below; this Barnett-based block grant funding will be adjusted in relation to tax devolution through an agreed Block Grant Adjustment methodology; the Welsh Government can borrow up to £1 billion for capital purposes and up to £500 million for certain resource purposes (notably tax forecast error); and the Welsh Government can operate a £350 million Wales Reserve, with annual drawdown limits of £125 million “RDEL and £50 million CDEL.”
- c) **Northern Ireland Executive:** There was no Fiscal Framework agreement between the UK government and Northern Ireland Executive during the Covid

pandemic, nor had there been as significant recent changes in the Northern Ireland devolution settlement as in Scotland and Wales. However, the Statement of Funding Policy still reflects specific agreements reached between the UK government and Northern Ireland Executive. In particular, it includes the Northern Ireland Executive's £3 billion cumulative capital borrowing limit under the Reinvestment and Reform Initiative and the agreed mechanism for adjusting Barnett-based block grant funding in relation to the devolution of long-haul Air Passenger Duty. The UK government and Northern Ireland Executive have subsequently (in 2024) agreed the Interim Fiscal Framework for Northern Ireland, including a 24% needs-based factor in the Barnett formula for Northern Ireland.

### ***The Barnett Guarantee***

399. As explained above, during the Pandemic, funding for the devolved governments was ultimately determined through the Barnett formula. However, the devolved governments requested additional flexibility to manage the uncertainty of Barnett consequentials which they argued constrained their Covid response. The devolved governments argued that waiting for the UK government to announce Covid interventions and confirm how much new funding was being provided restricted their ability to respond quickly and meant they were making decisions without knowing how much Barnett-based funding would ultimately materialise.
400. In 2020-21, the devolved governments were provided with an in-year funding guarantee, meaning that the devolved governments could plan their response to the pandemic without having to wait for changes to UK government department budgets to be confirmed and without them having to make a claim on the Reserve. This guarantee was initially set at £12.7 billion on 24 July 2020 and subsequently uplifted to £14 billion on 9 October 2020, £16 billion on 5 November 2020 and finally £16.8 billion on 24 December 2020. For 2021-22 onwards, Covid funding for UK government departments was largely taken into account through SR settlements with the Barnett formula applied for devolved governments, so, as explained below, a further funding guarantee was not required [BR/151-INQ000610861] [BR/152-INQ000609643] [BR/153-INQ000609777].
401. Before the decision was made to introduce the guarantee, a range of options were considered to provide the devolved governments with certainty and flexibility during the pandemic, including increases to borrowing limits and the ability to make CDEL to RDEL

switches. All options considered carried risks including increased PSNB/PSND in 2020-21 and beyond. On balance, ministers decided to go with the Barnett guarantee, which was in line with the Barnett view of fair allocation and balanced fiscal risks with the need to give the devolved governments the financial certainty required to respond for the required duration [BR/154-INQ000609431].

402. The devolved governments were also given extraordinary flexibility to carry forward £2.1 billion of funding from 2020-21 into 2021-22 to help manage late changes to funding beyond the Barnett guarantee. This was on top of their existing flexibilities to carry forward funding in their own existing reserves of £700 million for the Scottish Government and £350 million for Welsh Government and Budget Exchange for the Northern Ireland Executive. The devolved governments also have their own powers to borrow as set out in their respective fiscal frameworks [BR/155-INQ000609868].
403. The Barnett guarantee was deemed no longer necessary in 2021-22. Covid funding had been factored into departmental settlements at SR 2020 and Main Estimates in 2021-22, meaning that the devolved governments were suitably funded, and enough certainty was provided through the routine operation of the Barnett formula and the existing flexibilities allowed by their fiscal frameworks. Three tests were considered in determining if the Barnett guarantee was still required in 2021-22: 1) do the devolved governments have sufficient certainty over their funding; 2) if they have enough funding; and 3) how much is expected to be given from the UK Reserve to UK government departments in relation to devolved areas of spending, resulting in Barnett consequential for the devolved governments.
404. Whilst HM Treasury recognised that uncertainty remained high given the response to the Omicron Covid variant, it was determined that the devolved governments had sufficient funding for 2021-22 relative to UK government departments. Unlike in 2020-21, UK government department budgets and devolved government settlements for 2021-22 were set on a Covid basis from the start. Therefore, no Barnett guarantee was provided. Following UK government spending decisions, the devolved governments also received an additional £11.3 billion through the Barnett formula for the 2021-22 financial year. This was on top of their baseline budget of approximately £60 billion and included additional funding which the devolved government received after setting their original 2021-22 Budgets in their respective devolved legislatures.

405. The Scottish Government requested confirmation that the Barnett guarantee would continue in May 2021 by correspondence. The then CST, the Rt Hon Steve Barclay MP, stated in his response that the SR 2020 settlement for 2021-22, in conjunction with their existing flexibilities, provided the devolved governments with sufficient certainty such that a Barnett guarantee was not needed for 2021-22, but that HM Treasury would keep this position under review as circumstances around the pandemic progressed [BR/156-INQ000609774]. Further discussion on continuation of the Barnett guarantee took place with the devolved governments at the October 2021 Finance Ministers' Quadrilateral meeting, where the then CST, the Rt Hon Simon Clarke MP, set out HM Treasury's reasons for not continuing with the Barnett guarantee [BR/153 INQ000609777].

406. Due to limited resource and competing priorities, HM Treasury has not conducted any formal analysis or evaluation of the approach taken to funding for the devolved governments in response to the pandemic. However, as set out above we believe the approach was effective in the providing the devolved governments the extra certainty and flexibility to respond at pace while balancing fiscal risks and without undermining the existing framework of devolved government funding. HM Treasury continues to engage regularly with the devolved governments at official and ministerial level on a range of funding issues.

### ***HM Treasury Engagement with Devolved Governments***

407. The below identifies and describes the key roles of those in the devolved governments who worked with HM Treasury in relation to setting funding and controlling spending:

- a) **Scottish Government:** The Scottish Government's organisational structures have evolved over the past decade to reflect its significant increase in tax and welfare powers. The key roles during the pandemic sat within the remit of the Director General Scottish Exchequer (with the Budget and Public Spending Directorate responsible for operating the Scottish Government's Fiscal Framework and setting the annual Scottish budget and medium-term financial strategy) and the Director General Corporate (as the Financial Management Directorate is responsible for in-year spending control).
- b) **Welsh Government:** The Welsh Government's organisational structures have also evolved over the past decade to reflect its additional tax powers. During the pandemic HM Treasury worked most closely with the Director General Economy,

Treasury and Constitution (including working with the Welsh Treasury to set funding, under the Director of the Welsh Treasury) and the Chief Operating Officer's Group (which leads on in-year spending control under the Director of Finance).

- c) **Northern Ireland Executive:** HM Treasury's main relationship is with the Department of Finance, which was the Department of Finance and Personnel until May 2016. Within the department the key engagement during the pandemic was with the Central Expenditure Division, which sits within the Public Spending Directorate.

408. Engagement by HM Treasury was mostly undertaken by the HM Treasury Devolution team, led by either of the Deputy Directors (Kara Towers and Ben Parker) who led the team at different points. Engagement with the devolved governments also occurred at more senior levels in particular led by the Director of Public Services Jean-Christophe Gray and Philippa Davies, and the Director General Public Spending Cat Little. The Devolution team within HM Treasury meet regularly at official level with their devolved government counterparts. This regular engagement through the pandemic played a crucial role in ensuring that ministers fully understood the concerns of the devolved governments and the implications for their funding arrangements. This ensured that these considerations were factored into advice and decisions, even in cases where the devolved governments were not directly involved in the decision-making process. There was also periodic direct engagement between policy teams in HM Treasury responsible for the UK wide economic schemes and the devolved governments, particularly in the lead up to key decision points.

409. The Barnett guarantee (as covered above) was provided to give the devolved governments enough certainty over their funding to allow them to make spending decisions at a similar pace to the UK government. These funds were completely unringfenced, meaning the devolved governments could allocate resources to their own priorities.

410. One of the challenges throughout the pandemic was that the UK government and the devolved governments each had their own policy priorities, shaped by local needs and circumstances. For example, while the UK government set out a three-phase approach for easing lockdown measures in England, the devolved governments took different approaches. The Northern Ireland Executive established five phases, the Scottish Government proposed four, and the Welsh Government opted for a traffic light system.

These varied approaches were developed with the specific needs of each nation in mind, without prior consultation across governments.

