

Witness Name: Rishi Sunak
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THE UK COVID-19 INQUIRY

WITNESS STATEMENT OF RISHI SUNAK

I, RISHI SUNAK, will say as follows: -

1. I make this statement in response to the UK Covid-19 Inquiry's ("**the Inquiry**") request to me for evidence in relation to Module 9 of the Inquiry's work. This statement is focussed on the economic impacts of the Covid-19 Pandemic ("**the Pandemic**") and the range of economic support the Government delivered in response. However, first and foremost I recognise the tragic loss of life as a consequence of the Pandemic as well as the wider impacts on society and individuals as a result of the actions taken in response.
2. This statement has been prepared with the assistance of my solicitors and is based on my best recollection of the matters referred to in the Inquiry's Rule 9 Request. Given the scope and complexity of the matters which I have been asked to comment on, as well as the time that has elapsed since these events, my recollection is obviously not detailed or in depth. I have sought to engage constructively in a relatively short period of time with the 348 questions posed to me. To assist my recollection and the preparation of this statement, I have reviewed relevant documents supplied by His Majesty's Treasury ("**HM Treasury**") that were created at the time of the events under scrutiny; and key

documents are exhibited to this statement. I have read the statement of Beth Russell which constitutes the Module 9 corporate witness statement of HM Treasury.

3. To assist the Inquiry, I have exhibited key documents throughout this statement and quoted from many. These are in italics. There are a number of acronyms and terms which are defined throughout this statement. These are listed in Annex A.
4. I have addressed the 348 questions posed to me in the Rule 9 Request through a free-flowing narrative, rather than individually. I have used headings throughout and have adopted the same section structure as my Rule 9 Request with the exception being my “*reflections and lessons learned*” are incorporated throughout the witness statement, rather than separately. As advised, I have focused on “*the significant events and matters*” that I was specifically involved in during this period.
5. I have previously given evidence to assist the Inquiry’s work in relation to Modules 2, 2B, 5 and 7. I have also given oral evidence to the Inquiry on 11 December 2023, and this statement falls to be read alongside that earlier evidence. As advised, I have replicated detail from my written evidence in those previous modules wherever relevant within this statement, so that my Module 9 statement is capable of being read as a freestanding and standalone document. My statement is structured as follows:

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Part A: Personal Background

6. I was elected Conservative MP for Richmond (Yorks) in May 2015 and was appointed Parliamentary Under Secretary of State at the Ministry of Housing, Communities and Local Government (“MHCLG”) from 9 January 2018 to 24 July 2019. Following this I undertook the role of Chief Secretary to the Treasury (“CST”) from 24 July 2019 to 13 February 2020, before being appointed to Chancellor of the Exchequer (“Chancellor”) on 13 February 2020 [RS/001- INQ000236978]. I remained in this role until 5 July 2022.

Part B: Role and Working Relationships

7. The Chancellor is the Government’s chief financial Minister and has overall responsibility for HM Treasury and for economic and fiscal policy, and the financial services sector. The Chancellor is involved in Cabinet-level decision-making, with a focus of providing economic and fiscal considerations in the decision-making process.
8. At the time of my appointment, the Pandemic was an emerging situation, and the Government was already responding to it. Alongside the typical duties of the Chancellor of managing fiscal and economic policy, I had a specific responsibility of tailoring economic advice, policy and decision-making to fit with the context of an international Pandemic.
9. The 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. I was CST until 13 February 2020 and so had only limited involvement with the Government’s response to the emergence of Covid-19 whilst in this

role. This consisted of attendance at Cabinet and Cabinet Office Briefing Rooms (“**COBR**”) meetings within which updates on the progression of the virus from the Department of Health and Social Care (“**DHSC**”) and medical experts were relayed.

10. Within the Government, the Chancellor and 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 [**RS/002 - INQ000088020**]. These objectives were equally valid and important during the Pandemic period.

Chancellor of the Duchy of Lancaster

11. I engaged frequently with the Chancellor of the Duchy of Lancaster (“**CDL**”) in regular Quad, Ministerial Implementation Groups (“**MIG**”) and Economic and Business Response Implementation Group (“**E-BRIG**”) meetings, as well as through other forums. The CDL also led on engagement with the First Ministers of the Devolved Administrations (“**DAs**”) during the response to Covid-19. CST and HM Treasury senior officials attended several of the CDL’s meetings with the DAs’ First Ministers when discussions related to funding.

Governor of the Bank of England

12. Throughout the Pandemic, I had regular contact with key economic experts within the public sector, especially the Governor of the Bank of England (“**BoE**”). I would receive input from the Governor of the BoE in addition to the advice received from officials within HM Treasury and would engage with him in the lead up to budgets, for example, in a meeting on 5 March 2020 with the PM (see paragraph 196).

HM Treasury Ministers

13. Throughout the Pandemic I had regular engagement with other Ministers within the department, as well as HM Treasury officials providing analysis and policy advice on economic and fiscal related issues, including ahead of ministerial participation in Cabinet-level decision-making fora.
14. During this period, I 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.

15. I would engage with Ministers in ministerial meetings, as well as within the dedicated fora established to tackle the Pandemic, such as the Covid(O), Covid(S) and Small Ministerial Groups (“**SMG**”), as well as bilaterally as needed.
16. The advice of HM Treasury officials informed judgments on the relative impact of potential measures and aimed to equip myself and other Ministers to collectively take a 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. This close collaboration allowed the department to adapt quickly and ensure that relevant expertise was being deployed effectively at all times throughout the Pandemic period.

Chief Medical Officer and Chief Scientific Adviser

17. The Chief Medical Officer (“**CMO**”) and the Chief Scientific Adviser (“**CSA**”) were extremely important advisers to Government during the Pandemic, and I received regular updates from them during this time. The CMO and CSA attended Cabinet meetings when Covid-19 issues were being discussed and typically attended COBR and subsequently Covid(S) meetings, as strategy discussions moved to this forum.
18. HM Treasury officials used the information shared by the CMO and CSA as well as from DHSC to develop policy decisions and advice for myself and other HM Treasury Ministers. I also on occasion also had calls with the CMO and the CSA as it was helpful to be able to speak to them directly and talk through their advice. For example, I spoke with them on 8 March 2020, when they set out their then expectation of ‘Reasonable Worst-Case Scenario’ (“**RWCS**”) and ‘Central Scenario’. We discussed timing and their expectation that the peak would hit in 8-10 weeks if there were no interventions and suggested that if there were to be a second peak, it was likely that it would be around October/November/December [**RS/003 - INQ000088047**].
19. It was well understood that the decisions on economic support needed to be guided by, and support, the decisions made on health interventions. As such I developed close working relationships with both the CMO and CSA.

The Prime Minister

20. The Prime Minister (“**PM**”) was the primary decision maker in relation to the major decisions on the Government’s response to Covid-19 and the decision-making

structures used. My ministerial responsibility was providing economic and fiscal evidence, analysis and advice in relation to decisions and interventions that would impact the economy and public finances and the financial services sector. As far as I can recall, I had the opportunity to input into the PM's decision-making in a meaningful way.

21. I worked closely with the PM via the various decision-making structures within central government, as well as through those which evolved out of the need for more frequent and targeted collaboration during the Pandemic, including the PM's 0915 daily meetings (see paragraphs 189 to 191), bilateral meetings ("**Bilats**") (see paragraphs 184 to 188), COBR (and later Covid(O) and Covid(S) meetings) (see paragraphs 180 to 183) and Cabinet meetings (see paragraphs 176 to 179).

Secretary of State Department for Business, Energy and Industrial Strategy and Department for Work and Pensions

22. I worked closely with the Secretary of State ("**SoS**") for the Department for Business Energy and Industrial Strategy ("**BEIS**") (now Department for Business and Trade ("**DBT**")) and the Department for Work and Pensions ("**DWP**") through MIGs and SMGs, as well as through Cabinet meetings, COBR, Covid(O) and Covid(S). The heightened level of cross government collaboration necessitated by the multifaceted nature of the Pandemic response required close working relationships between Ministers of the most involved departments.

Devolved Administrations

23. Engagement by HM Treasury with the DAs was mostly undertaken by the HM Treasury Devolution team. The Devolution team within HM Treasury meet regularly at official level with their DA counterparts. This regular engagement through the Pandemic played a crucial role in ensuring that myself and Ministers fully understood the concerns of the DAs and the implications for their funding arrangements. This ensured that these considerations were factored into advice and decisions, even in cases where the DAs 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 DAs, particularly in the lead up to key decision points.
24. HM Treasury's main engagement with the DAs was in relation to funding and led by the CST through the Finance Ministers' Quadrilateral ("**FMQ**") as well as bilateral meetings. It was standard practice for the CST to lead on engagement with DAs on behalf on HM

Treasury, rather than the Chancellor. This was and remains the case today. As Chancellor, I would not normally be sighted on these meetings. On 3 June 2021, the PM chaired a meeting at which I attended together with the CDL, the SoSs for the DAs and the First Ministers of Scotland, Wales and Northern Ireland and ministerial counterparts in order to discuss the Covid-19 recovery [RS/004 – INQ000658460].

Professional Bodies

25. Across the range of economic interventions, HM Treasury engaged closely with business representative bodies (for example, the Confederation of British Industry (“CBI”) and Federation of Small Businesses (“FSB”) and the Trade Union Congress (“TUC”), as well as directly with businesses. HM Treasury held calls, workshops and feedback sessions with these organisations, senior executives from several lenders, and Chief Executives of challenger banks, as well as alternative finance providers. For the Coronavirus Job Retention Scheme (“CJRS”) and the Self-Employment Income Support Scheme (“SEISS”), HM Treasury regularly spoke to external stakeholders like the TUC, the British Chamber of Commerce (“BCC”), the CBI, and other groups representing sectors such as hospitality, theatres and airlines. During the Pandemic, I regularly attended roundtables and met with a wide range of companies and organisations across many sections, including the major national banks, retailers and representatives from the charitable and voluntary sectors. In addition, my officials held working level meetings, the content of which would be summarised or fed into advice for me, where appropriate. Meetings that I attended with external bodies are recorded in HM Treasury’s Transparency Register which is made publicly available.
26. The long-established relationships between HM Treasury and other government departments such as the Cabinet Office (“CO”), DWP, His Majesty’s Revenue and Customs (“HMRC”) and former BEIS allowed for the stepping up of collaboration during the Pandemic to deliver economic policy at pace. I describe briefly below the nature of some of these working relationships.

Cabinet Office

27. During the Covid Pandemic, HM Treasury worked closely with CO to manage the Government’s response to the crisis and as the Pandemic unfolded, this collaboration was vital in supporting economic recovery and the phased withdrawal of exceptional support measures, like the furlough scheme.

28. Throughout this period, HM Treasury officials held frequent meetings CO counterparts, including formal standing weekly bilateral meetings that intensified to a daily rhythm before major announcements.
29. I consider the relationship between CO and HM Treasury worked broadly effectively during the Pandemic, and improved over time, particularly following the establishment of the Covid-19 Taskforce (“**Taskforce**”). There were also improvements in the process and approach to sharing data between HM Treasury and CO, for example by seconding experienced economists to CO to ensure that economic data was being properly integrated and considered by senior decision makers.

HMRC

30. HM Treasury has a long-standing close relationship with HMRC and a number of central interventions during the Pandemic were designed and delivered jointly between HM Treasury and HMRC. 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.
31. 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. Senior officials 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.
32. **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. Engagement with other departments, such as BEIS, ensured necessary adjustments to policies like annual leave entitlements. Despite the challenges of remote working and fast-paced policy development, strong communication and coordination between HM Treasury and HMRC enabled successful delivery.

33. **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. As the department responsible for collecting VAT, HMRC administered and monitored these interventions, including through compliance processes. 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.
34. **Eat Out to Help Out (“EOTHO”):** The EOTHO scheme was designed by HM Treasury and implemented by HMRC. HMRC rolled out the scheme between 3 and 31 August 2020 and played an important role in the provision of ongoing advice to my office on how delivery was progressing. The scheme benefited from strong collaboration between the two departments.
35. **Welfare and Statutory Sick Pay (“SSP”) Rebate:** HMRC also played a role in the development and delivery of the SSP Rebate Scheme, and in the uplift/one off payment to Working Tax Credit (“**WTC**”) households, working with DWP and HM Treasury.

BEIS

36. 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.
37. **Business Loan Guarantee Schemes:** HM Treasury worked closely with BEIS and the British Business Bank (“**BBB**”) to develop and deliver schemes at pace such as the Coronavirus Business Interruption Loan Scheme (“**CBILS**”), Coronavirus Large Business Interruption Loan Scheme (“**CLBILS**”) and the Bounce Back Loan Scheme (“**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. 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, 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 Financial Conduct Authority (“FCA”), BoE and the financial sector (both individual lenders and UK Finance).

38. **Business Grants:** HM Treasury led the design of Local Authority (“LA”) administered business grant schemes (“BGSs”), 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 for BEIS was the responsible minister. I was responsible for making many of the policy decisions on the design and funding of the schemes, with the agreement of the SoS for BEIS. There were weekly working-level meetings between HM Treasury and BEIS on implementation, with MHCLG providing insights on LA interactions and implementation challenges. 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 Non-Pharmaceutical Interventions (“NPIs”), and this meant that it was not always possible to carry out an extensive engagement exercise before announcing new policy.

DWP

39. 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.
40. Changes to Universal Credit (“UC”) and other DWP benefits were developed by DWP and HM Treasury officials working together following No. 10 Downing Street (“No. 10”), HM Treasury and DWP ministerial decisions on approach and objectives.
41. SSP policy development required coordination between HM Treasury, DWP, DHSC, MHCLG, and CO. Decision-making on SSP was, and remains, the responsibility of the SoS for DWP, working closely with HM Treasury Ministers given the economic and spending implications. Collaboration also ensured financial support was available for

individuals advised to shield. In preparation for the Budget, which I announced on 11 March 2020, HM Treasury worked with DWP and HMRC to develop and inform the design of SSP regulations.

42. 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. Engagement with stakeholders and professional bodies went over and above that which HM Treasury had typically undertaken prior to the Pandemic.
43. While economic interventions during the Pandemic were developed at pace, understanding the views of recipients or the views of key stakeholders involved in delivery (for example, 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 (for example, the CBI, FSB and 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. As noted in paragraph 25 above, for CJRS and SEISS, HM Treasury regularly spoke to external stakeholders like the TUC, the BCC, 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 HM Treasury's Executive Management Board ("**EMB**") held regular breakfasts with a rotating set of business leaders to hear their priorities and concerns directly.
44. In addition to working with key stakeholders, when developing analysis, HM Treasury also engaged with work undertaken by think tanks and academics. For example, HM Treasury officials, including the then Chief Economic Adviser ("**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 on 5 May 2020, covering age, income and ethnic disparities **[RS/005 - INQ000236568] [RS/006 - INQ000236571]**.
45. 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. 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) [RS/007 - INQ000236570] [RS/008 - INQ000236540].

Part D: Economic Decision-Making Systems and Structures

46. The Inquiry has requested detail of the following decision-making fora within which Covid-19 decision-making and strategy discussion took place.

Economic and Business Response Implementation Group

47. Four MIGs were established by the PM in March 2020. The Covid-19 – E-BRIG was one of these four groups, and I was asked by the PM to chair it. As I explained to the group at its initial meeting on 16 March 2020 [RS/009 - INQ000055892], the purpose of the group was *“to ensure a coherent approach to business facing communications, intelligence gathering and policy, to support businesses through the COVID-19 (coronavirus) outbreak”*.
48. E-BRIG meetings, which were held weekly and which concluded on 14 May, were attended by the CDL and the SoS for BEIS, Department for Digital, Culture, Media & Sport (“**DCMS**”), Department for Transport (“**DfT**”), MHCLG, Department for International Trade (“**DIT**”) and DWP, as well as senior officials from across Whitehall. E-BRIG did not make major decisions on the response to Covid-19. By way of illustration of the work undertaken in E-BRIG:
- (a) My recollection is that the E-BRIG was a positive example of a new structure that was effectively convened to carry out a Covid-19 specific workstream. It was a streamlined committee which translated Cabinet’s high-level policy decisions into tangible and accessible guidance, that could be relied upon by the public and enable the safe reopening of the economy.
 - (b) The remit of E-BRIG is illustrated by comments from the SoS for BEIS at the meeting on 23 April 2020, where, when discussing the ‘Safer Workplaces’ workstream, he said *“this workstream was not about influencing the easing of restrictions, which would be informed by science. Rather, its purpose was to establish a framework and targeted guidance to encourage the workforce to*

return to work where and when it was safe to do so [RS/010 - INQ000083334]. At the same meeting I said, *“this work would need to be informed by the Scientific Advisory Group for Emergencies (“SAGE”) [which] could provide a set of principles to inform risk assessments in the workplace”*, underlining the point that this forum was subsidiary to broader decision-making and policy on managing the Pandemic and NPIs.