411. Many of HM Treasury's key economic interventions and financial investments made during the pandemic – including CJRS, SEISS, EOTHO, BBLs and CBILs – were implemented on a UK-wide basis, benefiting businesses and individuals across all parts of the UK. In designing these schemes, HM Treasury considered the impact across the whole of the UK, including regional variations. However, the extent of these schemes and the timing of their introductions could not always align with the priorities of all devolved governments. For example, in autumn 2020, the then-First Minister of Wales Mark Drakeford expressed dissatisfaction with HM Treasury's inability to bring forward the introduction of the JSS to coincide with Wales's proposed 'circuit breaker' lockdown (further detail provided below).
412. In some cases, economic support was administered separately across the nations. For example, the Local Authority Administered Business Grants were only implemented in England, and similar schemes were delivered in Scotland, Wales and Northern Ireland via the respective devolved government. The devolved governments received Barnett consequentials from the English scheme, which they could use to fund similar schemes. However, the decision on whether and how to implement these schemes lay with the devolved governments.
413. The Chancellor of the Duchy of Lancaster ("CDL") and Minister for Intergovernmental Relations led on engagement with the devolved governments' First Ministers during the response to Covid. However, CST and HM Treasury senior officials attended several of the CDL's meetings with the devolved governments' First Ministers when discussions related to funding. HM Treasury senior officials also met regularly with the Permanent Secretaries of the devolved governments to discuss funding matters.
414. The economic interventions introduced by HM Treasury during the pandemic were reserved matters for which HM Treasury had responsibility. While HM Treasury did not provide advance sight of UK-wide interventions to the devolved governments, they were provided with advanced estimates of Barnett consequentials arising from spending decisions in devolved areas in England, though this was largely superseded by the Barnett guarantee. HM Treasury also engaged with devolved governments on certain aspects of the economic schemes in advance of decisions to seek views; for example, senior HM Treasury officials spoke to senior officials in all devolved governments about

the CJRS at various points. Additional engagement with the devolved governments was often undertaken by the department responsible for implementing and delivering the specific schemes. For example, DWP and HMRC led engagement with the devolved governments when it came to delivering the UC and Working Tax Credit uplift.

415. There were also other instances of positive collaboration. For example, the temporary zero rate on PPE involved consultation with the devolved governments, as health policy is a devolved matter. This led to a series of exchanges between HM Treasury and the devolved governments to ensure the implications for the devolved governments was carefully considered. Necessarily, for policies falling under HM Treasury's remit as reserved matters, the implication for the whole of the UK was considered.
416. Another example of flexibility and collaboration was seen in the exemption of Covid Test and Trace Support payments from National Insurance Contributions. Here, the FST agreed to legislate for the devolved governments on the same basis as England, exempting payments while allowing some discretion in how this exemption was designed to suit their specific needs.

#### *Funding-related Engagement*

417. HM Treasury's main engagement with the devolved governments was in relation to funding and led by the CST through the Finance Ministers' Quadrilateral meetings as well as bilateral meetings between ministers. Alongside ministerial engagement, the Devolution team within HM Treasury played a key role in maintaining regular official-level discussions with their devolved government counterparts, ensuring the concerns of devolved governments were well understood. Criticism was raised during Module 2 regarding the devolved governments reliance on the UK government, the limited scope of devolved financial powers, and the inadequacy of the Barnett formula in handling an emergency of this scale.
418. Under normal circumstances, the Finance Ministers' Quadrilateral convened just once or twice a year (in advance of key UK government fiscal events). However, at the onset of the pandemic, these meetings were increased to every two to three weeks to ensure close collaboration during this period. It is standard practice for the CST to lead on engagement with the devolved governments on behalf on HM Treasury, rather than the

Chancellor, as the CST is the minister responsible for public spending and the devolved governments within HM Treasury.

419. Following the unprecedented funding guarantee announcement in July 2020, the frequency of meetings shifted to quarterly but remained flexible, with additional sessions arranged as needed. These meetings were generally used to discuss the quantum of funding available to the devolved governments (and flexibilities to move funding between years) and, in some cases, the operation of UK-wide support schemes.
420. In between meetings, there was continued communication between the DAs and HM Treasury ministers in the form of correspondence. For example, in October 2020, the Chancellor responded to a letter to Kate Forbes, the Scottish Government Finance Minister, detailing the economic support available and confirming an uplift in the Scottish Government's Barnett guarantee from the original £6.5billion to £7.2billion [BR/158-INQ000609757].
421. HM Treasury demonstrated its commitment to collaboration by engaging with the devolved governments to address their concerns about funding certainty during the pandemic. As detailed above, the Treasury introduced an unprecedented upfront funding guarantee in July 2020 to provide devolved governments with the flexibility to make swift decisions and spend without waiting for England to spend and then trigger proportionate funding [BR/154-INQ000609431]. During the Module 2 oral evidence hearings, Kate Forbes did acknowledge that this was "enormously helpful" and noted that the engagement with HM Treasury officials tasked with devolved finance was "always good."

#### *The Devolved Governments and the CJRS and JSS*

422. As set out above, CJRS was a support measure introduced in March 2020 which enabled employers to apply for a government grant to partially cover salary payments for employees not working as a result of the pandemic. The JSS was designed as the successor to the CJRS and was initially due to start on 1 November 2020 upon the closure of the CJRS on 31 October 2020. However, in response to the introduction of a more stringent lockdown across the UK, the CJRS was extended and the commencement of the JSS was postponed.

423. In his Module 2 witness statement, Mark Drakeford (First Minister of Wales) stated his concern that HM Treasury should not have the power to “frustrate essential public health actions in any part of the UK”. In particular, Mr Drakeford argued that the timing of the “circuit breaker” lockdown in Wales, which ran from 23 October to 9 November 2020, was influenced by the refusal of the Chancellor, Rishi Sunak, to bring forward the JSS’s introduction to support the Welsh Government’s approach.
424. Concerns over the timing and availability of UK-wide financial support for businesses and individuals have also been raised by the Scottish Government. During the Module 2A oral hearings, Kate Forbes stated that the Scottish Government had made “at least one, if not a number of public requests” for the CJRS to be extended in Autumn 2020.
425. During the autumn of 2020, there was engagement between HM Treasury and the devolved governments at ministerial level [BR/159-INQ000609738] [BR160-INQ000614188], with several letters exchanged between Mr Drakeford and Mr Sunak on the subject of the Wales-wide “circuit-breaker”, as well as channels of communication at official level [BR/161-INQ000216553] [BR/162-INQ000216554] [BR/163-INQ000216555]. In October 2020, HM Treasury officials engaged their devolved governments counterparts on the subject of financial support systems to gather their views and outline the relevant constraints. There was also communication between HM Treasury officials and Andrew Jeffries, Director at the Welsh Treasury, as well as Alyson Stafford, Director-General of the Scottish Exchequer, in relation to CJRS and JSS. There was also a ministerial meeting on the day of the JSS announcement.
426. Despite official and ministerial level interactions between HM Treasury and the Welsh Governments, it was not possible to meet their requests to bring forward JSS in the DAs for operational reasons. At the time, both HM Treasury and HMRC were of the view that there was no feasible way to run both CJRS and JSS simultaneously, as the JSS was a complex intervention that HMRC was delivering to very tight timelines, with significant delivery risks. Attempting to accelerate its implementation would have compounded these challenges and was not considered operationally possible. However, had JSS gone ahead on the original timetable, there would in any case have been no gap in financial support between the CJRS and JSS, as the JSS was set to launch on 1 November 2020, immediately after the CJRS’s scheduled closure on 31 October 2020, ensuring continuity of employment support. It was also not possible at any point to have CJRS operating in some areas of the UK and not others. In the event, JSS was never introduced and CJRS was extended from 31 October onwards across the whole of the

UK.

*The Devolved Governments and the Eat Out to Help Out Scheme*

427. EOTHO was intended to provide targeted, temporary support to employment by protecting jobs in hospitality. The scheme ran for 13 days in total in the summer of 2020 and protected jobs across the UK by bringing back 400,000 people from furlough (see Annex I).
428. During the Module 2 oral evidence hearings, the Inquiry explored with a number of witnesses what they knew of the EOTHO policy before its implementation. Ministers within the Scottish Government and the Welsh Government at the time stated that there was no consultation about the scheme with the DAs prior to its introduction. For example, during the M2A oral hearings, Kate Forbes confirmed she had no prior knowledge that this scheme was going to be introduced and that this was “the position across the Scottish Government.” This aligned with the Counsel to Inquiry’s opening statement for the M2B oral hearings and confirmed by Vaughan Gething MS (former Minister of Economy for the Welsh Government).
429. EOTHO was designed as a UK-wide policy, meaning that eligible businesses across all nations had the opportunity to opt into the scheme. Lockdown was eased more slowly in some of the devolved nations than in England [BR/164-INQ00088079], which was a sensitivity in considering the decision of whether to roll-out EOTHO as a UK-wide policy. The devolved governments retained control over the timing of the reopening of their hospitality venues, which would inevitably have influenced the extent to which businesses in the devolved nations could benefit from the scheme.
430. Given the urgency of economic support measures during the pandemic, decisions were made at pace and, while full consultation was not always possible, HM Treasury did seek to engage with devolved governments where feasible. Immediately prior to the announcement of the scheme, HM Treasury officials did hold discussions with the devolved governments to inform them about the scheme, and no significant concerns were raised [BR/165-INQ00088086]. The devolved governments did not request that the scheme be withheld from businesses in Scotland, Wales, or Northern Ireland, nor were any concerns raised about the scheme by the devolved governments in the period between the announcement on 8 July 2020 and the scheme coming into force on 3 August 2020.