The Covid-19 Taskforce

49. In mid-April 2020, whilst the PM was suffering from Covid-19, the First Secretary of State (“FSS”) decided to appoint a Senior Responsible Owner (“SRO”), for the entire Covid-19 strategy programme.
50. At a Quad meeting on 11 April 2020 the distinction between decision-making on operational delivery and strategic decision-making was highlighted [RS/011 - INQ000232172]. The SoS for DHSC said that the CO should be focussing on the strategic side, whilst keeping a close eye on how the two aspects interact. He also commented that it would be important to keep the CMO and Chief Economist fully involved in strategy work. Finally, it was suggested that the commissioning of information from senior officials could be more efficient, with less pieces being requested and a focus on ensuring the daily dashboard included all the information needed on key delivery workstreams, for transparency and accountability.
51. It was acknowledged that the CO sat as the ‘gearbox’ of decision-making, with departments making up the engine. Detailed work was left to departments to undertake, with Cabinet ensuring that the different arms ran coherently as one unit. I supported the appointment of a single SRO, who was an official not a Minister, and noted the critical importance of the chief analyst function [RS/011 - INQ000232172].
52. This unit, which eventually took the form of the Taskforce, was envisaged as being an analytical centre which reflected science, health and economic data and would set the direction of various proposed workstreams.
53. The Taskforce was established in early June 2020, working across Whitehall. It collated public health advice and recommendations from DHSC, public health authorities and advice from other departments. The Taskforce used this advice to produce information that shaped Cabinet-level decisions. Senior officials from the Taskforce also attended Cabinet level meetings where their input was sought to support decision-making and in discussion on both immediate and longer-term strategy.

The Executive Management Board

54. HM Treasury's 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.
55. 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.
56. 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.
57. 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 Treasury Board

58. 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.
59. 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

60. 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.

61. 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.

Covid Response Board

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 NPIs, 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. Membership included representatives of all teams involved in Pandemic work. I was not in attendance at these board meetings, nor did I receive readouts. Policy development and recommendations were sent to me through written advice or in meetings, detailed throughout this statement.

The Economics and Business Covid-19 Internal Group

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 Enterprise and Growth Unit in HM Treasury and shaped HM Treasury's input to the cross-department E-BRIG and wider cross-Whitehall decision-making on Covid-19 response.

Strategy, Planning and Budget Group

64. 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. 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.

65. 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-19, 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 CO and No. 10.

The Policy Partnership with HMRC

66. 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.
67. 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.

BEIS

68. HM Treasury and BEIS have a long history of close collaboration, particularly in relation to policy around financial services, industrial strategy, and economic growth. Throughout the Pandemic BEIS played a critical role in the operational delivery of many of the economic schemes designed by HM Treasury such as the Business Loan Guarantee and Business Grants schemes.
69. In the case of the Business Loan Guarantee schemes, for example, HM Treasury were responsible for designing key aspects of the scheme, whilst BEIS and BBB were

responsible for operational delivery and implementation of the schemes, with the SoS for BEIS the accountable minister, and the BEIS Permanent Secretary the Accounting Officer. The SoS for BEIS also issued the Ministerial Direction to implement the schemes. The close collaboration required by the introduction of these schemes necessitated close working relationships between myself and the SoS for BEIS.

DWP

70. As in the case of BEIS, HM Treasury has always had close working relationships with DWP officials and ministers. During the Pandemic, DWP led development and delivery of welfare policies and collaborated with HM Treasury, who were considering policies more widely to reach individuals in need of financial support.
71. Changes to 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.
72. Decision making on UC and SSP was, and remains, the responsibility of the SoS for DWP and requires a close working relationship between SoS for DWP and HM Treasury ministers, including myself. In preparation for my Budget announcement on 11 March 2020 our departments worked side by side to develop and inform the design of SSP regulations.

MHCLG

73. 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.
74. 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.

Decision-making structures in emergencies

75. In early 2020, the Government was responding to an emerging crisis. Decision-making took place in the established channels, with additional new groups and committees being set up by CO and No. 10, as is common practice, in response to an evolving situation that is occupying a great deal of the Government's time. This is a typical response and allowed us to manage the crisis at pace. For example, the creation of a dedicated Covid-19 Response Team within the SPB allowed for more coherent leadership and coordination over the department's work on Covid and ensured myself and other ministers could leverage various expertise from across HM Treasury quickly and effectively.
76. Whilst establishing these new forums for working naturally took time, the combination of traditional and targeted channels for working on covid related tasks, which often became the responsibility of more than one department, allowed for greater and more effective cross-Government coordination and collaboration, and ultimately ensured that our response could be as robust and timely as possible.
77. 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 typical. It is worth noting however that a slower and more rigid approach to decision-making processes would have had detrimental effects on the rate at which support could ultimately be provided, and funding released.

Ministerial Directions

78. 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") [RS/012 - INQ000068420].
79. As the Inquiry has identified, 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.

80. 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.
81. Some of the spending control challenges faced during the Pandemic, which ultimately resulted in a record number of Directions being issued, became a point of contemplation for HM Treasury following this period of emergency spending. Internal guidance produced by HM Treasury ('Spending Control in a Crisis' [RS/013 - INQ000399235]) followed on from the Boardman Review in December 2020 and 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. It also stressed 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 further 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.
82. During the Pandemic, the Ministerial Direction process was used on 15 occasions, as listed below. Each of these Ministerial Directions is published on the gov.uk website [RS/014 – INQ000609917]:
- (a) 30 March 2020 –Ministerial Direction on spend;
 - (b) 28 April 2020 –Ministerial Direction for the support fund for retail, hospitality and leisure businesses;
 - (c) 28 April 2020 –Ministerial Direction for the small businesses grant fund;
 - (d) 10 June 2020 –Ministerial Direction for the Coronavirus Business Interruption Loan Scheme;
 - (e) 10 June 2020 –Ministerial Direction for the Coronavirus Large Business Interruption Loan Scheme (CLBILS);
 - (f) 10 June 2020 –Ministerial Direction for changes to the Coronavirus Business Interruption Loan Scheme (CBILS);

- (g) 10 June 2020 –Ministerial Direction for the Local Authority Discretionary Grants Fund;
- (h) 10 June 2020 –Ministerial Direction for the coronavirus Bounce Back Loan Scheme;
- (i) 10 June 2020 –Ministerial Direction for the Future Fund;
- (j) 12 June 2020 Ministerial Direction for the early payment of grants;
- (k) 18 June 2020 –Ministerial Direction for the continuation of expenditure;
- (l) 8 July 2020 – Ministerial Direction on spend in 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 –Ministerial Direction on independent sector contracting.

83. Given the unique context and pace of the Pandemic and the novel nature of the support schemes being introduced, there were occasions on which, despite there being clear and sound policy rationale for the introduction of a scheme, value for money risks could not be assessed by the relevant Accounting Officer with the necessary certainty and speed required to meet the standards expected by MPM.
84. I gave due consideration to the potential risks posited by the Accounting Officer before issuing a Ministerial Direction; however, it should be noted that in the above instances, the uniqueness of the schemes and the context within which they were being introduced inherently made them more prone to falling outside of MPM. I was of the opinion this did not provide sufficient justification for not proceeding with them.
85. 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 DAO 01/16 [RS/015 – INQ000625794]. As such, I recall only having had limited sight of Ministerial Directions which were managed by the lead department. Despite this, the

risks set out in these letters should have been included in any advice or submissions sent to me by officials during earlier stages of advancing a recommendation for a particular policy and so will have been considered, in any event, by myself and other HM Treasury Ministers.

86. MPM provides guidance on when Ministerial Directions should be kept confidential. Reasons for retaining confidentiality include where the publication of a direction could lead to the release of sensitive commercial information or infringe upon the need to protect a safe space for ongoing policy development. If a direction needs to be kept confidential, this will be explained in the Ministerial Direction itself. In line with the usual process for directions, any Ministerial Directions issued by me were copied to the Comptroller and Auditor General (who will inform the Public Accounts Committee) and the Treasury Officer of Accounts.

Part E: Initial Response to the Pandemic

87. I set out below details of the relevant meetings I attended and the advice I received. In general terms, I would say that the period was one in which the Government's response was led by DHSC and that, as the SoS for DHSC told the Cabinet on 6 February 2020, it was "*medic-led*" [RS/016 – INQ000056137]. My broad recollection is that as advice and recommendations were received from the CMO, CSA and SAGE, they were acted on without significant disagreement or delay.
88. My recollection is that there was particular emphasis from the advisers about timing the implementation of measures correctly (i.e. not going too early). I also recall a lack of certainty in the advice as to whether school closures were absolutely necessary given the balancing of considerations (indeed they were described as "*less important*" than other measures), and if so, when the right time to implement school closures might be.
89. In mid-to-late March, it became clear that adherence to the nationwide social distancing advice was not high enough on the basis that 75% compliance was needed to sufficiently control the R rate. This ultimately led to formal closures and lockdown.

1 January 2020 to 12 February 2020

90. As explained above, during this period I was CST. I attended meetings of COBR (5 February 2020) and Cabinet (31 January 2020 and 6 February 2020) at which Covid-19 was discussed, I had a limited role as CST on Covid-19.

91. Although I cannot recall whether I knew this at the time, I am now aware that there was a COBR meeting on 24 January 2020. I understand that searches at HM Treasury have not found any record of the CO having invited HM Treasury to attend this meeting. There was a further COBR meeting on 29 January 2020 which was attended by a senior HM Treasury official.
92. At the Cabinet meeting on 31 January 2020, the SoS for DHSC provided an update. He advised that *“two cases of coronavirus had been confirmed in the UK. 177 potential cases had tested negative. It was a very serious problem in China where there were 9,700 cases and where there had been 213 fatalities. The rate of spread was similar to that of SARS disease, with one person typically infecting two and half to three people, but the mortality rate, at two per cent, was much lower”*. He went on to say *“If China succeeded in containing the virus, there would not be a problem, but if China did not grip the situation, it could become global. That would be very serious, including for the UK”* [RS/017 - INQ000089934].
93. At the COBR meeting on 5 February 2020, and after an update from the CMO on the current situation, in which he advised that the fatality rate estimate remained at 2-3% and presented options for limiting transmission, the Director of the Civil Contingencies Secretariat (“CCS”) set out the priorities in relation to the planning assumptions for the RWCS and an action point arising from the meeting was for all departments to *“rapidly advance planning for the [RWCS], centrally co-ordinated by the [CCS]”* [RS/018 - INQ000056215].
94. At the Cabinet meeting on 6 February 2020 the SoS for DHSC provided a further update. He said that the *“spread of the virus was clearly very serious”*. He went on to say that *“the approach to tackling the virus in the UK to date had been medic-led and that the central point to make was that the Government had a plan to deal with this illness, and this was guided by science”* [RS/016 - INQ000056137].
95. Initially, SAGE believed that there was *“limited evidence of asymptomatic transmission”* [RS/019 - INQ000203627]. As time progressed, it was understood that Covid-19 was spreading through people who did not display symptoms - decisions around who should isolate were made on this basis [RS/020 - INQ000088881]. SAGE advice in late October 2020 suggested that asymptomatic individuals may account for a large proportion of cases [RS/021 - INQ000252710]. As a result of these developments, a huge amount of time and money was dedicated to monitoring this through testing.

13 February to 23 March 2020

96. As explained above, I was appointed Chancellor on 13 February 2020, and I attended a Cabinet meeting the following day. In the CCS 'Sit Rep' briefing for the meeting it was recorded that SAGE *"agreed that [the Government] should continue to plan using pan-flu assumptions"* as a basis for RWCS plans [RS/022 - INQ000232121]. At the meeting itself the CMO confirmed that if the virus became widespread in the UK *"there were plans in place that could slow down its spread"* and that *"the plans already in place to tackle an influenza epidemic would be needed"* [RS/023 - INQ000056138].
97. Also on 14 February 2020, I received advice from HM Treasury officials on the estimated impact of Covid-19 on the UK economy under a RWCS. It was estimated that *"using an agreed set of cross-Whitehall set of assumptions for a RWCS based on a Pandemic flu outbreak and given what's known about coronavirus, our analysis suggests the level of GDP could be between 0.6% and 1.3% lower by 2021 compared to the current expectations"*. The estimate was *"highly uncertain"*. The submission recorded that as of 14 February *"there were over 64,000 confirmed cases of coronavirus worldwide and almost 1,400 deaths. In the UK there are 9 confirmed cases and no deaths"* [RS/024 - INQ000088045].
98. On 2 March 2020 I attended a COBR meeting. At the meeting the CMO provided a situation update that *"contact tracing for the source of infection for the last two cases in the UK had not been successful and that in both France and Germany there was now sustained community transmission. That the aim for the DELAY phase, if CONTAIN failed, was to delay the peak of infections, to reduce the peak, to minimise loss of life"*. The CMO also said *"that interventions to delay the spread of the virus must not be implemented too early in order to ensure maximum effectiveness"*. It was also noted that SAGE was looking at measures for social distancing and that advice would be ready in a few days. I was asked to present to the COBR committee on what the impact to the economy could be. I said that *"in a [RWCS], GDP could retract by 1.6 percent (forecasts with no COVID-19 modelling showed GDP growing by 1 per cent)"* [RS/025 - INQ000056217].
99. At that meeting it was decided that the 'Coronavirus: Action Plan' should be published on 3 March 2020 (subject to final agreement by Government scientific community) and that preparation for the 'Covid-19 Bill' should proceed. In the papers I received for the meeting there was a DHSC note titled *"Covid-19 emergency legislation"* which stated that the purpose of the Bill would be to *"slow down the spread of the virus, to 'flatten the*

curve' and prevent a high number of infections occurring simultaneously" and to "manage/mitigate the impact of the virus on wider society". The DHSC note explained that the Bill was "built on the considerable work done on legislative requirements for the 'Pandemic Influenza Bill'" and that the broad themes to be included were:

- (a) "Measures to enhance capacity and enable flexibility in deploying staff, particularly in health and social care";
- (b) "Measures to ease legislative and regulatory burdens";
- (c) "Measures to help contain/slow the spread of the virus"; and
- (d) "Measures to manage the deceased" [RS/026 – INQ000056156].

100. The meeting papers also included a CCS briefing that recorded that advice was currently being finalised by SAGE "on mitigations that could be employed to reduce and/or slow the spread of the disease in the UK" and that SAGE "will advise on the epidemiological and behavioural science impacts and gains of different approaches" [RS/027 - INQ000056224].

101. I attended a Cabinet meeting on 3 March 2020. The SoS DHSC reported that "the scientific advice was that a global Pandemic could be averted but that was increasingly unlikely". The PM said that "the UK was still in the 'contain' phase. If the situation worsened measures set out in the plan would be taken as necessary" [RS/028 - INQ000056139].

102. On 3 March 2020, DHSC published the 'Coronavirus Action Plan' [RS/029 - INQ000182380]. In it DHSC said that it was "the lead UK Government Department with responsibility for responding to the risk posed by a future Pandemic" and gave details of what had been done to date and what it was planning to do next. I do not recall being particularly involved in the drafting of this document. HM Treasury officials, on reviewing contemporaneous email chains, have advised me that the drafting looks to have been done at pace at an official level. DHSC circulated drafts for comment between 27 February 2020 and 2 March 2020 and HM Treasury's involvement was relatively minimal.

103. At the press conference that day, the CSA explained why it was important to time interventions optimally and not to go "too early". The CMO explained that when it came to school closures there was "difficult balancing acts to consider" and "no evidence at the moment that children are particularly badly affected" [RS/030 - INQ000260612].

104. On 5 March 2020, I attended a meeting with the PM and the Governor of the BoE. Later that day my office produced an internal readout [RS/031 – INQ000658379]. This was in the context of the run up to the Budget that I was due to present on 11 March 2020. In preparation for that meeting, I met with HM Treasury officials on 4 March 2020 where I was given a SAGE/scientific update. As recorded in a readout of the 'pre' meeting on 4 March 2020, I asked officials to *“check with SAGE that 14 days is 100% their and [Public Health England’s] central advice; this will inform SSP and other decisions around how long to provide [the Government] support for”* [RS/032 - INQ000232147]. During the preparation for this meeting, I had also made it clear that I was aware of the risk of abuse of various options for support that were being considered but that I was of the view *“that inaction is the greater risk”*.
105. On 8 March 2020 I had a call with the CMO and CSA. As recorded in the readout of the call, they set out the RWCS and the Central Scenario. On timing, it was said that *“without intervention, the peak will hit 8-10 weeks from today”* and that it was reasonable to expect there would be a second peak. If there was, *“the second peak would be expected to hit in the autumn, when normal respiratory illness season begins. This would likely hit either end of October/November/December”*. In relation to NPIs, it was said the *“first step will be to recommend all with symptoms to self-isolate – this will need to be announced soonest but best done in a week, when we are out of normal respiratory illness season. Whole household and isolation of elderly/with symptoms can wait”* [RS/003 - INQ000088047].
106. On 9 March 2020 I attended a COBR meeting. As set out in the Cabinet Secretariat briefing, the purpose of the meeting was for Ministers to consider three options for NPIs that DHSC had recommended in light of SAGE consideration of interventions for the delay phase. The briefing recorded that SAGE had considered options against the objectives:
- (a) *“contain the outbreak so that it does not become an epidemic (this is now unlikely to become achievable);*
 - (b) *delaying the peak so it occurs when the NHS in each nation is out of Winter pressures;*
 - (c) *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;*

(d) *reducing the total number of deaths by limiting the number of cases in vulnerable groups*".

107. The specific options presented to Ministers were any one or a combination of:

(a) *"Home isolation of symptomatic cases;*

(b) *Whole household isolation; and*

(c) *Social distancing of the elderly and vulnerable"* [RS/033 – INQ000232114].

108. Three other interventions were considered by SAGE but were either *"Not recommended"* (*"Stopping large events"*) or recommended as *"Maybe appropriate at a later stage"* (*"Closing schools" and "Social distancing for all"*) [RS/033 - INQ000232114].

109. At the meeting the CMO said that the UK was *"quite near the bottom of the upward scale of the peak"* and that *"the timing of the implementation of the measures was crucial. These measures would possibly be in place for months and public compliance or despondence was heavily dependent on timing"*. He went on to say that the *"measures outlined were about changing the shape of the virus curve, as opposed to suppressing it"*. The CSA said *"that there were two aims of intervention measures: reducing the peak of the virus to enable the NHS to cope with demand and to reduce the mortality rate"* [RS/034 - INQ000056219].

110. The relevant action point from the meeting was for *"SAGE to set out thresholds for triggering each of the three interventions"*. Although I do not recall exactly what I said at the meeting, my speaking note records as *"Key messages"* that when considering the interventions *"we should be led by the clinical advice"* and that I should support *"the implementation of home and whole household isolation measures by the end of this week as recommended by SAGE as the most effective response"*. I was also advised to *"agree that we should continue to develop the option of social distancing"*. It further records as a speaking point to *"support the recommendation of the CMO and CSA, including on timing for implementation"*. The speaking note provides that *"The CMO and CSA recommend implementing (in order): self-isolation of symptomatic cases for 7 days, isolation of whole households for 14 days, isolation/social distancing of the elderly and those with pre-existing conditions"*, and that *"implementing all three measures at the right time in the outbreak has the greatest impact: 50-70% reduction in peak hospital bed demand; 35-50% reduction in deaths"* [RS/035 - INQ000232067].

111. On a SAGE call on 10 March 2020, there was some discussion about whether Ministers had fully digested how severe the situation was. The *“CMO expressed confidence on this”* [RS/036 - INQ000232167].
112. On 11 March 2020 I attended a Cabinet meeting, at which the SoS for DHSC gave an update and reported, in relation to testing that *“unless individuals were symptomatic there was no point in being tested. The key symptoms were a dry cough and a temperature. Without these symptoms, it was highly unlikely that someone was suffering from coronavirus”*. In discussion at the meeting the point was made that the *“consensus was that transmissibility was low before individuals became symptomatic”* [RS/037 - INQ000056132].
113. At the same meeting I outlined the measures that would be contained in the Budget that I was to present later that day. The Budget was written in approximately three weeks, and included significant Covid-19 response measures to support public services, people and businesses:
- (a) £5 billion response fund to ensure the NHS and other public services had the resources they needed with the size of the fund to be reviewed as the situation developed;
 - (b) Funding for the National Institute of Health Research to enable rapid research into the disease;
 - (c) A broadening of the eligibility criteria for SSP (in addition to it being payable from the first day of sickness absence rather than the fourth day);
 - (d) Support for those not eligible for SSP (for example, through Employment and Support Allowance);
 - (e) £500 million Hardship Fund to LAs to support vulnerable households;
 - (f) SSP Rebate Scheme for small and medium sized businesses to compensate them for SSP costs;
 - (g) 100% Business Rates Relief;
 - (h) Coronavirus Business Interruption Loan Scheme; and
 - (i) Time to Pay (an HMRC payment flexibility scheme for taxpayers).

114. In sum the measures were scored to cost around £12 billion [RS/038 – INQ000088015].
115. I attended a COBR meeting on 12 March 2020. Whilst I am not recorded as attending and I do not specifically recall this meeting, I am advised that I did attend and that the minutes are erroneous [RS/039 - INQ000232140]. HM Treasury officials prepared a briefing for this meeting which set out the case for supporting 7-day isolation over 14-day isolation on the basis that, according to DHSC/SAGE analysis, 7-day isolation would offer very little difference in terms of health outcomes and would almost halve the impact to GDP and number of workdays lost [RS/040 - INQ000184563]. The Commonly Recognised Information Picture (“CRIP”) for this meeting outlines SAGE advice for 7-day individual isolation to be implemented “no later than 20 March” and for further interventions to follow “no later than circa 27 March – 10 April” [RS/041 - INQ000056209].
116. At the COBR meeting, the CSA explained that the objective was “not to completely suppress the spread of the disease [as] not only was this not possible, but it would likely lead to a larger second peak later in the year when the NHS may be under increased pressure. Instead, Government interventions should seek to change the shape of the epicurve, ideally delaying the peak until summer when transmission may be lower”. The timing of interventions was discussed, and it was noted that there was a “risk of starting too early in the epicurve, with people’s resilience subsequently flagging during the peak weeks when it is most important for them to isolate” [RS/042 - INQ000056221].
117. Later the same day, the PM announced that those with coronavirus symptoms should self-isolate for 7 days. At this press conference it was also signalled that regarding school closures, the “scientific advice is that this could do more harm than good at this time” and that the scientific advice was that banning of mass gatherings would “have little effect on the spread [of the virus]”, but that it was likely household isolation would need to be introduced soon [RS/043 - INQ000086751] [RS/044 - INQ000260613].
118. On 13 March 2020, I understand SAGE concluded that “the science suggests that household isolation and social distancing of the elderly and vulnerable should be implemented soon” and that “SAGE is considering further social distancing interventions – that may best be applied intermittently, nationally or regionally, and potentially more than once – to reduce demand below NHS capacity to respond. The modelling sub-group is discussing potential interventions on Monday 16th [March 2020], for review by SAGE on Tuesday 17th [March 2020]” [RS/045 - INQ000109142].

119. On 14 March 2020 HM Treasury officials received from officials at No. 10 a readout of a meeting between the PM, the SoS for DHSC, CDL, CSO and CSA, in which it was recorded that *“the right time to implement measures in our plan might be sooner than previously envisaged given the latest analysis”* and that the *“PM would communicate to Cabinet that coronavirus was the most pressing issue for the country”* [RS/046 - INQ000061676]. This aligns with my recollection that during this time DHSC and medical/scientific advisors were leading the response and provision of advice to the PM.
120. On 16 March 2020 I attended a COBR meeting. As set out in the CRIP briefing, the purpose was to agree to announce a further package of measures that day. The advice in the briefing was that *“these measures implement the next stages of the plan to delay and flatten the peak and protect those at greater risk of serious illness. These come with a number of significant economic and social impacts, but clinical advice is that they should be rolled out now”* [RS/047 - INQ000056184].
121. At a SAGE meeting the same day, it was concluded that *“on the basis of accumulating data, including on NHS critical care capacity, the advice from SAGE has changed regarding the speed of implementation of additional interventions”* [RS/048 - INQ000075664]. My recollection is that around this same time, new modelling had emerged which suggested the appropriate course of action was a series of measures like those in the COBR meeting papers. The research paper published on the 16 March 2020 from Imperial notes that *“this conclusion has only been reached in the last few days”* [RS/049 - INQ000228166] SAGE also stated that they would review at their next meeting whether *“school closures may also be required to prevent NHS capacity being exceeded”*.
122. The measures proposed in the CRIP briefing paper were consistent with previous advice:
- “1. Full household stay at home: when any member of a household is symptomatic, the whole household should stay at home for 14 days.*
 - 2. Social distancing: advice to the whole population – to reduce social contact where they can through ‘soft’ social distancing – e.g. encouraging home working, advising against social mixing, not going into crowded areas when unnecessary and advice to specific groups – for those in a more vulnerable category the advice is to follow this social distancing guidance more rigorously:*
 - i. 70+ (regardless of medical conditions);*

ii. *under 70 with defined long term medical conditions;*

iii. *pregnant women.*

3. *Shielding the most vulnerable: within the next week we will move to shield the most vulnerable (c. 1.4 million individuals). A full support package will be announced for England. Individuals in this category will be contacted by their GP practice.*

4. *Large gatherings: in light of the above measures, advice that large gatherings should not go ahead, and that public and emergency service cover would not be provided to any large events. This would be advice rather than a ban”.*

123. Although I do not recall what I said at the COBR meeting, my speaking note records an intention to support the measures and provides that *“this is a health crisis – first and foremost, we need to think about protecting health and supporting health services, and we clearly need to be guided by the medical advice”* [RS/050 - INQ000088105]. During the discussion at the meeting, I raised the potential economic impact of the measures and the PM *“responded by noting that the current priority was saving lives by flattening the curve but work would take place to consider economic impacts”* [RS/051 - INQ000056210]. It was agreed at the meeting that the package of measures should be implemented and announced. The PM announced these measures on 16 March including saying that people should *“avoid pubs, clubs, theatres and other such social venues”* [RS/052 - INQ000088031].

124. On 18 March 2020 I attended a COBR meeting. The CRIP briefing said that at the meeting *“SAGE will provide a verbal update on the epidemiological and behavioural impacts of closing schools. At today’s SAGE meeting (18/03) SAGE will review advice on the effectiveness of school closures in reducing and delaying the peak of the epidemic seen alongside existing interventions... SAGE will also discuss whether there are any further behavioural science insights on how to enhance public compliance with school closures”* [RS/053 - INQ000056187].

125. At the meeting the CSA said *“without further interventions they expected London was approximately 2-3 weeks away from Intensive Care Units being full with COVID-19 patients”* [RS/054 - INQ000056211]. London was considered to be 1-2 weeks ahead of the rest of the country, but SAGE had concluded that *“the social distancing measures have only recently been implemented. Their effect depends on compliance levels, for which there are currently insufficient data.”*

126. At the COBR meeting on 18 March 2020, the CSA highlighted *“that school closures could potentially reduce COVID-19 cases by 10-15 per cent – and [reduce infection rate] below the threshold for breaching ICU capacity”*. The SAGE meeting also concluded that *“the measures already announced should have a significant effect, provided compliance rates are good and in line with the assumptions”* [RS/055 - INQ000075778]. The COBR meeting agreed the proposal to close schools on 20 March 2020 for Easter.
127. On 19 March 2020, at a morning meeting with the PM, the CMO indicated that, in his view at that time, the measures then in place should be sufficient to reduce the level of transmission. The readout of this meeting provides that *“the CMO was strong on the fact that measures already introduced + school closures should – with 75%+ levels of compliance – reduce the levels of transmission so that R falls below 1”* [RS/056 - INQ000232070].
128. Following a 0915 meeting with the PM on 20 March 2020, DHSC *“working with CDL, CMO, CSA and all departments”* were tasked *“to articulate a three-month battle plan to tackle the virus, to be scrutinised by the Health Ministerial Implementation Group ahead of being put to the PM strategy meeting Sunday 22 March”* [RS/057 - INQ000056065]. This aligns with my recollection that during this time DHSC, and medical/scientific advisors were leading the response and provision of advice to the PM.
129. On 20 March 2020 at the PM's 0915 meeting, the Cabinet Secretariat was directed *“to prepare to convene COBR should the [PM's] decision be to ask any business to close down, and to consider whether to invite the [DAs] and/or the Mayor of London, depending on the geographical extent”* [RS/057 - INQ000056065].
130. My recollection is that there were concerns that compliance with the social distancing guidance to avoid social mixing was not sufficient and therefore consideration should be given to going further to close relevant venues.
131. Also on 20 March 2020, at a COBR meeting attended by the Financial Secretary to the Treasury (“FST”), it was agreed to implement further social distancing measures by requiring leisure businesses and cultural facilities to close, based on the epidemiological view of what further measures would have the greatest impact. This included closing pubs and restaurants for the on-site consumption of food (takeaway services would still be permitted). The paper provided to COBR noted the risks to employment posed by the introduction of these restrictions, especially to low-paid workers in the hospitality sector and recommended that measures should be accompanied by a package of economic

support [RS/058 - INQ000106263]. I did not attend this meeting as I was working at pace on the furlough scheme which was to be announced the same day.

132. On 20 March 2020, the PM announced these further restrictions [RS/059 - INQ000088033]. When asked what had changed since the previous advice, the PM explained that the Government was now “enforcing” the existing advice that had been set out previously. He noted that whilst there had been big reductions in people mixing, it had become “clear” that to drive compliance to 75% as was required by the science, the Government now needed to “make clear” it would enforce the measures [RS/044 - INQ000260613].
133. The SAGE meeting on 23 March 2020 noted that the “UK case accumulation to date suggests a higher reproduction number than previously anticipated” and that “social distancing behaviours have been adopted by many but there is uncertainty whether they are being observed at the level required to bring the epidemic within NHS capacity” [RS/061 - INQ000052717].
134. Later that day on 23 March 2020, I attended a COBR meeting. I set out that “closing non-essential retail and other premises would have very significant GDP, employment, and fiscal effects, including a significantly higher use of the furloughed worker scheme announced by [me the previous] Friday. There were c. 2 million non-food retail employees in the UK” [RS/062 - INQ000088104].
135. As recorded in the minutes of the COBR meeting, the PM opened the meeting by saying that “the level of social distancing needed to increase and that further action needed to be taken as it did not seem like there were high levels of compliance”. The Cabinet Secretariat, , explained that the “recommendations for further additional measures were to ensure spread did not continue”. The measures under consideration were:
- (a) “to tell all citizens to ‘stay at home’ except for the following four reasons: shopping for basic necessities no more than once a day, one form of exercise per day (run, walk, cycle – alone or with your household), medical needs, or to provide car or help to a vulnerable person, and travelling to or from work, where this cannot be done from home”;
 - (b) “for the government to request the closure of all non-essential retail, including clothing and electronic stores. Also other premises including libraries, communal places within parks (playgrounds) and places of worship”;

- (c) *“the ban of all gatherings of more than two people in public”*; and
- (d) *“the ban of all social events, including weddings, baptisms and other ceremonies but excluding funerals”*.

136. I do not precisely recall what I specifically said at this meeting but as recorded in the minutes *“the recommendations were strongly supported and the sooner the better for their implementation”*. In summing up on this the PM said that *“the measures were not to stop all work, there was work in government and other offices that must be maintained. That there was a balance that must be struck. There would be huge economic impact if all work was halted”* [RS/063 - INQ000056213].

137. On 23 March 2020, the PM announced the first national lockdown.

Exercise Nimbus

138. The Inquiry has asked if I or junior Ministers within HM Treasury attended a ministerial table-top exercise on 12 February 2020. I understand that this meeting was attended by senior officials within HM Treasury on my behalf [RS/064 – INQ000656280].

Personal understanding of the Pandemic

139. Intervention development during the Pandemic took place within a number of structures and as Chancellor, I ultimately had the responsibility of ensuring that the economic and fiscal impacts of the policies under consideration were explained and policy within HM Treasury’s remit was sensibly created and executed.

140. After the emergence of Covid-19, HM Treasury monitored the disease and started work on its potential economic implications in late January 2020.

141. As cases began to increase in late February and early March, the department’s primary focus was on the upcoming Budget scheduled for 11 March 2020. 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 (for example, DHSC, SAGE and the CMO) on the likely path and duration of the virus and government health response to inform the introduction of economic support measures, which at this point were being tailored to the immediate term.