### ***Lessons Learnt on the Relationship with the Devolved Governments***

431. Reflecting on this period, HM Treasury recognises the importance of fostering collaboration with the devolved governments, especially considering the patchwork of economic support measures, some devolved and some not. The pandemic has underlined the need for more robust engagement mechanisms, better communication channels, and enhanced sharing of information to ensure coordinated responses in future crises. HM Treasury is committed to learning from these experiences and has already taken steps to improve its ways of working with the devolved governments, ensuring it remains responsive to the needs of all parts of the UK in line with the reset of relationship with the devolved governments.
432. The split of devolved and reserved powers meant some policies were delivered UK-wide, whereas others were delivered by the devolved governments. There were clear benefits to delivering some policies UK-wide, especially when businesses in particular can operate across the whole of the UK; and plenty of examples where there were clear benefits to the devolved governments providing tailored support for local households and businesses. However, the patchwork of powers did add complexity to the response.
433. The UK government ensured the devolved governments were funded to deliver support schemes in their nations through the block grant, including Barnett additions to reflect a population-based uplift for equivalent schemes in England.
434. The funding frameworks (including statement of funding policy and fiscal frameworks) are necessarily detailed in setting out how the UK government provides funding to the devolved governments. However, through the Barnett Guarantee, we demonstrated flexibility to reflect the need for increased transparency and certainty during the pandemic.
435. Transparency and good relationships remain critical to how HM Treasury works with the devolved governments. The department continues to have very regular dialogue through informal channels such as catchups at working level, where HM Treasury teams speak to officials in the devolved governments at least fortnightly (and in many cases weekly or daily around key events).

436. Following the pandemic, the governments across the UK recognised that strong intergovernmental relationships were essential to support and enhance the important work of all governments. In 2022, the UK government agreed the Review of Inter-Governmental Relations with the devolved governments. This established the Ministerial-level Finance: Interministerial Standing Committee (“**F:ISC**”), which replaced the Finance Ministers’ Quadrilateral as the regular forum for ministerial engagement between the Finance ministers of the devolved governments and the CST.

437. The Inter-Governmental Review sets out that the F:ISC will cover:

- a) Consideration of UK-wide and nation-specific macroeconomic and fiscal positions.
- b) Consideration of emerging economy and finance issues and longer-term challenges that affect all administrations, where collaboration and sharing of information supports planning, policy development and decision making.
- c) Other ad hoc economic/finance issues affecting all administrations.
- d) Resolution of financial disputes.

438. The F:ISC generally meets every quarter but can meet more regularly. This ensures there is regular, constructive dialogue on funding issues. The HM Treasury minister responsible for devolved government funding, the Chief Secretary, also regularly speaks to the devolved government Finance ministers through bilateral meetings, including through Joint Exchequer Committee meetings on Fiscal Frameworks and around key events, including fiscal events, to ensure positive working relationships and sharing of information.

## **Part 6: Inequalities, Impact Assessment and Vulnerable Groups**

439. In this statement, HM Treasury addresses the equalities impacts of its work during the pandemic when describing the relevant interventions such as CJRS and SEISS, both in terms of understanding their impacts, but also considering any mitigating actions. In this section HM Treasury focuses on its overarching approach to assessing equalities impacts, though the examples cited in this section are intended to be illustrative and not an exhaustive list of the evidence provided elsewhere in this response.

### ***The Public Sector Equality Duty and HM Treasury's General Approach***

440. The Public Sector Equality Duty (“**PSED**”), set out in the Equality Act 2010, places a legal responsibility on public sector organisations to ‘pay due regard’ to the need to:

- a) Eliminate unlawful discrimination;
- b) Advance equality of opportunity; and
- c) Foster good relations (between people who share a protected characteristic and people who do not share it)

441. For HM Treasury policy work, it means equalities issues, and any differential impacts a policy may have on a person with one or more of the nine protected characteristics must be considered during the development process, and possible mitigating actions must also be identified and considered. HM Treasury’s Equalities Policy team provide advice and guidance to policy teams in the department to support this process, as set out in paragraph 435a [**BR/166-INQ000609441**]. The team works closely with HM Treasury’s Equality & Living Standards Analysis team, which was formed during the pandemic with the aim of building departmental capability to assess impacts on individuals with protected characteristics. Separately, a Distributional Analysis team are responsible for advising policy leads and ministers on the impact of tax, welfare, and public spending changes on households across the income distribution.

442. With regards to policy areas not owned by HM Treasury, as is the case for health and social care, the relevant department is responsible for conducting equalities impact assessments pursuant to the PSED general duty. Further evidence was given by HM Treasury about this in Module 3 of the inquiry, but for clarity, when HM Treasury ministers take decisions, they have due regard to their responsibilities under the PSED, and HM Treasury can seek specific information from other government departments to support HM Treasury decision making. One such example was the work between DWP

and HM Treasury over UC policy changes which were developed by DWP and HM Treasury officials, following No.10, HM Treasury and DWP ministerial decisions on approach and objectives. As detailed in Annex H, on Universal Credit, HM Treasury considered the potential outcomes and risks for the poorest in society and the removal of the uplift was predicted to have a disproportionate effect on those households with the lowest incomes [BR/165- INQ00088086] alongside seeing an increase in child poverty [BR/166- INQ000609441]

### *Equalities Guidance and Its Development During the Pandemic*

443. From the outset of the pandemic, officials within HM Treasury had access to in-house guidance to support teams in fulfilling their responsibilities under the PSED. A range of tools were available to officials prior to the pandemic, which were then updated when appropriate during the pandemic:

- a) **Equalities Toolkit: 'Assessing Equalities in HM Treasury Policy Work'** [BR/166- INQ000609441] - provides background information on the PSED, protected characteristics, and tools available for complying with the PSED. This was updated in October 2022.
- b) **Equalities Proofing Checklist** [BR/166-INQ000609441]: provides a step-by-step list of key equalities considerations common to different areas of policy, alongside more detailed guidance for each of these steps.
- c) **Equalities Toolkit Template** [BR/170-INQ000609443]: a collection of assessment templates that can be selected from as appropriate.
- d) **Protected Characteristics Resources Spreadsheet** [BR/171-INQ000609447]: indicates information sources relevant to each protected characteristic, suggesting where to start when considering the possible equalities impact of policy choices. Guidance as to the definitions of each characteristic is also included.

444. Further guidance from the Government Equalities Office, now renamed the Office for Equality and Opportunity, was also available. This included the Covid-specific Government Equalities Office guidance titled 'How to think about protected characteristics during COVID-19' which was available to all HM Treasury staff [BR/172- INQ000609809]. This guidance summarised the importance of thinking about groups with protected characteristics and the positive outcomes of doing so, as well as setting out steps which could be taken to incorporate thinking about groups with protected

characteristics into policy work. The guidance explained that an equality analysis should be carried out in relation to Covid primary legislation as a matter of policy. It also highlighted that the PSED applies to secondary legislation, and to policy and operational decisions outside of legislation.

445. To ensure compliance with the PSED, HM Treasury adjusted its own internal equality impact guidance for use in response to the pandemic, for equality impact assessments being conducted from March 2020 to June 2022. These adjustments were made to ensure HM Treasury's guidance materials reflected updated central guidance, including that set out in paragraph 4446 above.

446. From the summer of 2020, reflecting on equalities policy following the first wave of the pandemic, HM Treasury's EMB launched a project to further develop equalities assessments and resources. The department already had the tools and guidance in place to ensure it was compliant with its legal responsibilities under the Equality Act 2010 and the PSED; these resources were kept under review and periodically updated with the aim of continuing to improve them over time.

447. The project looked at structures, resources, analytical functions, governance and processes, with the aim of enabling HM Treasury to enhance further its understanding of how policies impact on different groups across the UK. The project found that the capacity and capability of officials to understand impacts on different groups and regions varied across HM Treasury and was less comprehensive than in other areas, such as assessing the impact of policy on households at different incomes levels or business sectors. It concluded that:

- a) There was an opportunity to improve HM Treasury analytical capability to understand policy impacts on different groups/regions and the evidence base for policy making.
- b) HM Treasury would benefit from policymakers considering the impact on such groups earlier in the process.

448. In light of important developments, such as the experience of Covid-19 and other wider societal issues, the project judged that the existing levels of dedicated resource on equalities analysis did not meet HM Treasury's needs. The project concluded that greater capacity would enable officials to better understand, challenge, and advise on equalities impacts from earlier in the policy making process. This resulted in increased staffing of the existing Equalities Policy Branch with the aim of building capacity across

HMT and coordinating equalities advice at fiscal events. The branch maintains guidance to equip teams with the right knowledge and tools to effectively assess equalities issues, provides regular support to teams on specific issues, and runs events and communication activities to raise awareness of equalities as an important part of policy making.

449. In addition, a new Equalities and Living Standards Analysis branch was created, with responsibilities that include providing policy teams with support for analysing the potential impacts of government policy choices on groups sharing protected characteristics. This branch supports policy teams in several ways, including being commissioned to undertake bespoke pieces of analysis into specific policy areas, and creating self-service analytical tools such as the Equalities Explorer interactive dashboard which policy officials can use to analyse equalities impacts. The branch also takes an active role in fiscal events, where the equalities impacts of policy decisions are measured (where possible): this typically includes quantitative assessments of households that are cash gainers and losers, and whether certain protected groups are at risks of being disproportionately affected by policies considered.

450. HM Treasury has provided further detailed evidence in relation to how the various guidance was used in relation to specific interventions in the annexes to this statement.

### ***Understanding the Impact of the Pandemic and Policy Interventions on Vulnerable Groups***

451. Throughout the pandemic, HM Treasury worked up assessments of the impact of different policy choices on different groups including those set out in the PSED. This related both to the impact of the NPIs, including the economic shock caused by Covid restrictions, and on the economic support introduced for businesses and households.