142. In the weeks following the Budget, the scale of the potential economic and social impacts of Covid-19 became increasingly clear. Policy thinking developed rapidly from looking

at NPIs to regional lockdowns. On 16 March 2020, Prime Minister recommended avoiding "*all non-essential contact and travel*", and the following day HM Treasury received a commission from CO to look at impact measures for London including a full lockdown [RS/065 – INQ000658384]. Work continued on developing various support packages and monitoring the international measures that were being taken [RS/066 – INQ000658387]. The PM announced a full national lockdown that began on 23 March 2020. Given the significant disruption these measures would cause to businesses and individuals, it was evident that further economic support would be required.

143. 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 [RS/067 – 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.
144. 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 [RS/068 – INQ000609303]. The scope of this assistance was also shaped by what was operationally deliverable at speed. As the virus and expert advice on the path of 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.

Reflections on initial response

145. 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 in the initial stages incredibly difficult.
146. 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 it 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. Designing support schemes was therefore particularly challenging 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.

147. During a pandemic, it is clear that effective economic interventions need to be highly calibrated to the specific and detailed health restrictions in place, however for the reasons outlined above, including specifically the challenges associated with predicting the nature of the Pandemic in question in advance, this is incredibly difficult to do in real time.
148. Given the novelty of the Pandemic and the associated support schemes, access to data was also clearly critical. HM Treasury needed granular, real-time economic data to understand economic activities and analyse the impacts of different policy options. HM Treasury also needed detailed and robust administrative data on citizens and businesses to enable the government to operationalise support schemes in a targeted way and to minimise the scope for fraud and error. The limited quality and availability of good data in the early stages of our response therefore made it more difficult to target support towards individuals and businesses as effectively as would have been desirable. It is also worth noting that collaboration between HM Treasury and other departments was stepped up in an unprecedented way at early stages, for example the Government was able to take advantage of “cells” between HM Treasury, HMRC and DWP to bring policy together with delivery and operationalisation at pace.
149. Despite the uncertainties outlined above with regards to mapping the path of the virus and therefore the optimal response to its possible economic effects, I nonetheless

introduced an unprecedented package of support measures in March 2020, as advice was still being fed into decision-making structures about the need for financial intervention. My department worked tirelessly to turn around a £5 billion funding package in just three weeks which consisted of an array of targeted measures, as described above.

Part F: Macroeconomic Policy

150. The response to a more conventional economic crisis is to try and stimulate economic activity. The Pandemic was unique in that it entailed the intentional suppression of economic activity by the Government, and governments globally, on an unprecedented scale to limit interpersonal contact and curb the spread of the virus. This suppression of economic activity via the imposition of NPIs was necessary to protect the UK's long-term public health and economic recovery but resulted in the temporary shutting down of large sections of the economy. The Government was required to implement economic measures and interventions to support businesses, households and individuals to remain viable until NPIs could be safely lifted, and normal economic activity could resume. The unprecedented levels of fiscal support provided by the Government to individuals and businesses to protect them from the economic impacts of the Pandemic necessarily entailed significant increases in public borrowing and debt. The economic shock caused by the Pandemic was expected to be temporary. This provided the case for significant Government intervention in the short to medium term.
151. The other unique factor about this economic shock was its unprecedented nature and therefore extreme uncertainty about how the economy, individuals and businesses would react and adjust to various NPIs and economic interventions. There was little modern historical precedent to draw on which made policy making extremely uncertain.
152. Furthermore, unlike a typical recession which may unfold slowly at the speed at which the Pandemic crisis hit in the early stages and then at consequent lockdowns was unusual.
153. The economic shock caused by the Pandemic and the measures taken out of necessity in response was severe. The reduced demand for goods and services in the economy and the inability of businesses to supply them translated into a dramatic fall in GDP. As a result, there was a reduction in household and business incomes and consumer

spending, and consequently tax revenues. In parallel, there was greater demand on Government spending and action to address the Pandemic.

Scarring

154. The risk of scarring was an abiding concern throughout the Pandemic. Economic scarring refers to the tendency for the productive capacity of an economy to be persistently lower following a recession. Scarring can occur through reductions in the supply of labour, capital stock, and total factor productivity, which measures how efficiently and intensively resources in the economy are working. This would mean that people, families and businesses would be suffering the economic consequences of the Pandemic (lower wages, more unemployment, higher taxes, less spending on public services) for years to come.
155. A HM Treasury slide pack dated 15 April 2020, titled "*Economic Scarring from Covid-19*", set out that "*the extent and nature of economic scarring will significantly influence the shape of the economic recovery*", and "*the policy focus should be to avoid significant scarring effects by shielding the economy as much as possible during the downturn*". This slide deck further noted that the economic disruption caused by the Pandemic had features which elevated scarring risks, including: "*uncertainty*"; "*speed and scale*" of the economic shock causing "*widespread business failures*" and "*risk of persistent unemployment*"; and "*global disruption including weak demand and supply chain*" [RS/069 - INQ000184611].
156. A HM Treasury note dated 2020 April 2020, titled "*UK economic activity collapse*", stated that the "*risks of widespread business failure, labour market scarring and permanently lower output will be exacerbated the longer active measures to suppress business activity continue*". This advice also noted that "*while government schemes are working to prevent scarring, some is inevitable*", and "*a rise in the average length of time people spend unemployed would be one indicator of emerging structural damage*" to the economy [RS/070 - INQ000184621].
157. The Office for Budget Responsibility's ("**OBR**") Fiscal Sustainability Report, published in July 2020, presented downside, central and upside scenarios in which potential output in the medium term was reduced by 6%, 3% and 0% respectively, as a result of economic scarring caused by the Pandemic [RS/071 – INQ000119294].

The Government's objectives

158. The Government's core objectives during the Pandemic were to prevent the spread of Covid-19 and to protect the economy. All economic interventions throughout the Pandemic were designed and implemented within these core objectives and in support of public health efforts, including the Government's strategy on NPIs. That strategy was ultimately decided by the PM, on advice from scientific and medical experts.
159. Throughout the Pandemic, HM Treasury maintained a range of economic objectives. HM Treasury's aims of maintaining sustainable finances, macro-economic stability, and increasing employment, productivity and growth remained consistent, as before the Pandemic. In addition, HM Treasury focused on the following objectives to respond to the unique challenges the Pandemic presented:

- (a) **Prevent unemployment and support living standards:** A major concern with HM Treasury and a key driver for development of the economic support schemes during the onset of the Pandemic was that the NPIs would lead to high levels of unemployment. Where businesses were unable to operate due to the NPIs this could lead to workers being laid off, resulting in mass unemployment. This happened in the US, where unemployment levels reached 14.7% in April 2020 [RS/072 – INQ000655687].

Unemployment would lead to hardship for individuals, families and communities and could cause lasting economic and social damage. The concern within HM Treasury was that the NPIs would strain household incomes and limit people's ability to support themselves or their families. Unemployment could in turn lead to economic scarring, which would impact on economic recovery and result in long term-term damage to the economy. The Pandemic economic support packages, including CJRS and SEISS, were designed in order to mitigate these risks.

The economic shock caused by the Pandemic was expected to be temporary. This provided a clear economic case for Government intervention to ensure workers remained connected to their employers and to safeguard the viability of those jobs in the medium term. By maintaining the links between employers and employees, the CJRS allowed economic activity to resume more swiftly and efficiently once NPIs were eased than would have been possible if employees had been made redundant. 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 [RS/073 – INQ000609893]. These schemes also playing a vital role in supporting household incomes and the wider economy, which mitigated against the risk of economic scarring. Other support schemes, including Kickstart Scheme and the expanded apprenticeships in the Plan for Jobs, were targeted at young people to prevent long-term unemployment.

- (b) **Preventing viable businesses from failing:** The Pandemic caused significant disruption to businesses. Following the imposition of NPIs, businesses faced a reduction in demand, workforce disruption and many were unable to operate, particularly in sectors requiring interpersonal contact and in-person settings such as hospitality. Businesses were also subject to supply chain disruptions which impacted on cashflow and lead to increased costs. Many businesses had insufficient cash reserves to survive this disruption. The BBB evaluation of the business loan schemes reported that 61% of surveyed business were at risk of running out of cash during the onset of the Pandemic [RS/074 – INQ000096931].

In light of these issues, a major concern within HM Treasury during the Pandemic was preventing viable businesses from failing, which would damage the economy, destroy productive capital and drive-up unemployment. To mitigate these impacts and prevent otherwise healthy businesses from failing, it was necessary for the Government to intervene to provide support which helped to reduce costs and bridge cashflow problems for businesses, for example by way of providing grants and establishing various loans schemes. Targeted support was also directed at sectors who were particularly vulnerable to economic shock from the Pandemic, for example business rates relief and grant schemes targeted for the hospitality and retail sectors, and the cultural recovery fund for the arts and heritage sectors.

- (c) **Protecting the most vulnerable:** HM Treasury undertook detailed sectoral analysis of the impacts of the Pandemic. It acknowledged from an early stage that less well-off households were “*particularly vulnerable to the economic shock*” [RS/075 - INQ000088052] and that under 25 year olds, women, people from ethnic minorities and people with disabilities would all be more greatly impacted by restrictions [RS/076 - INQ000088053]. HM Treasury analysis emphasised that sectors such as hospitality, leisure and tourism were particularly impacted by NPIs, and workers within these sectors included a disproportionate number of economically vulnerable people and people with

protected characteristics [RS/077 - INQ000232089]. HM Treasury also drew on external analysis, for example from the IFS which found in July 2020 that low earners were seven times as likely, people under the age of 25 were about 2.5 times as likely, and women were about one third more likely to work in a sector closed by restrictions [RS/078 – INQ000610856].

The avoidance of unfair impacts and implementation of targeted support where it was most needed, to supplement economy-wide schemes, was at the forefront of economic policy considerations during the Pandemic. For example, various measures were targeted to specifically support the hospitality sector, including demand side stimuluses such as the VAT rate cut and EOTHO scheme, alongside broader business support measures including business rates relief, tax deferrals, and labour market support (CJRS and Job Retention Bonus). CJRS disproportionately supported sectors which were most impacted by the NPIs and lower earners within those sectors, thereby benefitting the lowest earning households as a proportion of their pre-Covid income. HM Treasury analysis showed that 36% of employees earning £5,000 - £10,000 were furloughed compared to 10% earning over £100,000 [RS/078 – INQ000610856]. Temporary uplifts to benefits provided wider support to those on low incomes. Changes in the support schemes over time also avoided unfair impacts, for example the CJRS was extended to new entrants through a change in the cut-off date in October 2020, and SEISS eligibility was recalibrated to cover new parents who may have only worked part of the year.

- (d) **Ensuring economic activity was consistent with NPIs and enabling rapid recovery once restrictions were lifted:** This objective was necessary to mitigate the risk of economic scarring. It was important that economic support schemes were curtailed at the right time so as not to undermine economic recovery. Prolonging the support schemes longer than necessary risked delaying the natural adjustment and evolution of the economy. For example, the Plan for Jobs 2020, which I announced on 8 July 2020, addressed the concerns about the potential freezing effect on the labour market arising from the CJRS. Phasing out the support as NPIs were eased aimed to strike the right balance between sustaining the economy whilst restrictions were in place and allowing market forces to drive economic recovery.
- (e) **Maintaining value for money and fiscal discipline:** Throughout the Pandemic HM Treasury was aware of the fiscal costs for the economic support

measures which were introduced. Fiscal discipline remained vital in maintaining a stable and sustainable economy. The support measures which were introduced were therefore designed to be temporary, targeted, and deployed only for as long as needed commensurate with the NPIs in operation at a given time. This approach balanced the need to provide support to individuals and businesses when needed, support economic recovery and safeguard long-term fiscal sustainability. As part of this fiscal discipline, HM Treasury maintained a strong emphasis on value for money considerations and safeguarding against fraud or misuse in policy development.

Balancing conflicting objectives

160. Ministers were required to balance competing objectives and make trade-offs in the decisions which were made throughout the Pandemic. These challenges are inherent to the task of decision-making, and applicable for economic policy decisions as for any other matters of Government policy.
161. For example, maintaining fiscal discipline and value for money needed to be balanced against the imperative to establish and implement significant economy-wide economic support schemes urgently. This could result in support measures being less targeted or more susceptible to fraud risk. Increasing fraud checks would safeguard fiscal discipline but would lead to a slower rollout of the economic support schemes. A slower rollout would risk the economic impacts which the economic support measures sought to mitigate (for example, businesses failing, unemployment etc.).
162. Ensuring that interventions were carefully targeted would ensure that they were most economically efficient, presented the best value for money, and maintained fiscal discipline. However, developing targeted interventions would impact on the speed by which those measures could be implemented. Data was also not necessarily available to target interventions in the way people might expect. Measures were designed and decisions were made on the basis of information and data then available, which was often imperfect given the unique and unprecedented nature of the Covid-19 virus and the economic shock caused by the Pandemic response. Decisions throughout the Pandemic were based on sound rationale and with the best available data and information at the time.

163. All the economic measures and support schemes which were introduced throughout the Pandemic were designed and implemented within the Government's broader strategy on NPIs, which was based on advice from health experts ultimately decided by the PM.

Evolution of the economic and fiscal response over the Pandemic

164. The economic and fiscal response during the Pandemic reflected the Government's NPIs strategy. This strategy was based on the latest science and public health advice and responsive to the evolving nature and spread of the virus. At the outset, it was anticipated that the Pandemic would be short-lived, and the approach emphasised that any measures should be temporary and reversible to maintain fiscal sustainability. Following the implementation of NPIs and the first national lockdown in March 2020 a more expansive approach was taken to ensure that businesses and individuals received the necessary support. Whilst the economic support schemes were initially designed with the expectation that they would be short lived, the unpredictability of the trajectory of the virus meant that we had to adapt the measures to reflect the changing circumstances and uncertain duration of NPIs.

165. As the NPIs were eased over the spring of 2020, the economic support measures further evolved. The Government's approach at the time was to balance the structured reopening of the economy with the need to maintain appropriate protections to public health. The economic support was adjusted to reflect this approach, ensuring that support remained in place for individuals and businesses where needed, with adjustments implemented to encourage the steady return to economic activity.

166. During the summer of 2020, once restrictions had been eased, efforts were made to drive economic activity and restore consumer confidence, within the safe parameters established, to support economic recovery and minimise scarring. During this period economic interventions shifted from being broader emergency measures, which were deployed during the first national lockdown, towards more targeted support. This approach reflected the Government's NPI strategy which developed from of localised restrictions over the summer towards the tiering system in the autumn.

167. As the virus continued to spread throughout the autumn, the decision was made to enter a second national lockdown. Upon entering another lockdown, we reverted from providing tailored support to a broader set of measures in order to mitigate the economic harm to businesses and individuals. Broader support measures were extended during

the third lockdown from January 2021 to ensure that businesses and individuals were supported until the economy reopened.

168. Throughout February 2021 I was involved in discussions around the development of the roadmap for exiting restrictions (the “**Roadmap**”). The Roadmap was vital in providing certainty for businesses and thereby re-establishing consumer confidence. The timings set out in the Roadmap also informed the extensions to the economic support schemes announced in the Spring Budget. As the country progressed along the Roadmap and exited from lockdown, we carefully calibrated the phased withdrawal of the major economic support measures.
169. At the end of 2021 there was increasing concern amongst the scientific and medical community about the new Omicron variant of Covid-19. In response to this, and on advice from SAGE, the Government introduced what was referred to as the ‘Plan B’ set of NPIs, which included legally mandating face coverings in certain settings and asking people to work from home.
170. Despite calls from SAGE and the Government’s scientific advisers to implement more severe restrictions to curb the spread of the Omicron variant, it was ultimately decided that no further restrictions would be necessary.
171. Throughout the Pandemic, the financial support for businesses and individuals reflected the NPIs which were in operation. The primary purpose of the economic support schemes, such as the CJRS and SEISS, was to provide temporary financial support whilst normal economic activity was suppressed or prohibited due to the NPIs. Since the Government did not respond to the increased prevalence of the Omicron variant by implementing a more severe suite of NPIs, such as a lockdown, it was not necessary to reintroduce widespread financial support schemes, including the CJRS and SEISS.

Fraud prevention and mitigations

172. Fraud prevention measures and mitigations were considered throughout the design, implementation and assessment of the Pandemic economic support measures. There was a clear trade-off between the speed by which economic support could be developed, implemented and delivered, and the mitigations that could be incorporated into the schemes from the outset. Whilst enhancing fraud mitigations would safeguard fiscal discipline, it would lead to slower implementation and provision of economic support. Delaying the delivery of economic support to people and businesses would risk the impacts which the support measures sought to mitigate, such as businesses failing,

unemployment and hardship for individuals and families. These risks, as well as the trade-off between speed of implementing and delivering necessary support with greater risk of fraud and error, were known and accepted at the outset.

173. Further anti-fraud measures and mitigations were introduced over time across the schemes, which translated to a reduction in fraud rates as the Pandemic progressed. For example, 90% of the losses through fraud or error from the BGSs occurred in respect of the Cohort One schemes, which were delivered at pace during the onset of the Pandemic and for the first national lockdown. Losses in respect of the subsequent cohorts of BGSs have been assessed as being significantly lower than Cohort One [RS/079 – INQ000585832].
174. The total estimated rates of fraud and error for the various schemes are 5.2% for SEISS [RS/080 – INQ000583534], 5.1% for CJRS [RS/073 – INQ000609893], just under 5% for the BGSs [RS/081 – INQ000655729], and varying from 0.2% to 3.4% across the business loans schemes [RS/082 – INQ000659556]. The CJRS final evaluation published on 17 July 2023 stated that [RS/073 – INQ000609893]:

“The CJRS was an unprecedented support scheme. Therefore, there are limited examples to compare against. However, comparing the error and fraud estimates to HMRC’s performance as measured by the tax gap can provide some context, though this is not a perfect comparison. This is because the tax gap is estimated taking account of the downstream impacts of compliance [footnote 3: Downstream yield refers to tax receipts generated by activities undertaken by HMRC after non-compliance has occurred], whereas the COVID-19 schemes do not include those estimates. The latest published estimate for the tax gap, for the 2021 to 2022 tax year, was 4.8% of total theoretical tax liabilities of £739.3 billion, equivalent to £35.8 billion of losses. The rate of error and fraud in the CJRS is also similar to that of child and working tax credits, which has been around 5% in recent years.”

Coordinating the Government’s economic response

175. During the Pandemic, I was able to fulfil my role as Chancellor and contribute towards the coordination of the Government’s economic response with the Government’s overall strategy and objectives through my participation in various fora and structures. They are discussed below.

Cabinet meetings

176. I attended Cabinet meetings which were held on a regular basis to discuss high level strategy and make decisions. Ahead of Cabinet meetings, Ministers would receive briefing materials which had been prepared and collated by CO, often with input from other departments, including DHSC and HM Treasury, who would provide analysis relevant to the matters to be discussed at a given meeting. Discussions and decision-making in Cabinet meetings were not limited to the Pandemic response and covered all areas of Government policy.
177. Cabinet Ministers, including myself, would feed into discussions and advise on areas relevant to their departments. For example, at the Cabinet Meeting on 11 March 2020 I provided an update on the Spring Budget, including the modelling which showed the impact of Covid-19 on the UK economy and the support measures to be announced in response which would *“provide significant temporary support that would protect jobs and businesses”* and which *“would compare favourably to the responses of other nations”* [RS/037 - INQ000056132].
178. In addition to Cabinet Ministers, during the Pandemic these meetings were often attended by the CMO, the CSA and the UK Health Security Agency (“UKHSA”) to give updates on public health related matters.
179. Cabinet meetings served and supported the PM's decision-making process. It was, and is, the role of the PM to balance the range of objectives and priorities from across Government and make final decisions.

COBR, Covid(S) and Covid(O)

180. COBR meetings are convened to coordinate the cross-departmental Government response to a national emergency. COBR is effectively a Cabinet committee, and it is coordinated and run by the CO. The Government's initial strategic response to the Pandemic was decided upon and coordinated via COBR meetings. I attended COBR meetings initially as CST (i.e. until 13 February 2020) and thereafter as Chancellor. From late May 2020, the Covid(O) and Covid(S) Cabinet committees were established and largely took over the decision-making role of COBR. I sat on both committees, although other departmental Ministers, most often the CST, would attend Covid(O) meetings on my behalf.
181. The objective of Covid(S) meetings was a high-level consideration of the Government's Pandemic response and recovery strategy. These were typically attended by the PM, the Home Secretary, the CDL, SoSs for the Foreign, Commonwealth and Development

Office (“**FCDO**”), DHSC, BEIS and other Cabinet Ministers, as well as the CMO and CSA. Covid(O) meetings focused on the delivery and operational response to the Pandemic. They considered the implementation of key lines of operation including Smart Lockdowns, Supply and Capacity, Vaccines and Treatment, and a Covid-19 Resilient Economy. This committee was chaired by the CDL and Minister for the CO.

182. Decisions could be made at Covid(S) or Covid(O) or their work could feed into decisions made by the PM at full Cabinet meetings.
183. As with my participation in Cabinet meetings, each of these committees provided a forum through which I could contribute to discussions on the Government’s strategy for responding to the Pandemic, including the use of NPIs, and share information on the economic impacts of the Pandemic. By sitting on these committees, I, like other attendees, was also privy to briefing materials containing analysis and advice from across Government, which included medical and epidemiological information from SAGE, data on the public health impacts as well as economic analysis contributed by HM Treasury. I benefited also from receiving the advice of the Government’s science advisers during meetings on the latest epidemiological data and public health impacts of the Pandemic.

Bilateral Meetings

184. I attended weekly Bilats with the PM in order to discuss and make decisions on purely economic matters. This is a normal feature of the process of Government and of the working relationship between PM and Chancellor, so was not specific to the Pandemic.
185. During these meetings both the PM and I would be accompanied by officials from HM Treasury and No. 10 respectively. On occasion, the CMO and CSA also attended Bilats in order to provide a public health angle where our discussions concerned Pandemic-related matters.
186. Bilats were a forum in which I could raise any economic issues which fell within my remit as Chancellor. This obviously included the Government’s economic response to the Pandemic. For example, in a Bilat on 27 February 2020 the PM and I discussed the development and shape of the coronavirus support package to be announced in the March 2020 Budget, with discussions covering *“how the government can support viable businesses through any temporary period of stress”* [RS/083 – INQ000236580]. Bilats were not limited to the discussions concerning the Pandemic but would cover other matters of more general economic significance. For example, the Bilat on 22 May 2020

concerned the Summer Economic Update and covered the Government's broader economic plan and objectives for the next 18 months, covering jobs, infrastructure and planning reforms [RS/084 - INQ000232086] [RS/085 - INQ000232117].

187. Decisions could be made in this forum, due to the long-standing convention that the Budget and other fiscally/economically sensitive matters fall outside of the Cabinet collective decision making. Points raised and discussed would otherwise feed into the PM's decision-making process.
188. All fiscal interventions which were made during the Pandemic were approved by the PM. The PM ultimately held responsibility for making final decisions, including where there were trade-offs across government. The PM was uniquely placed at the very centre of government to hear the views of his Ministers across Government and have visibility of all the available information and competing arguments. The Bilats served as one means by which I was able to feed into and support the PM's decision-making process.

The Covid-19 Strategy Ministerial Implementation Group ("0915 Daily Meetings")

189. Between 17 March and 15 May 2020, the PM chaired the 0915 Daily Meetings each morning (typically at 9:15am) which I attended. These meetings were an opportunity for the PM and other attendees to receive a situational update on the Pandemic via the Covid-19 Dashboard. This was prepared and maintained by CO, with input from across Whitehall (including HM Treasury), and included the latest data on public health (for example, the figures for nationwide Covid-19 infections and fatalities), testing capacity and macro-economic impacts.
190. These meetings were attended Cabinet Ministers and Government officials, which often included the CSA, CMO and/or Deputy CMO ("DCMO"). They provided an opportunity for Ministers and/or officials to input and present on topics or workstreams within their remit. At the meeting on 15 April 2020, I provided an update on the economic and employment support measures then in place, including business loan schemes and CJRS, and noted that "*the UK's package of fiscal expansion, loan guarantees and tax deferrals were amongst the most expansive of the world's ten largest advanced economies*" [RS/086 – INQ000088708].
191. I do not recall these meetings being a forum for significant decision-making. Their chief purpose, as I recall was to provide the PM and other attendees with a snapshot of the latest data and figures concerning public health and the Government's Pandemic response.

Quad meetings

192. In early April 2020 the PM caught Covid-19 and was temporarily absent from his role. During the period of his absence through illness, a decision-making 'Quad' of Ministers was convened to make strategic decisions on the Government's management of, and response to, the Pandemic. The Quad was chaired by the FSS and also comprised of the CDL, SoS DHSC and myself, as Chancellor. Following the PM's recovery, the Quad continued to convene periodically with meetings chaired by the PM.
193. Quad meetings provided another forum for ministerial discussion during which I was able to feed economic and fiscal considerations into Government decision-making and ensure that the Government's economic response to the Pandemic was coordinated with the public health response, including the NPIs strategy.
194. Briefing materials circulated to attendees would often combine public health and economic analysis. For example, HM Treasury prepared a briefing for a Quad meeting on 14 May 2021, to consider whether the Roadmap should be altered in light of the Indian variant of Covid-19, which included the latest figures for Covid-19 infections, prevalence and hospital admissions, as well as the economic impacts associated with delaying or altering the Roadmap [RS/087 – INQ000113738]. I received a further briefing from HM Treasury officials ahead of a Quad meeting on 12 June 2021 to discuss the move to Step 4 of the Roadmap which also contained the latest data on hospitalisations and pressure on the NHS as well as details on the ongoing economic impact of NPIs and consideration on whether to adjust the economic support packages in light of any delay to the relaxation of NPIs [RS/088 - INQ000113743].

Trilateral meetings with the PM and the Governor of the Bank of England

195. Whilst the BoE is independent of the Government, it maintains a close working relationship with HM Treasury to establish monetary policy and ensure the financial stability of the UK. Accordingly, it is a normal feature of Government for the Chancellor to maintain a good working relationship with the Governor of the BoE. This was the case throughout my time as Chancellor, including during the Pandemic.
196. In order to ensure that the BoE is aligned with the Government, it is necessary to meet periodically to discuss key economic and fiscal policy announcements. These meetings were usually bilateral between the Governor of the BoE and me, but sometimes we were joined by the PM. For example, on 5 March 2020 I attended a meeting with the PM and the Governor of the BoE to discuss the proposed package of economic support

measures to be announced in the Spring Budget, which I was to present on 11 March 2020. The readout of this meeting records that the Governor of the BoE was supportive of the proposed measures and that the BoE and HM Treasury teams would work together [RS/089 – INQ000609208]. This was indicative of the close working relationship which was maintained throughout the Pandemic. As requested, I exhibit readouts of meetings I had with Governor of the BoE in a table at Annex B.

The Economic and Business Response Implementation Group

197. As mentioned at paragraph 47 above, I was asked to chair the E-BRIG by the PM. It was one of four MIGs established by the PM in March 2020 in response to the Pandemic. This forum was typically attended by SoSs for BEIS, DCMS, DFT, DIT, DWP, the Department for Environment, Food and Rural Affairs (“DEFRA”) and CDL, as well as by other senior officials from across Whitehall.
198. The E-BRIG met weekly, with the first meeting on 16 March 2020 and the last on 14 May 2020. In my introduction at the first meeting, I set out that the group “*would specifically not consider macro or fiscal policy, nor would it consider specific interventions at a corporate-level*” as these were separate matters for HM Treasury and BEIS together with relevant departments [RS/009 - INQ000055892].
199. The E-BRIG did not make major decisions on the response to the Pandemic. Rather, it was a streamlined committee tasked with translating Cabinet-level policy decisions into accessible guidance that could be relied upon by business and the public on how to engage in economic activity safely within the parameters established at the time. This is exemplified with the development of the Safer Workplaces guidance, undertaken by BEIS and upon consultation with businesses [RS/090 – INQ000659625]. The SoS for BEIS summarised the purpose of this workstream as being “*to establish a framework and targeted guidance to encourage the workforce to return to work where and when it was safe to do so*” [RS/010 - INQ000083334].
200. Under the auspices of the E-BRIG, Government departments were encouraged to engage with business, including through sector roundtables, to understand their concerns and reactions to the announcements of Government support, and then feed this back into the E-BRIG [RS/091 – INQ000659626]. The E-BRIG’s work encouraging cross departmental intelligence gathering through engagement with businesses across the economy was valuable in monitoring the implementation of economic interventions to support businesses. For example, at the EBRIG meeting on

16 April 2020 the SoS for BEIS reported on the take up, financials and speed of delivery in respect of the CBILS [RS/092 – INQ000659627]. This engagement with business informed the need to develop, adapt and/or implement future interventions.

Small Ministerial Group

201. I also chaired meetings of the SMG, which were attended by the SoSs for BEIS, DCMS, MHCLG and DFT. There were three meetings of the SMG on 20 May 2020, 29 May 2020 and 5 June 2020. The SMG did not make major decisions but was established to support economic recovery by facilitating the safe reopening of businesses in the context of the May Plan and considering suitable guidance and attendant regulatory easements that could be made to support closed sectors opening and operating safely. In this respect, its work was similar to that of the E-BRIG. Examples of the regulatory easements considered by the SMG included encouraging better use of outdoor space by pubs and restaurants and relaxing licensing requirements for street markets. The work of the SMG fed into advice that I provided to the PM on moving from 1 metre to 2 metre social distancing.

The Domestic (Economic Operations) Cabinet Committee

202. In September 2020 the PM asked me to chair the Domestic (Economic Operations) Cabinet Committee (“**D(EO)CC**”), which brought together the SoSs for BEIS, MHCLG, DCMS, DHSC and DFT. The purpose of this committee was to “*ensure the delivery of the Government’s economic priorities across the whole of the UK*”, and it was to meet only as and when there was an appropriate set of policy proposals to discuss [RS/093 - INQ000232099]. The first meeting of the D(EO)CC was on 14 September 2020 and the initial priority was to develop a strategy and agree a set of proposals to support the recovery of city centres. My speaking note for that meeting provided that the PM had commissioned BEIS and MHCLG to produce a paper setting out a strategy to support the recovery of cities which contained a policy suite of options, for discussion at the meeting [RS/093 - INQ000232099].

The Covid-19 Taskforce

203. As mentioned at paragraph 53, the Taskforce was established in early June 2020. It worked across Government to synthesise information, analysis and advice, including public health advice and recommendations from DHSC, SAGE and public health authorities, as well as from other Government departments, including HM Treasury. The Taskforce produced information packs and briefing materials which informed Cabinet-

level discussions and decisions. HM Treasury worked closely with the Taskforce throughout the Pandemic to share economic analysis and modelling. For example, HM Treasury collaborated with the Taskforce and other Government departments to develop the February 2021 Roadmap for exiting the third lockdown, including by providing input on the economic impacts of different NPIs to inform the sequencing of easing restrictions [RS/094 – INQ000609592] [RS/095 – INQ000610848].

204. Interaction with the Taskforce was led from within HM Treasury by the SPB Group. This was an effective means by which HM Treasury analysis and advice was integrated with public-health evidence and fed into the Government decision-making process to support the Government's objectives of preventing the spread of the virus and supporting the economy. This also assisted the coordination of the Government's economic response to the Pandemic with the broader Government strategy on NPIs and managing the spread of the virus.

Access to scientific and public health analysis

205. Throughout the Pandemic, all economic support measures were designed within the broader context of the public health crisis and to align with the Government's strategy on NPIs. That strategy was devised and developed in consultation with, and on the advice of, the Government's scientific advisers with access to the latest available data on the virulence and trajectory of the virus, and ultimately decided upon by the PM.
206. Through my participation in Cabinet meetings, committees, and other cross-government decision-making and discussion fora, as described above (for example, Cabinet meetings and committees, Bilats, Quads, 0915 Daily Meetings, EBRIG, SMG etc), I was able to ensure that economic policy was aligned with the Government's overall strategy for managing the spread of the virus. I was also apprised of developments and decisions with regards to NPIs. These meetings were also a forum by which I had access to the latest scientific and epidemiological data on the spread of the virus, as well as information on the public health impacts of the Pandemic.
207. During Cabinet-level meetings I benefitted from hearing the advice of the Government's science advisers, including the CMO and CSA. I also on occasion met with the CMO and/or CSA independently of Cabinet. For example, on 8 March 2020 I met with the CMO and CSA and they set out the RWCS and Central Scenario for Covid-19 infections, which provided that there could be up to 500,000 and 100,000-200,000 fatalities respectively. They advised that, without intervention, the peak of infections "*will hit 8-10*

weeks from today” and “8-10 weeks after that, we will be back to normal”, and that any second peak would follow in October, November or December [RS/003 - INQ000088047]. Advice that I received from the Government science advisers, both in this meeting and generally, informed the development of economic support measures. For example, the understanding from the science advice that the Pandemic would be temporary, and therefore a temporary suite of fiscal measures would be required to ensure businesses and individuals could survive that short-to-medium term disruption. HM Treasury officials would use the information shared by the Government’s science advisers, and from DHSC, to develop policy decisions and advice for me and other HM Treasury Ministers.