452. These assessments were provided to ministers as part of policy advice and in particular in the final decision records for the various interventions (see the 'Impact Assessments' heading in this section below for further detail). There were also standalone pieces of analysis on how particular groups were faring provided to ministers at various points. For example, there were various points where the Chancellor specifically asked for analysis of impacts on the hospitality sector which particularly focused on the equalities issues. As detailed further in Annex I, on EOTHO, data showed that the hospitality

industry was more likely to employ women, and more likely to employ lower paid workers; this information was taken into account during policy advice.

453. The analysis put to ministers throughout the pandemic was compiled from various sources, including qualitative and quantitative evidence, drawn from both inside government and work undertaken by credible external organisations. The picture of the differential initial impacts of Covid, including the economic shock caused by restrictions, was built over time as the various economic interventions were made, and their collective impact on different groups could be analysed by the government and experts. Subsequent analysis focused on the capacity of proposed interventions to either mitigate or exacerbate the impact of the economic shock on particular groups that had been identified as vulnerable or disadvantaged.
454. During the majority of the pandemic, between February 2020 and September 2021, the Minister for Equalities was also an HM Treasury minister (having ministerial responsibility for growth policy at the time as the XST). In this role she attended relevant cross-government meetings and helped to ensure, in addition to the other points covered in the statement, that HM Treasury officials and ministers were cognisant throughout of the equalities impacts of the pandemic.
455. As discussed in its evidence in Module 2, HM Treasury undertook significant external engagement during the pandemics with academics and think tanks including the Resolution Foundation and the IFS. HM Treasury discussed the inequality impacts of Covid with the IFS, and shared analysis, including on age, income, and ethnic disparities.

#### *Understanding Impacts on Low-Income Households*

456. The assessment of impacts on low-income households is a useful illustrative example of how officials' understanding developed over time and grew to include the effects of various economic interventions as they were introduced.
457. HM Treasury regularly assesses the impact of policies on household incomes. The methodological approach used during the pandemic gradually evolved: early analysis used emerging survey data available at the start of the pandemic; later analysis made increasing use of HMRC administrative data. Analysis examined the impact across the income distribution and assessed the impact of different policies introduced.

458. During the pandemic these assessments were published on several occasions. These published assessments showed that government interventions supported the poorest working households the most (as a proportion of pre-pandemic net household income) (July 2020 [BR/171-INQ000609447], Budget 2021 [BR/173-INQ000114447] [BR/174-INQ000609609]). Analysis published in autumn 2021 [BR/174 INQ000609609] showed that estimated gross spending on Covid support schemes and the temporary uplift to welfare from March 2020 to September 2021 supported the poorest working-age households the most (as a proportion of average pre-pandemic gross household income).
459. For the initial publication in July 2020, the analysis was based on emerging household survey data from the Covid survey modules conducted by the long-running UKHLS in April and May 2020. The Covid modules were short web-based surveys, covering the impact of the pandemic on the welfare of UK individuals and families. They included questions on health and wellbeing as well as employment and financial outcomes. The UKHLS was used by HM Treasury to estimate the probability of working individuals losing their job, being furloughed, or seeing a reduction in their earnings or profits based on the level of their pre-pandemic earnings. To do this, the responses of individuals in May 2020 were compared to their responses earlier in 2020, prior to Covid being declared a pandemic.
460. Using these individual-level probabilities, a similarly sized employment and earnings shock was simulated using HM Treasury's distributional analysis model. Alongside this, the impact of the government support provided to mitigate this shock was also modelled. This mitigation included the introduction of the CJRS, the SEISS, the temporary increase in the UC standard allowance and the basic element of Working Tax Credit by £20 per week, the temporary suspension of the Minimum Income Floor in UC, and an increase in the Local Housing Allowance to the 30th percentile of market rents in 2020-21.
461. Analysis published alongside Budget 2021 [BR/173- INQ000114447] followed a similar approach but was based on survey information from UKHLS collected in November 2020. Later analysis, published in autumn 2021, drew on HMRC administrative data alongside the UKHLS survey information. This publication also included HMRC data showing the percentage of eligible employments furloughed for those earning less than £10,000 a year was over 7%, compared to less than 2% for those earning £50,000 a year or above (as of 31 August 2021).

462. The impact of the Covid pandemic on household incomes was complex, evolved over time, and was not captured comprehensively in any one dataset. Therefore, to illustrate the distributional impacts HM Treasury had to make several simplifying assumptions when modelling the government support intended to mitigate the impact of the pandemic. These were intended to allow the analysis to present as informative and complete a picture as possible but did not reflect the detailed policies that applied to some of the schemes. Analysis did not capture the potential long-run impacts of the pandemic on households – instead focusing on the short-run impacts – and did not make any assumptions about what household incomes might have looked like in the absence of the pandemic. On occasion, last minute changes to policy affected the relevance of UKHLS survey questions and resulted in officials having to make use of alternative information and data sources. Further details on the limitations are set out in the published documents.
463. The modelling that underpins the distributional analysis aims to illustrate the extent to which cumulative government measures impact households of different income levels. It does not include any assessment by way of personal characteristics, such as gender, as it is challenging to produce that analysis to a robust enough standard to be published. For gender, for example, this is because the cumulative impact of government support, and living standards more generally, tend to be felt at household level. As the IFS have said “because most people live in households with others, and we don't know how incomes are shared, it is very hard to look at effects separately for many men and women.”

#### *Equalities Impact Assessments*

464. As discussed in more detail in the annexes to this statement, at all relevant times HM Treasury was careful to assess the equalities impacts of policy options on economic support. These were done using the guidance and support on data sources set out above. Where applicable, the annexes to this statement set out how those assessments were conducted and the results of each. These assessments are contained within the specific pieces of advice submitted for each intervention, exhibited and referenced throughout this statement and annexes.
465. For the majority of key interventions covered in this statement, HM Treasury officials produced specific impact assessments, drawing where appropriate on internal modelling as well as externally produced analysis. Examples include the SEISS, which is

discussed in further detail in this section, as well as in the relevant annexes to this statement. Another example is EOTH0, where the equalities assessment considered that the scheme may be disproportionately under-used by certain groups, while noting that the time-limited offer would support employment, and that employees in the sector were disproportionately young, female, part-time workers and in the bottom half of incomes [BR/162- INQ000216554].

466. For interventions aimed at providing support directly to businesses, many of them large businesses, equalities concerns were considered less of a risk and as such equalities impacts were not produced for these interventions. Because these interventions were demand-led and aimed at businesses, it was not easily possible to judge the consequential equalities impact on different groups. This specifically related to the CCFF and business loan guarantee schemes (CBILS, CLBILS, BBLs and RLS). In these cases, HM Treasury ensured that the impacts were considered through other appropriate and proportionate means, as set out in more detail in the relevant annexes on these interventions. For schemes in relation to which HM Treasury was not the delivery department, the relevant delivery department may have undertaken its own assessment of impacts upon which HM Treasury and others may have drawn. For example, as set out in Annex J, the changes to insolvency provisions were led by BEIS, which was responsible for the passage of the relevant implementing legislation, including developing impact assessments.
467. As described elsewhere in this statement, HM Treasury endeavoured to review and learn from the various identified impacts of its policy interventions, including where inequalities arose.

#### ***The Impact of Equalities Assessments on Policy Objectives and Implementation***

468. Specific evidence in relation to HM Treasury policy interventions and how each intervention took into account vulnerable groups and those with protected characteristics is provided in the annexes to this statement, which should be read in conjunction with this evidence.
469. One example of how policy evolved was in relation to SEISS where, after an assessment of the equalities impact, eligibility was broadened to include individuals who were on parental leave (including maternity leave) and who previously may have been ineligible (due to not having a tax return in 2018/19 or due to not meeting the SEISS profits

conditions). As discussed in Annex B of this statement, on SEISS, officials prepared a range of potential options to ensure this group was supported, and engaged the Chancellor in May and June 2020 [BR/176- INQ000610826, BR/177- INQ000609716, BR/178- INQ000610830]. HM Treasury and HMRC officials worked closely together to ensure this was deliverable (whilst not impacting delivery of the wider scheme) and then communicated the changes via a range of different channels and relevant stakeholder groups.

### ***Monitoring Impacts on Vulnerable Groups and Pre-existing Disparities***

470. As discussed elsewhere in this statement including in the annexes, HM Treasury monitored the equality impact of its policy interventions once they were in place. For example, HM Treasury used analysis of UC declarations from DWP to understand what was happening on unemployment and this included monitoring data on disability, ethnicity, and age.
471. HM Treasury's monitoring frequently focused on sectors which were known to employ disproportionate numbers of people from vulnerable groups. For example, and as set out in detail in Annex I, on EOTHO, the policy focus on the hospitality sector, and particularly food and beverage services, was in part because the latter provided jobs disproportionately occupied by young, female, part-time workers, in the bottom half of incomes, and potential business failures would result in a significant impact on these groups [BR/179- INQ000088055].
472. Further examples of steps taken to identify and reduce disparities are discussed in detail in relation to specific policy interventions in the annexes to this statement.

### ***Evaluations***

473. Since the pandemic, HM Treasury has undertaken several evaluations of key policy interventions which have also covered the impacts on different groups. Please consult the annexes for further detail and context, but by way of example the final evaluation of the CJRS, published in July 2023, used the UKHLS survey data to estimate the probability of an employee losing their job. For those not losing their job HMRC administrative data was used to estimate the rate of CJRS participation by characteristic. The evaluation found that men and women benefitted relatively equally. The scheme tended to benefit younger employees at the start, but over time older individuals formed

the largest group of beneficiaries. Analysis suggested there were no statistically significant differences in usage of the CJRS by different ethnic groups or people with a disability relative to the total population (with the exception of “Other Ethnic Group” – i.e., people outside of ‘White’, ‘Asian/Asian British’, and ‘Black/ African/ Caribbean/ Black British’ groups – where usage appeared to be slightly lower).

## **Part 7: Long Covid**

### ***Initial Assessment of Long Covid***

474. In the early weeks of the pandemic there was not, and could not have been, established knowledge of the long-term sequelae of the virus, and what form that might take. HM Treasury ministers were clear from the outset that Covid was a health crisis in which medical advice and guidance would be key [BR/180-INQ000088105]. Throughout the pandemic HM Treasury relied on the advice of health experts for information on the path of the virus and its impacts, including long-term sequelae.
475. Accordingly, from the outset, it was a priority for HM Treasury officials to have an understanding of the health picture, in view of 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 officials worked closely with DHSC and wider public health officials and were regularly in direct contact with the CMO and CSA. HM Treasury senior officials attended SAGE in an observer capacity (as is noted in the published minutes) from March 2020 and received papers from the various sub-groups that made up SAGE such as the SPI-M, the SPI-B, and the New and Emerging Respiratory Virus Threats Advisory Group . HM Treasury senior officials also routinely attended JBC GOLD meetings chaired by SoS DHSC, following the creation of the JBC in May 2020, where the latest health data was discussed.
476. As the UK's economics and finance ministry, HM Treasury's primary interest in the health implications of the virus was in relation to the economic impacts, while other departments, including DHSC, focused on the public health implications. HM Treasury worked closely with DHSC from the beginning of the pandemic and paid close attention to emerging evidence on 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 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 [BR/181- INQ000067093] [BR/182- INQ000067094] [BR/183- INQ000067095].

### ***Developing Understanding of Long Covid***

477. By October 2020, HM Treasury was conscious of emerging evidence of the prevalence of Long Covid [BR/184- INQ000609516] and considered resource implications for the NHS as part of its SR analysis [BR/185- INQ000609766]. This analysis noted that the Covid Symptom Tracker App had identified that 12% of those with Covid in the UK were still experiencing symptoms after 30 days and 2% had symptoms continuing after 90 days.
478. From November 2020, HM Treasury officials identified the need for data and evidence on the economic consequences of Long Covid [BR/186- INQ000610840]. In February and March 2021, HM Treasury officials engaged with other government departments to consider the economic risks presented by Long Covid. The ONS estimated that there were 301,000 people with post-Covid symptoms in the week commencing 27 December 2020 (0.5% of the population) [BR/187- INQ000609601] and early analysis by the Cabinet Office had noted that Long Covid had the potential to affect a significant proportion of the labour force in a way that could translate into lower output and productivity.
479. In July 2021, HM Treasury officials considered the continuing challenge of identifying the economic impacts of Long Covid specifically, as part of understanding the economic impacts of wider health issues and longer-term impacts from the pandemic. Total claims for disability and incapacity benefits increased from 7.6 million to 8.1 million between 2019/20 and 2021/22 (although the number of individual claimants would be lower than this as claimants may have multiple claims, such as for both a disability benefit and an incapacity benefit). Total expenditure on these benefits rose from £42.8 billion to £46.9 billion over the same period. A key challenge was that the increased pressure on incapacity benefits could be attributed to various different factors including wider health and mental health issues stemming from the pandemic and associated economic disruption, as well as Long Covid itself [BR/188- INQ000625773]. In part due to rising numbers of people reporting being out of work due to ill-health, the inactivity rate rose from 20.6% in 2019 Q4 to 21.6% in 2021 Q4. However, in July 2021, labour market analysis found there to be 'limited evidence of an increase in inactivity due to early retirement or due to long covid' [BR/189- INQ000610853].
480. The inactivity rate has remained elevated over the following years, with 21.5% of the working-age population reporting being inactive in the three months to January 2025

(9.3 million people). Disability and incapacity benefit caseloads have continued to increase with 9.4 million total claims and £60.8 billion spent on those benefits in 2023/24. A large rise in inactivity due to long-term sickness has been the primary driver of the rise in inactivity since the start of the pandemic, with a rise of almost 700,000 over this period. The rise in inactivity due to long-term sickness has been largest amongst those reporting a mental health condition **BR/190 INQ000609922** (ONS, *Rising ill-health and economic inactivity because of long-term sickness, July 2023*). More recent analysis suggests that Long Covid represents only a marginal contributor to the rise in the whole economy inactivity rate. An ONS analysis estimated that 27,000 working-age adults in the UK were inactive as a result of having Long Covid in July 2022, relative to a total of around 9.3 million working-age adults who were inactive during this period **BR/191 INQ000609924** (ONS, *Employment outcomes of people with Long Covid symptoms: community-based cohort study, February 2024*).

### ***HM Treasury's Planning for – and Response to – Long Covid***

481. As set out above, in the early weeks of the pandemic, there was limited established knowledge of the long-term sequelae of the virus. Nonetheless, it was undoubtedly the case that protection from viral infection in the first place represented the only effective means of protection against Long Covid. This was a core focus of HM Treasury's work during the pandemic, as it collaborated with other departments on the effective implementation of NPIs, Test and Trace and the vaccine rollout, which sought to lower the rate of infection in the population.

482. This primary focus on reducing viral infection was reflected at a COBR briefing on 9 March 2020, where SAGE presented options against the objectives of:

- "1. Contain the outbreak so that it does not become an epidemic (this is now unlikely to become achievable);*
- 2. Delaying the peak so it occurs when the NHS in each nation is out of winter pressures;*
- 3. Reducing the size of and/or extending ("flattening") the peak so that the response by the NHS and other sectors can be maintained more sustainably;*
- 4. Reducing the total number of deaths by limiting the number of cases in vulnerable groups".*

483. HM Treasury's approach and advice to ministers was informed by emerging medical guidance throughout and considered the epidemiological implications in policy development. For example, for the first meeting of the Joint Committee on Vaccination and Immunisation on 19 July 2021, HM Treasury officials provided a briefing recommending that the Financial Secretary support the child vaccination programme, noting that, without vaccinating children, it would be unlikely that England would reach population immunity by vaccination, given the higher transmissibility of the Delta variant and the role that secondary-age children played in driving transmission [**BR/192-INQ000113754**].
484. By way of another example, HM Treasury officials advised the CST in September 2021 to approve DHSC's proposal to extend existing self-isolation support, on the basis that financial incentives and support would continue to be vital in underpinning testing and isolation behaviour through the winter of 2021-2 [**BR/187- INQ000609601**].
485. In another example, on 29 November 2021, the CST approved the announcement of the expansion of the vaccine booster campaign in response to the Omicron variant [**BR/194-INQ000113774**]. HM Treasury officials recommended to the CST that, in order to support the Omicron response, HM Treasury should approve this 'response critical' spending in principle, dealing with any resulting pressures on budgets through the usual Supplementary Estimates process in the new year. The Chancellor announced a £1 billion support package on 21 December 2021 to enable the expansion and expedition of the vaccine booster programme.
486. HM Treasury officials regularly set out the case for why an effective Test and Trace regime was essential to reduce the risk of a national outbreak, and that "baseline" NPIs and reducing infection rates at a low economic cost (for example wearing face masks), must be pursued. Associated workstreams included strengthening the self-isolation regime (with a legal duty to self-isolate being introduced in September 2020 for those recognised by NHS Test & Trace as having tested positive for the virus or being the close contact of a positive case); supporting compliance and enforcement of restrictions; and monitoring the impacts of different restrictions in order to inform next steps.
487. As HM Treasury's understanding of Long Covid and its potential economic and health impacts developed over time, ministers were advised accordingly, and the available evidence was used to inform economic decision making.

488. By October 2020, HM Treasury's SR analysis considered the potential resource implications of Long Covid for the NHS [BR/185- INQ000609766]. At that juncture, it was assessed that the risks of Long Covid included increased pressure on acute and general hospital beds but that, as some would be able to manage symptoms without hospital admission, the priority of addressing this in the SR was low/medium. DHSC were provided with a £3 billion NHS Recovery Fund at SR20. HM Treasury officials recommended that some of this could be used for the expansion of Seacole Centres to increase the number of beds available for community care and rehabilitation services, including from Long Covid, although it was ultimately for DHSC to decide how to allocate the £3bn fund. [BR/185 INQ000609766]. Beyond this, HM Treasury continued to assess the resource implications for the NHS of providing temporary care for individuals suffering from Long Covid. [BR/196- INQ000610839] [BR/197- INQ000610844].

489. The emerging understanding of the epidemiological and economic impacts of Long Covid informed key decisions in the summer of 2021. In advice to the Chancellor on 8 July 2021, recommending progression to 'Step 4' easing of restrictions, officials identified higher incidence of Long Covid as a risk of high prevalence of Covid over the summer. It set out that as of 6 June 2021, ONS data indicated that 962,000 (1.5% of the UK population) were experiencing self-reported Long Covid more than four weeks after initial infection, while also reflecting that the impacts of Long Covid were still poorly understood [BR/198- INQ000113749].