208. Before attending meetings, I would typically be provided with a briefing prepared by HM Treasury officials which set out advice, analysis and key points to raise during the meeting. These briefings were prepared using analysis and information which was shared by cross Government departments including DHSC, BEIS, and DCMS, and consolidated by CO, to provide multi-dimensional advice which considered the broad spectrum of issues and competing arguments. HM Treasury officials also used information shared at scientific committees, including SAGE, to inform my briefings for ministerial decision-making meetings, as well as for advice on policy development. For example, HM Treasury advice in February 2020 utilised SAGE’s RWCS and DHSC health data.

209. Sometimes I would be provided with documents and briefing materials which had been prepared and circulated by other departments, such as DHSC, which provided analysis or key points to consider for discussion in the meeting. Briefings or advice received in advance of meetings might also relate to specific policies that were being considered.

Integration of economic and public health analysis

210. From the onset of the Pandemic HM Treasury fed analysis into the Government decision-making process via the CO’s COBR and Cabinet committees structure. For example, on 5 March 2020 HM Treasury officials contributed to CO-coordinated work examining the societal and economic impacts of a potential package of NPIs [RS/096 - INQ000088046]. This analysis incorporated information and assumptions from SAGE.

211. As discussed at paragraph 203, the Taskforce was established in early June 2020 with responsibility for synthesising HM Treasury’s economic advice, public health advice and recommendations from DHSC, SAGE scientific advice and other advice from across

Government departments and agencies concerning societal impacts of the Pandemic. For example, the Taskforce paper I received ahead of a Covid(S) meeting I attended on 21 September 2020 concerning possible measures to be taken by the Government in response to rising numbers of infections. This paper included information and analysis on the trajectory of the virus and a suite of policy options underpinned by analysis of their economic and social impacts **[RS/097 - INQ000137293]**.

212. The Taskforce improved the process by which HM Treasury analysis was integrated with public health advice and contributed towards the overall Government strategy for managing and responding to the virus.

Epi-macro modelling

213. In addition to purely economic modelling, HM Treasury developed epi-macro modelling, which integrated epidemiological and economic data. This modelling capacity developed as more data became available. As the vaccine rollout progressed, the epi-macro model was used to examine how this rollout and NPI policies would affect the virus and the economy. The preliminary modelling results were shared on 23 December 2020 **[RS/098 - INQ000116404]**. This analysis was used to inform economic policy by modelling various scenarios for the easing of NPIs and changes to economic support measures.

SAGE advice

214. SAGE was a very important source of advice for the Government throughout the Pandemic and I am grateful to all members for their contributions and advice. As discussed above, advice from SAGE was thoroughly integrated into the Government decision-making process from the outset of the Pandemic. The co-chairs of SAGE, the CMO and CSA, participated in a variety of Cabinet-level ministerial meetings to advise Ministers and the PM on the strategy for preventing the spread of the virus. SAGE advice was also disseminated across Government departments via CO and the Taskforce, which informed HM Treasury analysis and the development of economic policy.
215. On 3 March 2020 the Private Secretary to No. 10 suggested that HM Treasury send an official to attend the SAGE meeting that day in an observer capacity **[RS/099 - INQ000232139]**. From the end of March 2020 onwards, with agreement of the CSA, a senior official from HM Treasury regularly attended SAGE meetings. Readouts of these meetings would be circulated amongst relevant officials within HM Treasury. I did not normally receive these readouts directly, however if my officials felt that anything should be drawn to my attention then they would do so.

216. The readouts and commentary provided to me by HM Treasury officials about SAGE meetings led me to understand that there was not necessarily a single, unanimous view within SAGE. Whilst the views of SAGE were presented to the public as a consensus, it became apparent that there were, in fact, a range of views and opinions expressed during SAGE meetings. This is unsurprising and understandable, given the complexity and novelty of the scientific challenges presented by the Pandemic. The extent of the range of divergent or differing views within SAGE was not always reflected in the minutes of meetings or appreciated more widely.
217. With the passage of time and with improvements in the availability and understanding of the evidence in relation to Covid-19, SAGE were able to hone their analysis. As I have said above, the Pandemic was a new and unprecedented event which undoubtedly presented huge scientific challenges. It is therefore understandable and inevitable that there were some errors in the scientific analysis and advice. I recall, in particular, errors concerning the rates of transmission of the virus and the numbers of nosocomial infections (i.e. infections contracted in hospital settings).
218. In June 2020 it became apparent that there had been errors in hospital admissions data. The readout from the SAGE meeting on 2 June 2020 notes that there was “*suspicion that hospital admissions data are including patients that are not ‘new’ Covid admissions, so [there] may be double counting*”, and that the number of people contracting Covid-19 whilst already in hospital accounted for “*between 1/3 and 1/2 of the total numbers*” [RS/100 - INQ000232150]. It was acknowledged in the SAGE meeting on 18 June 2020 that these errors “*mean that for some time they [had] likely been overestimating the rate of transmission*”, making it seem “*artificially high*” [RS/101 - INQ000232148]. This error appears to have informed the decision not to relax social distancing measures at an earlier stage. The CO Social Distancing Review summary document, dated 14 April 2020, recommended no changes to social distancing measures “*given SAGE’s advice on the rate of transmission*” [RS/102 - INQ000232115].
219. It appeared that earlier SAGE analysis and estimates on the rates of nosocomial transmission of the virus proved inaccurate. A briefing I received from HM Treasury officials ahead of a Covid(S) meeting on 19 June 2020 highlighted the risks of nosocomial transmission and noted that access to accurate nosocomial rates was important as it would clearly be preferable not to “*impose huge additional economic cost if the source of the problem is in hospitals and care homes*” [RS/103 - INQ000088067]. Earlier advice from SAGE, set out in a SPI-M consensus view paper dated 13 April 2020, which was shared with me ahead of a Quad meeting on 15 April 2020, confirmed that

evidence suggested there were quite different levels of transmission between the community, hospitals and care settings. This paper referred to a nosocomial infection accounting for between 10% and 22% of hospitalised Covid-19 patients [RS/104 - INQ000109278]. SAGE advice dated 14 April 2020 noted that there was a “*significant transmission within hospitals*” and the R rate in the community could “*plausibly be any value between 0.5 and 1*” [RS/104 - INQ000109278]. During the SAGE meeting on 4 June 2020, it was commented that “*together nosocomial and care home cases are becoming an even higher proportion of overall cases, and are a significant driver of R overall*”, in that “*a lot of transmission in the community...is hospital derived*” which “*feeds back in to estimates of R*” [RS/100 - INQ000232150].

220. It was later confirmed in October 2020 that “*PHE analysis of [the] first wave suggest[ed] 20-25% of infections in hospital were nosocomial*” [RS/105 - INQ000232151]. I am highlighting these errors not to criticise SAGE, but to indicate how important its analysis and advice was in informing Government policy. Had the high proportion of nosocomial infections been better understood at the time, Government policy development could have been adapted accordingly and had less economic and social impact. Since economic support measures reflected the NPIs which were in place at any given time, any change in policy as to NPIs would have impacted on the economic supports measures in operation.

Special Advisers

221. During the Pandemic, my Special Advisers (“**SpAds**”) worked effectively in conjunction with the SpAds other departments, including DHSC, and across Whitehall to ensure cross department policies and initiatives were progressing. I do not recall this being a significant channel by which I received updates on the latest scientific, medical or epidemiological data and information.

Behavioural incentives

222. Analysis of behavioural incentives were considered throughout the Pandemic both in forming the Government’s overarching strategy on NPIs and with respect to developing economic policy, for example:
- (a) Advice I received from HM Treasury officials on 14 February 2020 on the economic impact of the Pandemic on the UK economy under the RWCS noted that “*Behavioural [sic] factors could raise the estimate [for working hours lost]*:

healthy workers could take time off to care for ill relatives” [RS/024 - INQ000088045].

- (b) The review into Social Distancing undertaken by the Review Panel in June 2020 brought together expertise from officials across Whitehall who *“considered the scientific evidence, the economic impact of social distancing, behavioural responses and international comparators*” [RS/106 - INQ000181693].
- (c) A DHSC discussion paper prepared for a strategy meeting on the use of face masks in the wider economy, dated 1 May 2020, included a section addressing behavioural considerations with regards to any guidance or recommendation from the Government on the use of facemasks [RS/107 – INQ000658405].

223. Economic interventions during the Pandemic, particularly those concerning consumer confidence, were developed following consideration of behavioural incentives. For example, on 19 May 2020 I received advice from HM Treasury officials highlighting the need to support consumption which, as the largest component of GDP, was *“vitaly important for the performance of the macroeconomy”* [RS/108 - INQ000088055]. This advice listed various factors said to be affecting the level of consumption, including *“behavioural changes”*, noting that, whilst difficult to predict, changes in the economy could *“fundamentally change people’s preferred marginal propensity to consume”*. This advice recommended taking steps to support consumption and consumer confidence through messaging to the public as well as considering *“developing temporary, targeted price incentives”*. This advice further recommended that I consider pursuing regulatory stimulus and that there *“may be a case for temporary policies”* to *“provide a targeted incentive to consumers... to leave home and consume certain goods and services”* in sectors where there was the greatest need.

224. I received further advice from HM Treasury on 1 June 2020 which examined options for targeted support for the hospitality sector. This advice set out that whilst there were *“good reasons to expect many elements of consumer spending to recover if the conditions are right”*, some forms of economic activity may face a *“sluggish return where public safety concerns weigh on confidence or social behaviours have become entrenched”* [RS/109 - INQ000088058]. The advice noted that a voucher scheme to encourage consumer activity *“would provide a greater benefit to the consumer as a proportion of a given transaction, and thus a more pronounced behavioural response”*.

Decisions to end economic support

225. 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. As the economy was reopened, policies were adjusted to encourage a gradual return to economic activity. For instance, the CJRS was extended until October 2020, 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. Similarly, the equivalent SEISS grant rate was reduced. Also, support was re-activated as subsequent lockdowns were introduced.
226. As the economy began to reopen following the third lockdown, in accordance with the Roadmap, HM Treasury worked to establish how the economic support schemes could be phased out and ended.
227. On 18 February 2021 I was sent advice by HM Treasury officials which concerned the extension of CJRS from 1 May 2021 until 30 September 2021, and the tapering out of the scheme to phase out support for employers as the economy reopened **[RS/110 – INQ000609606] [RS/111 – INQ000609889]**. This advice provided the rationale for seeking to conclude the scheme, noting *“there is a risk that continued take-up could dampen economic recovery by inhibiting productive labour reallocation”*, and *“a winter resurgence could lead to calls for CJRS to be extended, making it harder to withdraw support (as in Autumn 2020); ending CJRS in September gives us space for a targeted scheme to take its place in the winter if required”* **[RS/111 - INQ000609889]**. The advice also noted that tapering off support *“would ensure that employers remain supported whilst the economy is still reopening, before... NPIs are lifted and output starts to recover, to encourage employers to move people off furlough and back into work or the job market”*.
228. On 23 February 2021 I agreed to the recommendations to extend the scheme and taper down support, and the date by which the scheme would close **[RS/112 – INQ000609156]**. This was then announced within the Budget on 3 March 2021.
229. The approach to the phased withdrawal of economic support measures was considered, developed and calibrated within the broader context of the relaxation of NPIs. On 8 February 2021, I attended a Bilat with the PM to discuss the Roadmap to reopen the economy. My briefing for this meeting, prepared by HM Treasury officials, integrated epi-macro modelling and reiterated how the economic support measures were designed to reflect the NPIs: *“Any future support must be closely aligned to the overall*

health/epidemiological picture and, therefore, the level of restrictions in place across the economy... As restrictions ease, we will evolve our support as necessary ensuring that the right level of support is available at the right time” [RS/113 - INQ000116407].

230. The PM announced the Roadmap on 22 February 2021, in which progression to the next step would be predicated on consideration of the impact of the previous step on four tests: *“(1) the vaccine deployment programme continues successfully. (2) Evidence shows vaccines are sufficiently effective in reducing hospitalisations and deaths in those vaccinated. (3) Infection rates do not risk a surge in hospitalisations which would put unsustainable pressure on the NHS. (4) Our assessment of the risks is not fundamentally changed by new Variants of Concern” [RS/114 - INQ000089798].* As recommended by SAGE, each step in the Roadmap would be separated by five weeks, giving four weeks to gather data and a further week to reflect on the impact of the previous step before moving forward with the next stage on the Roadmap. The CSA endorsed this approach of avoiding a precise plan, considering the uncertainties that existed [RS/115 - INQ000232135].

231. At a Cabinet Meeting on 20 April 2021, I provided an update on the economy. Whilst noting that *“the economy was performing better than expected”*, I said that *“the labour market was the Government’s number one challenge” [RS/116 - INQ000089045].* This concern with the labour market provides rationale and justification for the continuation of the income support schemes, including CJRS and SEISS, at that time.

232. The proposed end dates for economic support schemes were extended beyond the proposed dates by which the NPIs would be relaxed in the Roadmap in order to provide some leeway in case there was slippage with progress along the Roadmap and delays with easing of restrictions. This approach proved to be prudent given that, following the spread of the Delta variant of the virus, it was decided to delay progress to Step 4 of the Roadmap by four weeks from 21 June to 19 July 2021. On 12 June 2021, I was advised by HM Treasury officials to support delaying the move to Step 4 in light of consideration of the epidemiological data and public health impacts. The same briefing noted that there was no need to adjust the economic support package in place in light of the possible delayed move to Step 4 since *“this package already factors in the possibility of roadmap step delays”*, and that support package *“was both designed and communicated on the basis that it extended comfortably beyond the roadmap, building in resilience for a delay” [RS/088 - INQ000113743].* This briefing also reiterated the main arguments for reducing support as being that *“economic recovery has progressed well since the roadmap, outperforming OBR forecasts”*, *“support for businesses remains generous, with much of*

it continuing through to the end of September”, and “LAs have yet to distribute their existing grant allocations”.

233. At a Cabinet Meeting on 12 July 2021, the decision to move to Step 4 on the Roadmap on 19 July 2021 was approved [RS/117 - INQ000088903]. Step 4 entailed the reopening of all closed settings, the revocation of social distancing guidance and Covid-secure legislation, and removal of guidance encouraging people to work from home where possible. However, the PM and the Government’s science advisers emphasised that this step was to be taken with caution. The CSA advised that *“careful monitoring would be needed to see how the situation progressed”*. The PM said that *“Government would be pressing ahead but in a cautious way”*. The CMO advised that *“the key was to move slowly”, and “the Prime Minister and [the SoS for DHSC] would be using very clear and cautious language”*.
234. On 27 July 2021 I received advice from HM Treasury officials on the economic support options for the end of September transition period, when the CJRS, SEISS and UC uplift were all due to end [RS/118 – INQ000609652]. This advice set out some of risks of both continuing and withdrawing economic interventions. It noted that there was *“a good case for moving away from the current package”* of economic support schemes, in that *“extending existing support would risk artificially propping up job matches and weaker firms that are no longer viable, inhibiting reallocation of capital and labour to stronger firms and offering poor value for money”* [RS/119 – INQ000611620]. This advice also noted *“the risk that withdrawing all support too quickly may result in firm failures and redundancies for higher productivity firms”*.
235. The advice also noted that any further support needed to be considered in the context of the overarching fiscal strategy, and that *“Unprecedented short-term borrowing to finance support to date has been fiscally justifiable as an investment in the productive capacity of the economy and therefore the medium-term fiscal position”*. However, extending short-terms measures *“will further add to debt at a time of heightened risk”, even if those measures were “credibly temporary”*.
236. In respect of an ‘upside scenario’, in which the impact of the virus was to diminish and economic output were to recover, I was advised that *“we at this stage would not recommend further direct business support for primarily domestic-based sectors, job retention support, further self-employed income support, or extending the UC uplift”*. With respect to business support, this advice was on the basis that business confidence was anticipated to grow under the upside scenario, and the 12.5% VAT transitional rate

and ongoing 66% business rates relief would continue to provide “*significant support for businesses beyond the transition point*”. With regards to labour market support (i.e. CJRS and SEISS), this advice was based on the “*high associated economic and fiscal costs, and the evidence that firms are struggling to hire new staff*”. Rather, it was recommended to focus on “*Active Labour Market Policies, via existing Plan for Jobs measures*”.

237. With regard to a ‘downside scenario’, in which prevalence of the virus remained high and continued to reduce consumer and business confidence and required the reintroduction of NPIs, the advice recommended that further support for businesses and the labour market be considered.