490. HM Treasury has identified the following advice received by HM Treasury ministers in relation to Long Covid:

- a) [BR/185- INQ000609766]: Advice to ministers in relation to SR 2020 (noting implications for NHS resources) - 29 October 2020.
- b) [BR/199- INQ000610841]: Advice from Tim Leunig, copied to the Chancellor, on future strategy for winter 2020-21 (noting awareness of Long Covid and its impact on decision making) - 30 November 2020.
- c) [BR/200- INQ000610842]: Readout of a meeting with the Government Chief Scientific Adviser, copied to the Chancellor, noting the growing evidence for Long Covid as a biological phenomenon – 1 December 2020.
- d) [BR/198- INQ000113749]: Advice to the Chancellor on 'Step 4' progression (noting the risks associated with increased Long Covid prevalence) - 8 July 2021.
- e) [BR/201- INQ000113756]: Advice to the CST about departmental issues caused by high prevalence of Covid over the summer, noting Long Covid as a "category

C" long-term risk, with mitigation to be considered at the upcoming SR - 22 July 2021.

- f) [BR/189- INQ000610853]: Labour market analysis shown to the Chancellor, noting finding limited evidence of an increase in inactivity due to early retirement or Long Covid - July 2021.

### ***Support for Sufferers of Long Covid***

491. Across the relevant period, HM Treasury provided over £89bn of additional funding for health and social care measures aimed at reducing transmission of the virus and saving lives. As well as additional funding to support the NHS, this also included providing £39bn for the Test and Trace programme, £15bn for PPE and £8bn for the procurement, manufacture, and delivery of vaccines. All these investments would also protect individuals against Long Covid.
492. For individuals who suffered from Long Covid while in employment, financial support was often provided in the first instance by employers through existing sickness and absence policies, where applicable. Beyond this, various sources of state-funded financial support were available (for those both in and out of work) as outlined in the following paragraphs.
493. During the pandemic, employees with Long Covid could have received financial support through the CJRS if their employer placed them on furlough. The self-employed could have applied for a grant through SEISS provided they met the eligibility criteria.
494. Where an individual with Long Covid had care needs, they may be eligible for state-funded social care support. LAs undertake Social Care Needs Assessments to assess whether an individual is eligible for state-funded support and, if they are, LAs then commission this support using the funding allocated via LAs' overall budgets. These budgets are considered in the round as part of spending negotiations.
495. Individuals with complex care needs may be eligible for Continuing Healthcare, which is NHS-funded care for individuals who have been assessed as having a 'primary health need' through the processes set out in the National Framework. Overall NHSE budgets are considered in the round as part of spending negotiations.
496. There is also support available within the welfare system for sufferers of Long Covid.

497. People who are employed may be eligible for SSP. People who are not eligible, or whose SSP has ended, may be able to apply for UC or New Style Employment and Support Allowance (“**ESA**”) if Long Covid affects how much they can work.
498. New Style ESA is a fortnightly payment that can be claimed on its own or at the same time as UC. If an individual gets both benefits, their UC payment is reduced by the amount they get for New Style ESA. New Style ESA is a contributory benefit. Normally, this means you may be able to get it if you have paid or been credited with enough National Insurance contributions in the 2 full tax years before the year that you’re claiming it.
499. Working age individuals can also apply for Personal Independence Payment (“**PIP**”) if they have difficulty with everyday tasks and getting around. In 2020/21, PIP was worth between £23.60 and £1518.40 per week), depending on the combination of award received. It is not means-tested and can be received in addition to UC and New Style ESA, with no impact on the amount payable under those benefits. Similar benefits are available for children (Disability Living Allowance) and pensioners (Attendance Allowance). Disability benefits are devolved in Scotland, where the Scottish Government is replacing UK government disability benefits with the Child Disability Payment, Adult Disability Payment and Pensioner Disability Payment.
500. PIP also enables eligibility to Carer’s Allowance and Universal Credit Carer’s Element to unpaid carers who provide more than 35 hours of unpaid care a week to the individual receiving PIP, subject to other eligibility requirements. This was worth £67.25 per week (2020/21 rate) for the carer and does not impact the PIP claimant’s benefit entitlement. Carers benefits are devolved in Scotland, where the Scottish Government is replacing Carer’s Allowance with the Carer Support Payment.

## **Part 8: Lessons Learnt on Economic Impacts and Economic Support**

501. Covid was a multi-faceted crisis, impacting personal freedoms, livelihoods and ultimately lives.
502. The economic impact was immense. Between April and June 2020, at the height of the first national lockdown, GDP fell by a record 19.4 percent before rebounding by 17.6 percent as the country reopened over the summer. This level of change in GDP has not been seen since consistent ONS data is available from 1955.
503. The nature of the economic shock was also unique. The Covid pandemic involved the intentional suppression of economic activity on an unprecedented scale. Like many other countries, the UK responded to Covid with a broad economic response designed to protect lives and livelihoods, ranging from supporting workers who would otherwise be made unemployed, to business loans and grants, and legislative easements which allowed businesses to continue to trade through the uncertainty.
504. Given the unprecedented nature of these events, HM Treasury is committed to learning lessons from its approach and associated outcomes. HM Treasury welcomes opportunities to further reflect and looks forward to the Inquiry's eventual report and recommendations on Module 9.

### ***Lessons Learnt Exercises***

505. Given the scale and breadth of the economic support package, the government has carried out extensive evaluations of Covid economic support and recovery schemes.
506. HM Treasury published a compendium [**BR/202- INQ000609928**] of these evaluations in September 2024. This compendium summarises the status of each evaluation, publication dates, and web links to the reports. The evaluations are categorised by themes, with brief summaries of conclusions, findings, or recommendations provided where available. The evaluations found that, overall, the economic interventions were delivered rapidly, provided valuable support to the people and businesses that were most impacted by the pandemic, and delivered value for money.

507. A key theme highlighted was the effective collaboration between government departments, agencies, and with industry stakeholders. This collaboration was vital for the successful execution of the schemes and highlighted the need for a coordinated approach in future crises. Sector-specific support was another important aspect, with certain schemes tailored to industries disproportionately affected by the pandemic, such as hospitality, culture, and sports. This targeted approach acknowledged the varied impact of the pandemic across different sectors.
508. In addition to our internal evaluations, HM Treasury has commissioned Ecorys to conduct a meta-evaluation of the support provided to businesses during the pandemic to assess the effectiveness of the overall package of business support measures and learn lessons for the future. This meta-evaluation draws from many of the evaluations mentioned in the compendium [BR/202- INQ000609928] and was published in June 2025 [BR202a- INQ000625793]

#### ***Reflections on what HM Treasury did well***

509. The pandemic placed huge demands on HM Treasury as an organisation. Officials managed one of the largest economic shocks in recent times whilst also adapting to a new way of working given lockdown requirements. Despite this, HM Treasury succeeded in providing targeted economic support for millions of citizens and businesses, protecting livelihoods while minimising the spread of the virus. As detailed below, in doing that, HM Treasury attempted to be nimble, collaborative, creative and swift.

#### ***Nimble and adaptive in highly uncertain circumstances***

510. The pandemic was an evolving crisis, requiring huge economic interventions to be designed and delivered in a matter of weeks, and then subsequently be adapted to meet a constantly changing context. HM Treasury tried to meet this nimbly both at an organisational and individual level.
511. The policy response was adaptive and dynamic, drawing on a wide range of policy, technical, legal and financial expertise as well as a range of previous work, for example preparation for a no-deal Brexit. As the pandemic evolved, schemes were changed and updated in response to feedback, new data and international comparisons. For example, the evolution of different business lending schemes, tapering of furlough, increased targeting of self-employed support and the creation of new sector specific schemes like the Heritage Emergency Fund and the Live Events Reinsurance Scheme.

512. Governance and coordination structures were bolstered to enable HM Treasury to operate effectively during this period. An internal Covid Response Board with a broad cast list was set up, meeting thrice weekly initially, to coordinate advice for ministers and discuss key questions. Governance boards were also established for major interventions which included key partners, for example, with HMRC through the board of the CJRS and SEISS and with BEIS, BBB and UKGI for the Loan Guarantee Schemes. HM Treasury's existing governance structures also tilted towards the pandemic, with the ERG meetings becoming more frequent and focused and the FRG undertaking deep dives on priority risks.
513. HM Treasury flexed its staffing model during the pandemic. A new central team was set up in the SPB group to lead and coordinate the department's work on Covid. The team synthesised Covid advice and brought together analysis from across the department, it also ensured that HM Treasury fully fed into Cabinet decision making and that HM Treasury's actions supported the government's overall objectives. Staff were also moved around the department to resource new priority areas. These areas were also bolstered from the flexible cross-HM Treasury resource pool (implemented as a recommendation from the Review of HM Treasury's Management Response to the Financial Crisis "the White Review") which were deployed onto key Covid priorities. On key priorities, there was also double running of roles at a senior level, including in some key Deputy Director and Director roles. IT systems were upgraded to better support hybrid working and in parallel individuals adapted to a novel home-working approach.

#### *Collaborative and Joined-Up*

514. HM Treasury as a small, flat department is typically well joined-up internally; however, even greater efforts were made to do so during Covid, particularly given the need to coordinate across a number of teams on economic analysis, policy design, costings, distributional analysis, international comparisons, legal advice and more.
515. Internal communication was increased including through daily meetings of (and cascades from) the EMB, and new policy boards as mentioned above.
516. HM Treasury also joined up its economic response strategy with the cross-government effort to suppress the virus. This was particularly important with Cabinet Office. In every step HM Treasury contributed economic impact and analysis to inform Cabinet decision

making, support the development of NPI policies, and ensure economic interventions were tailored to the NPIs to promote compliance with them and supported households and businesses most affected by them.

517. As set out in detail in Part 1 of this statement, HM Treasury also worked together with other departments. This helped to improve government's collective understanding of the economic situation and strategy, align departments' economic policies (so that schemes were complementary, targeted and learnt from the schemes before them) and allow the government to gather better data and intelligence on how different groups and sectors were being impacted. This included a new Permanent Secretary level group to share analysis and help coordinate the response.
518. As detailed in various parts and annexes, HM Treasury and HMRC worked especially closely through the existing Policy Partnership given the scale of the interventions, with joint advice, regular senior meetings and joint evaluations. The relationship with the DWP was also particularly important, given the significant welfare and labour markets policies and the fiscal and economic impact of policies. Again, officials worked together following ministerial decisions, with HM Treasury giving spending approval and granting DWP discretion to relax rules to expedite support. There was also joint working with BEIS, the BBB, and UKGI on the grant and loan guarantee schemes.
519. HM Treasury also worked in concert with wider economic institutions. The BoE was a key partner, providing vital economic data, acting as an agent for HM Treasury in delivering the CCFF, and important in developing the loan guarantee schemes. The OBR and HM Treasury also had a close and collaborative partnership, with the OBR publishing economic scenarios which shaped HM Treasury decision making, and HM Treasury sharing official-level scenario and sectoral analysis which could support the OBRs forecasting process.
520. Outside of government, HM Treasury significantly bolstered its external engagement. There was regular two-way dialogue with the TUC, business groups like the 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.

*Creative and Bold*

521. As noted, the pandemic was a novel economic challenge, given the government was deliberately curtailing supply and demand to meet health objectives.
522. In a time-sensitive, high-risk environment, HM Treasury and the wider government developed bold economic schemes – for example, CJRS and loan guarantees – which had not been used (or used at such scale) in the UK before. These key schemes achieved their core outcomes and were adaptive enough to flex as the pandemic evolved.
523. Similarly, HM Treasury worked hard to get the balance right between supporting those people and businesses who needed it when normal economic activities could not take place, whilst ensuring incentives were in place to restart economic activities when and where it was safe to do so. This included working up more targeted versions of schemes over time and introducing sector specific interventions where appropriate.
524. It is also important to note what HM Treasury did not do. Despite criticisms from some quarters, HM Treasury did not relax eligibility requirements where ministers considered the levels of fraud risk to be unacceptable, even in the context of a significant economic shock, notably in relation to eligibility for SEISS. HM Treasury, supported by experts like UKGI, also turned down numerous requests for additional support from companies which in fact were able to trade through the crisis without additional public support.
525. An important part of HM Treasury's response involved pacy innovations in data collection, analysis and modelling. Notably, HM Treasury built capacity in epi-macro modelling. HM Treasury also gathered novel data sources to bolster traditional data sources which became less relevant and timely given the constantly shifting consumer behaviour resulting from the pandemic. HM Treasury collaborated with OpenTable who provided restaurant booking trends and Google who provided mobility data which helped to assess transport and retail activity. This data was consolidated, structured and developed into products like dashboards to support HM Treasury, the Cabinet and the PM in decision making.

## *Swift*

526. The speed at which HM Treasury – with its departmental partners – delivered significant and novel interventions should be noted.
527. As set out above, policies like CJRS and SEISS were completely novel, cut across several departments, required rapid legal, technical and financial analysis and were often delivered in a matter of days or weeks. The same was true of the various Covid loan guarantee schemes, although the earlier schemes benefited from the precedent of the BBB's pre-existing schemes.
528. The speed and scale of delivery was made possible through teamwork, expertise and flexible resourcing. The deep expertise of HM Treasury in a range of areas from labour markets policy, access to finance, and financial sector interventions, was bolstered through teamworking with other experts and delivery partners – like the BBB and HMRC, regulators, and private sector. HM Treasury's flexibility enabled policy officials to pivot towards developing new schemes, utilising their expertise and experience to help deliver.
529. Preparatory work and learning from previous economic shocks allowed HM Treasury to develop creative and impactful policy rapidly. Previous work on EU Exit, as well as looking at international experience on short-term work schemes, were helpful in developing loan schemes and gearing up the welfare system for higher levels of unemployment respectively.

## ***Reflections, Lessons Learnt and Steps Taken to Improve Future Readiness***

530. As detailed in Part 3, Covid was a unique shock, coming from self-imposed demand constraints to curtail the spread of the virus. This required balancing the need for support for otherwise viable economic activity during the NPI restrictions whilst also allowing businesses and individuals to transition out of reliance on government interventions as conditions improved. This challenge was compounded by the uncertainty surrounding the virus – specifically its transmissibility and evolving nature and the behavioural response of citizens and businesses to this and NPIs.
531. As such, the policy environment was highly uncertain, and HM Treasury aimed to manage this in a nimble and dynamic way. Successes were in large part the result of the hard work, commitment, and professionalism of many people in the organisation and

the department would like to put on record our thanks for their efforts in these unprecedented circumstances.

532. Despite successes, there are areas HM Treasury has reflected on:

- a) Planning, Preparedness and Resilience
- b) The Economic Support Schemes
- c) Data and targeting
- d) Working with the wider government

533. More detail is set out below on overarching lessons learnt in these four areas and mitigating steps HM Treasury has taken since the pandemic.

#### ***Planning, Preparedness and Resilience***

534. As has already been highlighted in earlier modules of the inquiry, the department participated in contingency planning exercises led by the Cabinet Office, given a potential influenza pandemic was on the UK National Risk Register.

535. However, Covid – a Coronavirus – was not influenza. The virus was both extremely transmissible and lethal, necessitating tens of millions of people to shelter at home, and businesses to close; a scenario which government was less well prepared for and required a different economic response.

536. If a Covid-style scenario was being prepared for more widely, this would have given HM Treasury time to consider in more detail in advance the potential different economic responses. As such, HM Treasury accepts the Inquiry's recommendation in Module 1 around the government needing to assess a wider range of scenarios around national risks and the need to consider the economic impacts of emergencies and responses on the population.

537. Having said this, HM Treasury was prepared for a generalised economic shock with a toolkit of options based on prior planning and lessons learnt. This was used to good effect.

538. In addition, one lesson of the pandemic is that effective economic interventions needed to be highly calibrated to the specific and detailed health restrictions in place, which is difficult to predict in advance.
539. For many of the major economic interventions, the government was having to respond at short notice to changes in public health policy which were very prescriptive in terms of permitted activity. This made policy design and assessment of the subsequent behavioural response of business and individuals difficult. This was evident during the latter stages of the pandemic itself when, despite intensive contingency planning over the previous months, it would not have been straightforward to simply reinstate schemes such as CJRS in response to the Omicron variant because scheme design (e.g., on how to target support) depended on exactly what the restrictions were – for example, businesses closed versus activity restricted, sector based versus whole economy etc.

*Steps Taken Since the Pandemic to Improve Future Readiness*

540. In the Autumn 2024 Budget, steps were taken to improve resilience and contingency planning for future pandemics. The Chancellor announced that £460 million will be invested in strengthening the UK's pandemic preparedness and health protection to address the risk posed by future health emergencies and implement the lessons learnt from Covid. This includes replenishing PPE, vaccine and medicines stockpiles, and investing in critical health protection infrastructure such as high-containment laboratories.
541. HM Treasury continues to participate in cross departmental work on contingency planning for a range of risks including a future pandemic. In addition, HM Treasury has documented the main interventions used during Covid into a series of playbooks which could be utilised again if needed in a similar situation [BR/201a] INQ000625798 [BR/201b] INQ000609769 [BR/201c-I] INQ000611624
542. The EMB at HM Treasury hold annual risk management sessions and have since the pandemic made changes to the department's risk and crisis management framework, learning from the experience during Covid. This work built on findings from Module 1 of the Covid Inquiry and a number of other sources, including Programme Yarrow (planning for a national power outage), the Cabinet Office Resilience Review, and the Cabinet Office Catastrophic Impacts Programme that suggested a different approach to risk and

resilience was needed within HM Treasury to help it navigate a highly uncertain and volatile operating environment [ ] The changes include:

- a) The introduction of a new surge resourcing capability, designed to allow resources to be quickly and effectively redeployed within the department in anticipation of, or during, a crisis. This enhancement aims to bolster the department's responsiveness and agility in times of need.
- b) New governance structures to clarify risk ownership and establish clear escalation routes, ensuring that risks are managed efficiently and effectively.
- c) Annual advice to the EMB on the Principal Acute Risks, such as major pandemics. These risks will be prioritised for enhanced preparedness, monitoring, reporting, and engagement across government.
- d) Ensuring diverse perspectives are fed into HM Treasury's policy thinking, running a series of red teaming exercises since the pandemic to test and build challenge into major Budget policies and in other areas.

543. Furthermore, there are plans to implement a new HM Treasury Crisis Command Structure, encompassing Gold, Silver, and Bronze Commands. This structure will be tested through regular exercises to ensure its effectiveness and readiness in managing crises. These changes are aimed at enhancing the department's overall resilience and capability in managing risks and crises.