238. In September 2021, the Government’s Plan for Jobs update was published. This highlighted that the labour market was performing strongly, and the economy was recovering, noting that “*job vacancies are now at record highs*” and “*unemployment has fallen for six consecutive months, with the peak now forecast to be two million less than previously feared. The unemployment rate is lower than the US, Canada, France, Italy, Spain and Australia. GDP is also recovering, and the IMF forecasts the UK to have the highest growth rate among the G7 economies this year.*” Further to the success of the vaccine rollout, it also noted that “*the economy has been safely re-opening and people have been rapidly coming off furlough; from a peak of almost 9 million last year, to 1.6 million at the end of July. Similarly, in recent months the number of people claiming SEISS grants has dramatically fallen.*” This demonstrated that the Government’s plan to support workers back into the labour market as the economy recovered was working, and the need to continue to provide economic support was diminishing. On this basis, the Plan for Jobs update illustrates the rationale for curtailing the income support schemes at the end of the month, noting that “*the government is maintaining its focus on helping people back into work through the Plan for Jobs. This strikes the right balance between supporting the economy as it opened up, by providing support and protecting incomes through the summer, and ensuring incentives are in place to get people back to work as demand returns*” [RS/120 – INQ000236929].

239. On 30 September 2021 both the CJRS and SEISS were closed.

Overall UK economic performance during the Pandemic

240. While the lockdowns and other NPIs inflicted significant economic damage, they limited the spread of the virus. Government policies to support businesses, workers and their

families helped to mitigate the impact and reduced the potential for long-term economic scarring.

241. Whilst the GDP decline in 2020 was significant (-10.3%) [RS/121 – INQ000659557], this was better than the Organisation for Economic Co-operation and Development (“OECD”) (-11.5%) [RS/122 – INQ000659498] and BoE (-14%) [RS/123 – INQ000616237] had forecast. And whilst the UK optically experienced a higher decline than other countries this should be seen in the context of longer, more restrictive lockdowns than were seen in other countries. Furthermore, 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 [RS/124 – INQ000609851].

242. The economic recovery in 2021 saw a larger GDP increase (8.6%) [RS/125 – INQ000655709] than was forecast in 2021 by the OBR, OECD and International Monetary Fund (“IMF”) [RS/126 – INQ000655720] [RS/127 – INQ000655731] [RS/128 – INQ000655742].

243. The UK's post Pandemic GDP performance was revised sharply upwards in September 2023, showing the UK recovered faster and more strongly from the Pandemic than previously thought. This changed the economic narrative around Britain's post Pandemic recovery. As Simon French, Chief Economist and Head of Research at Panmure Gordon put it on X: *"The entire UK economy narrative post Pandemic has just been revised away."* [RS/129 – INQ000659494]

- (a) As Reuters said: *"Britain's economy surpassed its pre-COVID-19 size in the final quarter of 2021, a much earlier recovery from the Pandemic than previously estimated and ahead of other big European countries, revised official data showed.... This big upward revision brings forward the date at which Britain's economy regained its pre-COVID size by more than a year and a half,*

and shows at the end of 2021 it had made a faster recovery than Germany, France or Italy, and was level with Japan" [RS/130 – INQ000655746].

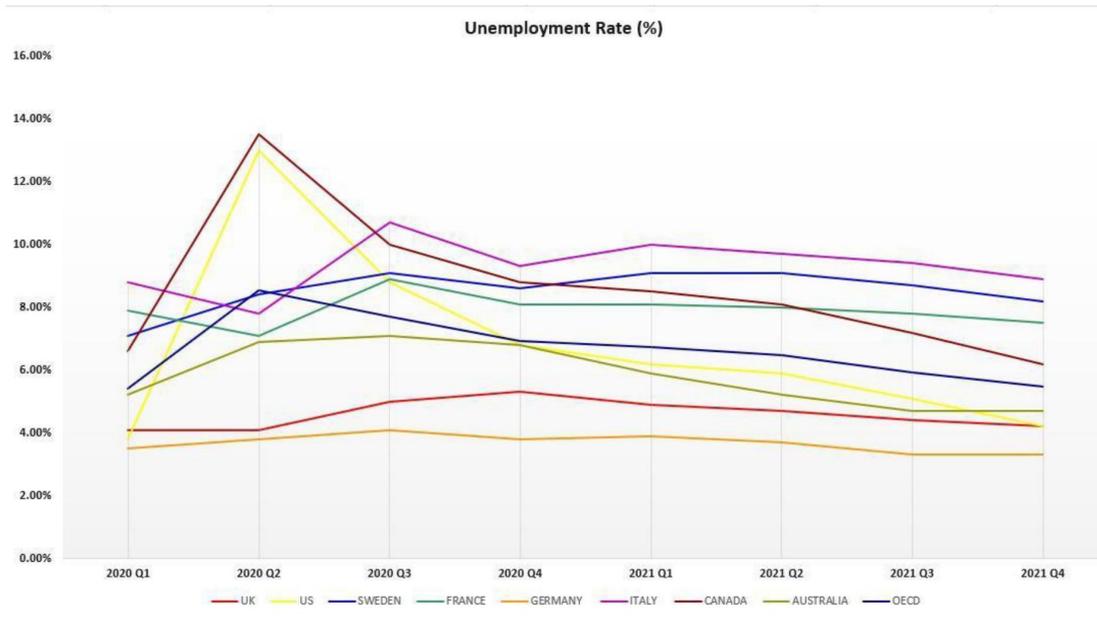
- (b) The Guardian said: *"The UK economy made a faster recovery from the Covid Pandemic than previously estimated, according to revisions to official figures revealing a stronger performance than Germany and France" [RS/131 – INQ000655747]*.
- (c) The Times said: *"The UK economy is far bigger than before the Covid-19 crisis than first thought, with the country's growth outpacing Germany and France, new revisions to official data this morning revealed." Analysts at Nomura said: "Pretty much everything has been revised up" [RS/132 – INQ000655748]*.
- (d) The Spectator said: *"It's not often that we see a GDP revision as startling as the one published today... This is a staggering difference... This changes the international picture completely. We can now see that, the UK's economic recovery in 2021 was stronger than that of France, Germany, Italy and Japan. In the G7, only the United States and Canada saw greater GDP recovery." [RS/133 – INQ000655688]*.
- (e) Bloomberg said: *"The UK economy recovered faster from the Pandemic than previously thought, according to newly revised data." [RS/134 – INQ000659569]*.
- (f) Sky News said: *"The economy grew more than previously thought in the first three months of the year, revised figures from the Office of National Statistics show. It means the UK has surpassed France and Germany in terms of GDP growth since the pre-Pandemic year of 2019... An ONS announcement from earlier this month already delivered good news when it said Pandemic-era economic contraction was less severe than thought, and growth in 2021 was considerably better than before." [RS/135 – INQ000659495]*.
- (g) The BBC said: *"The net result of all this is that by 2022, the UK was not the outlier within the G7 in terms of the damage done by the Pandemic. In fact, the UK economy was hit pretty much in line with the other major European nations." [RS/136 – INQ000659496]*.

244. As Government, individuals and businesses became more adept at managing the challenges posed by the Pandemic, the economic repercussions of each subsequent

lockdown became less severe. The impact of the second lockdown 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 **[RS/137 – INQ000114451]**. In the spring 2020 lockdown, more than 80% of businesses in arts, entertainment and recreation, and accommodation and food services, were temporarily closed. By January 2021, this had reduced to approximately 55%. In the construction sector, around 30% of firms ceased trading in spring 2020, a figure that fell to less than 4% in early 2021. Similarly, workforce participation showed some improvement over time. During the early 2021 lockdown, approximately 45% of the workforce operated from their normal place of work, down from 51% during the autumn and winter 2020 restrictions, but up from 36% in the initial national lockdown **[RS/138 – INQ000659497]**. The economy evolved in response to the measures put in place to manage the spread of the virus as well as the economic interventions to support businesses and individuals.

245. HM Treasury analysis has indicated that a 10% hit to economic activity could reasonably have resulted in 9-12% unemployment **[RS/139 – INQ000609804]**. The OECD forecasted in June 2020 that UK unemployment could reach 9.1% for 2020 **[RS/122 – INQ000659498]**. These forecasts ultimately proved to overestimate levels of unemployment and thereby demonstrate that the Government interventions, including the CJRS, helped to protect employment. ONS outturn data shows that unemployment only reached 4.6% for 2020 **[RS/140 – INQ000659499]** and peaked at 5.2% during the Pandemic **[RS/139 – INQ000609804]**.

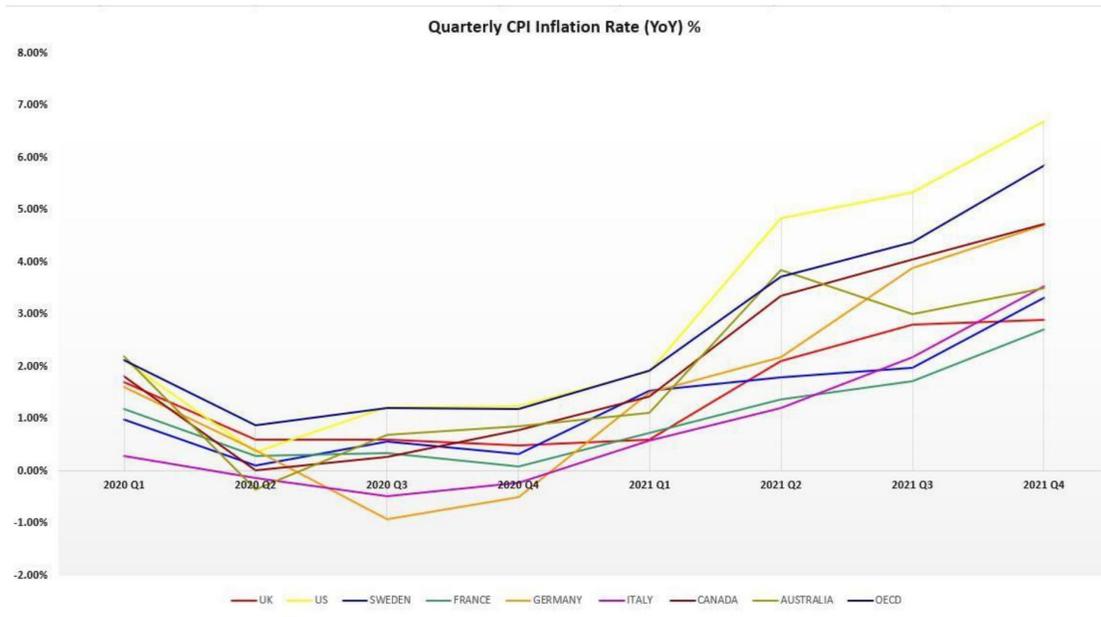
Figure 1: Quarterly unemployment rates (%) in selected advanced economic, Q1 2020 to Q4 2021 (sources: OECD, ONS)



246. This avoidance of the mass unemployment on the scale which was forecasted at the outset of the Pandemic was a direct result of the economic interventions and support schemes for businesses and workers which were devised and implemented by HM Treasury working across Government. This constitutes a significant success in the Government's economic response to the Pandemic.

247. Consumer Prices Index ("CPI") inflation fell sharply during 2020, with most advanced economies recording rates well below pre-Pandemic levels. Whereas inflation began to accelerate in 2021 and by Q4 had risen to 6.4% in the US, inflation levels remained relatively low in the UK, reaching 2.9% in Q4 2021. UK inflation levels remained below the OECD average for the duration of the Pandemic (see Figure 2).

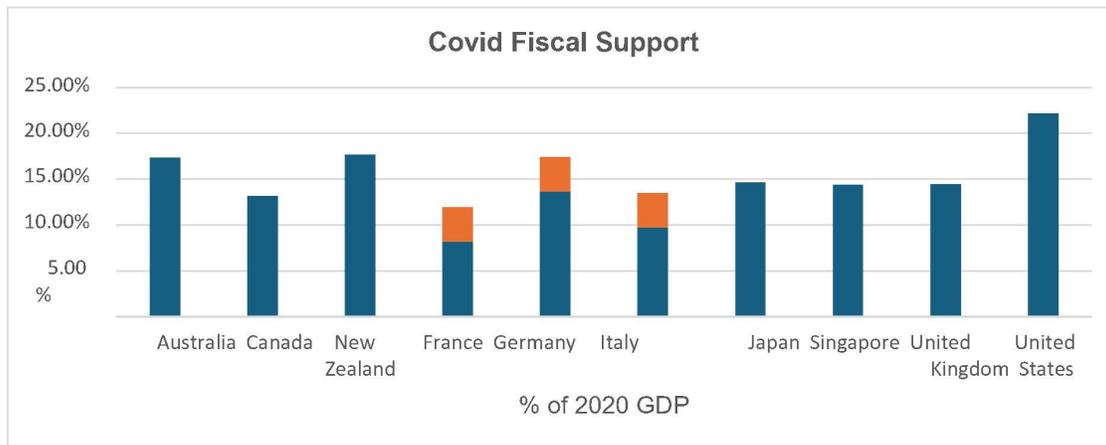
Figure 2: Quarterly CPI inflation rates (YoY) % for selected advanced economies, Q1 2020 to Q4 2021 (sources: OECD, ONS)



248. The OBR's Fiscal Sustainability Report, published in July 2020, presented downside, central and upside scenarios in which potential economic output in the medium term was reduced by 6%, 3% and 0% respectively, as a result of economic scarring caused by the Pandemic [RS/071 - INQ000119294]. However, in December 2021 the OBR reduced their scarring estimate to 2%, better than their previous central case and well below their worst case. This reflected a less severe impact on labour supply and total factor productivity, and lower capital shallowing, with the OBR stating that *"the Government's Pandemic support policies appear to have been largely effective in preserving viable jobs and businesses"* [RS/141 – INQ000659500].

249. In terms of the overall scale of direct fiscal support provided, data from the IMF shows that the UK was in line with its advanced economy peers, measured as a percentage of GDP.

Figure 3: Additional spending or foregone revenues in non-health sectors, January 2020 to September 2021, as a percentage of 2020 GDP (source: IMF database of Fiscal Policy Responses to Covid-19)



Note: orange bar represents relevant EU spend (for example, on vaccines) supplementing national spend.

250. The Government's package of economic support for businesses and individuals during the Pandemic was endorsed by various independent external bodies. For example:

- (a) In October 2020 the IMF described the UK's policy response as *"one of the best examples of coordinated action globally"* which had *"helped mitigate the damage, holding down unemployment and insolvencies"*. It also noted that the Government's *"economic policy response has extended safety nets, limiting the potential long-term damage to productive capacity. The unprecedented and coordinated package of fiscal, monetary, and financial sector measures has supported incomes, kept unemployment down (preserving worker-firm matches) and curbed bankruptcies"* [RS/142 – INQ000659501].
- (b) The Resolution Foundation's Deputy Chief Executive and Chief Economist observed in March 2021 that, alongside the vaccine rollout, the UK Government's *"second key success has been on protecting firms and families from the economic effects of the crisis. The Government has spent around £340bn fighting the Covid-19 crisis, half of which has gone direct to supporting firms, workers and their families through business grants, the furlough scheme and boosting Universal Credit and Housing Benefit. This income support – equivalent to £6,700 for every household in Britain – has meant that despite the UK experiencing the biggest economic contraction in over 300 years, typical household incomes have actually remained flat, and business insolvencies have even fallen."* [RS/143 – INQ000659502].

- (c) In February 2022, the IMF Board commended the UK's "*strong policy measures and rapid vaccination campaign that helped contain the health, economic, and financial impact of the Pandemic, which supported a faster than expected recovery*" [RS/144 – INQ000655699].
- (d) In March 2022, the Resolution Foundation stated "*The Chancellor's emergency Covid support helped to protect household incomes and reduced both absolute and relative poverty during the first 12 months of the Pandemic... Unprecedented policy support – including the £58 billion furlough and £20 billion self-employment income support schemes – will have helped to cushion the living standards hit to households*" [RS/145 – INQ000654045].