### ***The Economic Support Schemes***

544. As the economics and finance department, HM Treasury was at the centre of the UK's economic support schemes, ensuring they were effective, complementary and met the critical needs of households, businesses and the wider economy as the NPIs evolved.

545. Economic support attempted to balance a number of objectives in an uncertain environment including, but not limited to, preventing unemployment and maintaining living standards, preventing viable businesses from failing, ensuring value for money and minimising long-term economic damage.

546. Designing support schemes was particularly difficult given the uncertainty around the scale, potential duration, behavioural response and wider demographic impact of the NPIs and economic context – and the need to deliver support at pace while mitigating fraud and unnecessary overlaps/duplication in support.

547. HM Treasury have reflected on:

a) **The schemes themselves:**

As mentioned earlier, the department has conducted several public evaluations and internally documented the experience and developed playbooks for key interventions which can be used in the event of a future crisis (as discussed below in more detail).

The challenges around fraud and error in individual schemes is something HM Treasury has reflected on too, as noted in several of the parts and annexes to this statement. In future crises there may be a similar tension between delivering support quickly and building in more protections. Better data held on government systems could reduce that trade off in future. As a number of annexes show, in schemes like CJRS, SEISS, loan guarantees and grants, additional protections against fraud were able to be embedded after the introduction of the schemes, as the pandemic progressed.

b) **The individual and collective coverage of the economic support schemes:**

As discussed earlier, HM Treasury was particularly nimble in designing and delivering policies, and the interventions introduced during Covid had broad coverage to ensure as many people as possible received the support they needed.

However, whilst there was a rationale for each scheme in isolation, and they were all aimed at achieving complementary objectives across a wide demography, the landscape of support was relatively complex. And despite being designed to reduce gaps in coverage, there were still some groups ineligible for support, as discussed in the next section on data.

International comparisons show other countries also had a broad range of schemes to help cover different individual and business demographics. However, HM Treasury has reflected on the importance of how the government communicates what support is available and to whom – and on ensuring as simple set of interventions as possible so they are easy to understand and access.

c) **The quantum and duration of the support:**

A key objective throughout was to ensure that support was provided to those who needed it but did not prevent or disincentivise economic activity where it was permitted to take place.

This was a balance which HM Treasury considered throughout its work on the schemes and was one of the reasons so much time was spent trying to find ways to target schemes more effectively and think about the right timing, and sequence, for withdrawing support.

As set out in the CJRS and SEISS final evaluations, the UK's support schemes were effective in preventing unemployment and protecting viable businesses through the pandemic and ensured there was not a peak of unemployment on the other side.

Similarly, successive evaluations by the BBB have highlighted the value of the Covid loan guarantee schemes in preventing businesses from permanently closing and in unlocking credit for businesses at scale and speed.

However, there is a question of whether Covid may have influenced longer-term economic trends and distortions – for instance depressing labour market dynamism. It is difficult to say to what extent the economic interventions impacted this and there is no concrete evidence of a causal link. In any case, it is not clear that the government could have changed its approach given the nature of the crisis and the significant consequences of not providing such support for incomes and livelihoods.

*Steps taken since the pandemic to improve future readiness*

548. As noted above, the government has evaluated a number of the Covid support schemes (as per the compendium referenced above [BR/202-INQ000609928]) and has commissioned Ecorys for a meta-evaluation of business support schemes [BR/202a-

**INQ000625793**

549. There have also been lessons learnt exercises by individual government departments and HM Treasury, which have resulted in:

- a) **Embedding lessons learnt and improving internal processes:** HM Treasury has documented systems and/or developed playbooks for the major schemes like CJRS, SEISS, CCFE and the Loan Guarantee Schemes to help ensure we can stand up similar schemes in the future for any major economic shocks, including but not limited to pandemics. HM Treasury has also updated spending guidance based on lessons learnt from Covid, produced by the Treasury Officer of Accounts.
- b) **Developing more robust fraud measures:** Including the creation of the PFSA in 2022 which works across government to understand and reduce the impact of Fraud. In addition, the Chancellor in 2024 appointed a Covid Fraud Commissioner who is due to present a review of lessons learnt and recommendations to Parliament.
- c) **Bolstering key teams:** HM Treasury has strengthened its data science team, who work on discrete issues as well as building cross-cutting infrastructure to improve HM Treasury-wide data collection, structuring and analysis. There is also a greater focus within HM Treasury on risk, as noted above, and HM Treasury continues to work with the bolstered Resilience Directorate in the Cabinet Office, which plays a cross-cutting and strategic role in identifying serious risks and emergency planning. The new Policy Excellence team in HM Treasury has developed guidance on fraud for staff and delivered seminars on the crisis.

### ***Working with the Rest of Government***

550. Through the pandemic, HM Treasury worked extremely closely with other departments and other bodies. As set out above, those partnerships were critical to delivery of schemes at speed.

551. As in any fast-moving situation, there were some instances where the speed with which changes to schemes had to be introduced meant other departments and bodies were not consulted as much in advance as would have been ideal. HM Treasury continually strives to be as open and collaborative as possible in interactions with other government departments. This can be seen in many areas of work since the pandemic, especially in work with the other economic departments such as DWP and BEIS (now the Department for Business and Trade).

552. Interactions with the DAs during the pandemic were also complicated by the different political regimes in different nations. Again, HM Treasury officials keep working to

ensure as close partnership working with the DAs as possible. Since the pandemic, this includes through fortnightly meetings with the DAs at senior official level.

553. Questions have been raised as to whether HM Treasury could have shared more data and analysis across Whitehall during the pandemic. However, this needs to be balanced against the sensitivities of sharing market sensitive data. As detailed in Part 4: **Data, Modelling, and Analysis**, decisions as to what data and information to share outside the department (whether within government or published externally) are ultimately a decision for ministers.

### ***Data, Targeting and Systems***

554. Given the novelty of the pandemic and the associated support schemes, access to data was critical.
555. First, HM Treasury needed granular and real-time economic data to understand economic activities and analyse the impacts of different policy options. As set out in the section of this statement on data and analysis, new sources of such data – collected and shared through partnerships with other departments, other public bodies and the private sector – were successfully collected, analysed and used to good effect during the crisis.
556. Second, HM Treasury needed detailed and robust administrative data on citizens and businesses to enable the government to operationalise support schemes in a targeted way which minimised the scope for fraud and error. Access to this data was more challenging.
557. The pandemic highlighted the limitations of existing government data on businesses and individuals, which were not always sufficiently available, robust or reliable. This constrained the government's ability to extend eligibility for support to some groups or effectively target economic support schemes as the only way to do so would have exposed the government to much higher risk of fraud and abuse (e.g., by allowing self-certification by businesses or individuals which could not be verified against data already held on government systems).

558. Where robust data was available, for instance, the use of real-time Pay As You Earn data in the CJRS claims service, this allowed the government to verify that furloughed employees were genuinely employed by the employer, enabling the integration of compliance checks and simplifying the information requirements for applicants.
559. On the other hand, a lack of timely data on the self-employed meant support schemes for them were less able to respond to the real-time needs of individuals, given self-assessment returns were up to 18 months out of date. As such HM Treasury and HMRC could not easily verify people's income and how it had changed compared with pre-pandemic levels. Data on businesses and sectors was also sub-optimal for targeting – for example to determine what sectors the businesses were in, or real-time data to use on business profitability/turnover. To be usable to administer support schemes, such data needs to be on government systems *before* a crisis to guard against fraud and the risk of companies and individuals self-returning fraudulent data – and it needs to be robust enough to use for determining eligibility or not.
560. The paucity of timely and robust data meant a number of the UK's major support schemes were path dependant – i.e., designed in a certain way because this was the best *available* option based on the existing data and systems to deliver significant support while minimising fraud. Different data and systems may have enabled government to develop other novel ways to provide support.

*Steps taken since the pandemic to improve future readiness*

561. The Autumn Budget 2024 set out commitments to improve data and systems across the government including a National Data Library and several other data initiatives.
562. Since the pandemic, government departments have also been working to enhance data utilisation and sharing across government. This could in future facilitate better targeting of economic support for businesses and households. However, the benefits of collecting more data needs to be weighed against the burdens put on those who have to submit it and the need to ensure robust data protection.
563. HMRC issued a consultation in 2022 aimed at enhancing the data they collect from their customers. As a result of this consultation, changes have been made to the Income Tax regulations – for example to enable HMRC to collect data on dividends in tax returns, which will take effect from April 2025. These changes are designed to improve the

accuracy and efficiency of data collection, whilst balancing that against the burden any collection of new data puts on those supplying it.

564. HMRC is also undertaking a transformation of its systems more widely to improve its digital offering. This includes Making Tax Digital for Income Tax Self-Assessment and the digitalisation of business rates. This will give HMRC more real-time data, including from the self-employed.

565. More broadly, the government has taken a 'digital-first' approach to the SR. HM Treasury officials have worked through the Digital Inter-Ministerial Group and with Department for Science, Innovation and Technology officials to support departments on their digital proposals and identify the largest efficiency opportunities from new technology and AI. The Department for Science, Innovation and Technology provides support to HM Treasury by assessing digital, data and technology related SR submissions and Business Cases.

### **Statement of Truth**

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

**Personal Data**

Signed

Dated 20 October 2025