Part G: Monetary Policy

Independence of the Bank of England

- 251. The BoE was granted operational independence over monetary policy in 1997 and has statutory responsibility for setting monetary policy. Prior to that, the Treasury had responsibility for setting interest rates, with the Chancellor making the final decision after consulting the BoE.
- 252. Operational independence means that, while the Government sets the BoE objectives, the BoE is free to use its monetary policy tools to achieve those objectives without political interference. Decisions on monetary policy are made by the BoE's Monetary Policy Committee ("**MPC**"). The UK's system of operationally independent monetary policy is a well-established best practice across much of the world and all G7 countries.
- 253. The MPC is made up of nine members: the Governor of the BoE; three Deputy Governors (for Monetary Policy, Financial Stability, and Markets and Banking); the Chief Economist; and four external members. The Governor is the Chair of the MPC. The current Governor, Andrew Bailey, commenced his eight year term on 16 March 2020 following the announcement of his appointment on 20 December 2019. He succeeded Mark Carney, who served as Governor from 1 July 2013 to 15 March 2020.
- 254. The separation of fiscal and monetary policy is a key feature of the UK's economic framework and essential for the effective delivery of monetary policy. For this reason, it is usual practice for the government not to comment publicly on the conduct or

effectiveness of monetary policy. This has been the case since independence, it was the case during the Pandemic and continues to be so.

255. HM Treasury did not consider any changes to the framework under which the BoE operates as part of its response to the Pandemic.

MPC and its objectives

256. The MPC has operational independence over monetary policy. A perception that the MPC are not independent would damage the credibility of the UK's inflation targeting framework and make it harder to maintain price stability. I raised the importance of the Government being seen to back, and believe in, the mandate of the BoE in a bilateral meeting with the Prime Minister on 5 November 2021. Therefore, neither HM Treasury officials nor I tried to influence monetary policy decisions. It is worth noting that in the 20 years prior to Bank independence, inflation has fluctuated between 1% and 22%, whilst in the previous 20 since independence, inflation had averaged 2% and never risen above 5%.

257. While the MPC are operationally independent, it is important that its members are held accountable. The MPC remit requires the Governor to write a letter to the Chancellor when inflation is more than one percentage point above or below target. A further letter is required if inflation is more than one percentage point above or below target after three months. The Chancellor responds to the Governor's letter, and both are published on gov.uk and the BoE's website.

258. The Governor and I exchanged inflation open letters eight times between January 2020 and June 2022. These letters acknowledged the Governor's assessment of why inflation was away from target, outlined the Government's economic policy, and emphasised the Government's support for the independence of the MPC [RS/146 – INQ000549327].

259. The first four letter exchanges in June 2020, September 2020, December 2020 and May 2021 were triggered by inflation being below target. This was primarily due to falling oil and energy prices, accompanied by a sharp drop-in economic activity in the UK and globally, as the Pandemic caused significant economic disruption. I also outlined the steps taken by the Government to support businesses, households and public services.

260. The final four letter exchanges in September 2021, December 2021, March 2022 and June 2022 were triggered by inflation being above target. The Governor's assessment

was that inflation had been driven by global developments, including supply bottlenecks, high consumer energy prices and high household goods inflation. I also acknowledged some domestic factors such as high consumer services prices. In these letters, my comments relating to the Government's economic policy focussed on cost-of-living support. I gave more detail in his letter in June 2022, outlining the tools the Government have to combat inflation, taken from my Cost-of-Living Statement on 26 May 2022. These tools were independent monetary policy, fiscal responsibility and supply side reform [RS/147 – INQ000655751].

261. In addition to the inflation open letters, there are wider measures in place to ensure MPC members are accountable for their decisions.
262. Other than the BoE's Chief Economist, all members of the MPC are appointed by the Crown or the Chancellor:
- (a) The Governor and Deputy Governors on the MPC are appointed by the Crown, based on recommendations from the Prime Minister and the Chancellor;
 - (b) External members of the MPC are appointed by the Chancellor; and
 - (c) The Chief Economist is appointed by the Governor, after consultation with the Chancellor.
263. The Governor serves a single term, but Deputy Governors and external members of the BoE's policy committees can serve a maximum of two terms. Reappointments are not automatic – if the Chancellor is not satisfied with a committee member's performance, the Chancellor can choose to appoint someone else when their term ends. These appointments and reappointments are regularly scrutinised by the Treasury Committee.
264. Between January 2020 and June 2022, I, as Chancellor, announced the appointment of two new external MPC members and the reappointment of two incumbent external MPC members. The appointments of Catherine Mann and Swati Dhingra were announced on 22 June 2021 and 12 May 2022, respectively. The reappointments of Silvana Tenreyro and Jonathan Haskel were announced on 27 March 2020 and 22 June 2021, respectively. No Governor or Deputy Governor appointments were announced during this period and no MPC members were declined reappointment.
265. The MPC is accountable to Parliament through regular appearances before the Treasury Committee and the Economic Affairs Committee. There were seven Treasury Committee evidence sessions relating to the BoE's Monetary Policy Reports between

January 2020 and June 2022. The Governor attended these evidence sessions alongside other members of the MPC. The Governor also attended two evidence sessions with the Economic Affairs Committee on 11 February 2020 and 13 October 2020.

266. The MPC are also accountable to the public. The MPC publishes the minutes of its meetings, as well as a quarterly Monetary Policy Report, and its members give regular media interviews and speeches. These allow for individual members to explain their views and help the public and markets understand how decisions are being made. In the period January 2020 to June 2022 there were 85 speeches from MPC members published on the BoE's website. The MPC's objectives are set out in section 11 the Bank of England Act 1998 ("**the BoE Act**"). The MPC's primary objective is to maintain price stability. Subject to that, its secondary objective is to support the objectives of the Government, including its objectives for growth and employment.
267. The Chancellor communicates the MPC's objectives through the MPC remit, which the Chancellor issues through a letter to the Governor. The MPC remit specifies how price stability should be defined and what the economic policy of the Government consists of. The Chancellor reaffirms the MPC remit at least once in every period of 12 months beginning on 1 June, consistent with section 12 of the BoE Act.
268. I reaffirmed the MPC's remit three times between January 2020 and June 2022: in March 2020, March 2021, and October 2021. As was usual practice, these were all issued alongside fiscal events. Throughout this period, I defined price stability as a symmetric inflation target of 2%, as measured by the twelve months increase in the CPI. The Government's economic policy objective was defined as "*to achieve strong, sustainable and balanced growth*" throughout.
269. The MPC remit also contains the Government's economic strategy, through which the Government will achieve its economic policy objective. The Government's economic strategy was updated in March 2020 and March 2021, but it did not change in October 2021. None of the changes to the economic strategy were made in response to the Pandemic.
270. On 11 March 2020 I was advised by officials to "*reaffirm the objectives for monetary policy (the 2% CPI target and Government economic objective) and make only minor changes to the remit and letter, solely to the text on the government's economic strategy,*

reflecting [my] priorities.... on levelling up, fiscal policy and the financial system”

[RS/148 – INQ000658376] Officials advised *“issuing a largely unchanged remit”*.

271. The MPC’s remit is published on both gov.uk and the BoE’s website. The primacy of the price stability objective in the MPC remit is explicit, as all other objectives are *“subject to”* maintaining price stability. This has been reaffirmed by the Governor.

Interaction between HM Treasury and the BoE

272. HM Treasury meets with the BoE regularly to discuss their assessment of the economy and financial services. This includes regular meetings between the Governor and the Chancellor, as well as between the Treasury’s Permanent Secretary and the Governor. I was often accompanied by officials during bilateral meetings with the Governor.

273. Information sharing between HM Treasury and the BoE was enhanced during the Pandemic, with frequent contact at official level. This included not only formal bilateral meetings and Treasury attendance at MPC meetings (discussed below), but also regular and informal sharing of data, modelling, and analysis to support policy development and economic monitoring. Officials from both institutions collaborated closely on developing new data sources, scenario analysis, and forecasting, reflecting the need for rapid and coordinated economic response.

274. At the height of the Pandemic, the Governor and I spoke daily. We discussed and shared our assessments of what we were hearing about the economy and Covid, acknowledging that neither were experts in the field of epidemiology.

275. A representative from the HM Treasury, typically the CEA, attends the MPC’s meetings. This is usual practice and not unique to the Pandemic. The HM Treasury representative can discuss policy issues but is not allowed to vote. They are there to ensure that the MPC is fully briefed on fiscal policy developments and other aspects of the Government’s economic policies, and that the Chancellor is kept fully informed about monetary policy. The BoE publish written transcripts of MPC meetings from 2015 onwards annually with an eight year delay. These meetings are highly market sensitive so HM Treasury officials do not receive readouts of these meetings before they are published, but the CEA may on occasion update me.

276. Alongside more informal channels, HM Treasury and the BoE engaged at a senior level during three sessions from July 2020 to October 2020 in which HM Treasury officials presented to the MPC and the Financial Policy Committee to update them on the Covid-

19 response. The analysis was conducted internally by HM Treasury staff and focused on a health and science perspective, which included the approach to NPIs, the economic response and the impact of the virus. These meetings were an opportunity to share information and to test thinking at the highest levels of the BoE, including on the potential economic implications to help inform their forecasts. These meetings were official led and I was not in attendance.

Quantitative easing

277. Under Quantitative Easing (“QE”), the BoE purchases financial assets through a vehicle known as the Asset Purchase Facility (“APF”). The BoE creates a loan which is financed by the issuance of central bank reserves which are held by financial institutions including commercial banks and building societies. These reserves are used to buy gilts (and other assets) on the secondary market, which are then held in the APF. The APF is a subsidiary of the BoE and a separate legal entity.
278. The APF is indemnified by the Treasury. This means that any financial losses, or gains, are borne by, or owed to, the Treasury. This arrangement exists because the purchasing of assets for monetary policy purposes involves the APF taking on financial risk. Indemnifying the APF means that the MPC is able to focus on meeting its statutory obligations. The Treasury published a redacted version of the APF deed of indemnity on 19 November 2024 [RS/149 – INQ000659754].
279. I was not required to approve the MPC’s decisions on QE before they are announced. However, any increase in the Treasury’s indemnity for the APF, which is used to implement QE, requires the Chancellor’s authorisation. Every increase in the size of the APF is accompanied by Accounting Officer advice assessing the change against the MPM Framework given the potential direct implications for public funds through the contingent liability created by the indemnity. This includes assessments for regularity and propriety, and assessments of the expected fiscal and macro-economic impact.
280. In response to the Pandemic, the MPC voted for three separate rounds of QE, voting for gilt purchases of £200 billion in a special meeting in March 2020, £100 billion in June 2020, and £150 billion in November 2020.
281. On the morning of 19 March 2020, the UK Debt Management Office (“DMO”) held an auction for a short-dated (5 year) conventional gilt. The auction itself was successful, and I was informed in an internal note that it was “*well covered (1.97 bid-to-cover ratio)*”. (Bid to cover ratio is the ratio used to measure the demand for a particular security during

offerings and auctions). Shortly after the auction took place, the functioning of the gilt market deteriorated rapidly. The market became very illiquid, with the benchmark 10 year yield spiking over 20 basis points in an hour to 1.06% - over six times higher than its level on 10 March. The MPC held a special meeting on the same day (19 March 2020) and announced it had voted to purchase an additional £200 billion of gilts and sterling corporate bonds *“as soon as operationally possible, consistent with improved market functioning”*, and to cut Bank Rate by 15 basis points to 0.1%.

282. HM Treasury’s Accounting Officer, the Permanent Secretary, was informed of the MPC’s intentions ahead of the public announcement. Discussions were also held with HM Treasury’s CEA to discuss the proposal and assess the initial fiscal impacts of the package. Due to the need to act rapidly, I was not provided with a written advice from HM Treasury officials about the policy before it was announced. However, the Governor and I exchanged letters on the APF on 19 March 2020, in which I authorised the increase in the amount of assets that the APF is authorised to purchase by £200 billion [RS/150 – INQ000655702].

283. Accounting Officer advice was sent to the Permanent Secretary on 24 March 2020. The Accounting Officer advice outlined the case for action, including a gradual sell-off in sovereign debt markets which accelerated across 18-19 March 2020. It provided an assessment of the MPC’s proposal against the MPM principles, not an assessment of its monetary policy judgements. Officials judged that the regularity, propriety and feasibility criteria were met, as were value for money conditions. Though highly uncertain, indicative internal estimates suggested that the increase in asset purchases could increase the level of GDP by over 1% over the MPC’s forecast. However, the Accounting Officer advice acknowledged the additional risks posed to the public sector balance sheet. HM Treasury officials estimated that the additional £200 billion of asset purchases were likely to increase the Public Sector Net Debt (“PSND”) impact of the APF by £44 - £60 billion by 2020/21. The additional purchases and lower Bank Rate were expected to reduce Public Sector Net Borrowing (“PSNB”) by approximately £9 - £20 billion per annum over the following five years. The Permanent Secretary provided Accounting Officer approval.

284. I spoke to the Governor ahead of the MPC’s decision to expand the APF by £100 billion in June 2020. In the meeting, I asked the Governor why the MPC would stop short of repeating language used by the Fed on *“using the full range of tools”*. The Governor said he was worried that saying *“full range of tools”* might imply the MPC would be prepared to use negative rates. In practice, the Governor said the MPC had not reached a settled

position on the use of negative rates and they were doing work internally on whether negative rates are desirable or not. My office produced an internal readout **[RS/151-INQ000658416]**.

285. On the morning of 18 June 2020, I received advice from HM Treasury officials regarding the MPC's request to expand the APF **[RS/152 – INQ000658417]** The advice stated that the MPC had made this request because it believed further easing of monetary policy was warranted to meet its statutory objectives. HM Treasury officials noted that increasing the size of the APF has significant fiscal impacts, adding the expansion was expected to decrease PSNB by an average of £1.6 billion per annum over the next five years. Conversely, the expansion of the APF was expected to increase PSND by around £22 billion. I agreed to the MPC's request and the MPC's decision was announced on 18 June 2020. The Governor and I exchanged letters on the APF on the same day in which I authorised the increase in the amount of assets the APF is authorised to purchase by £100 billion **[RS/153 – INQ000616235]**.
286. On 4 November 2020, I received advice from HM Treasury officials regarding the MPC's request for a £150 billion expansion of the APF **[RS/154 – INQ000658417]**. The advice noted that the MPC believed further easing of monetary policy was warranted to meet its statutory objectives. HM Treasury officials noted that increasing the size of the APF has significant fiscal impacts, adding that the expansion was expected to decrease PSNB by an average of £1.4 billion per annum. However, this expansion of the APF was expected to increase PSND by around £18 billion. I agreed to the MPC's request and the MPC's decision was announced on 5 November 2020. The Governor and I exchanged letters on the APF on the same day **[RS/155 – INQ000655704] [RS/156 – INQ000655703]**, in which I authorised the increase in the amount of assets the APF is authorised to purchase by £150 billion.
287. The Permanent Secretary gave Accounting Officer approval for the expansion of the APF in June 2020 and November 2020, as with his approval in March 2020.
288. QE is an unconventional monetary policy tool used to provide monetary stimulus and boost aggregate demand. The MPC can use QE when Bank Rate is already close to its lower bound and further monetary stimulus is required to achieve its objectives: to maintain price stability and, subject to that, support the economic policy of the government. Low or negative inflation can discourage spending because people may anticipate falling prices. If everybody reduced their spending, it could lead to companies failing and job losses. Similar to a cut in Bank Rate, QE seeks to lower market interest

rates, thereby stimulating demand by reducing borrowing costs for households and corporates, supporting asset prices, and putting downward pressure on the exchange rate [RS/157 – INQ000659509].

289. A body of research, including by the National Bureau of Economic Research (“**NBER**”), Federal Reserve banks, BoE, International Journal of Central Banking and the IMF [RS/158 – INQ000659510] has identified the channels through which QE may contribute to the MPC’s monetary policy objectives. For example:

- (a) **Portfolio Rebalancing:** QE increases the price and lowers the return of long-term safe government bond assets, encouraging investors to buy other assets like corporate bonds or equity [RS/159 – INQ000659511] [RS/160 – INQ000659512] [RS/161 – INQ000659513].
- (b) **Signalling Channel:** QE indirectly anchors expectations that policy rates will remain lower for longer, lowering short term rates and the yield curve.
- (c) **Liquidity:** QE injects reserves into the banking system and improves liquidity in stressed markets by providing a steady buyer of securities, restoring normal market functioning, especially through crises [RS/162 – INQ000659514] [RS/163 – INQ000659515].
- (d) **Exchange rate:** QE tends to lower domestic yields relative to foreign yields which means capital flows out and currency depreciates, improving export competitiveness and boosting aggregate demand via net exports.
- (e) **Confidence:** QE signals banks willingness to do what it takes to support the recovery and stabilise markets which can reduce uncertainty and improve consumer business sentiment.

290. In particular, there is evidence that during periods of market dysfunction, QE ensures effective transmission of monetary policy by providing liquidity to the market. At the onset of the Pandemic there was evidence of a ‘dash-for-cash’ constraining the UK bond market. The ‘dash-for-cash’ saw investors sell off safe assets like Government bonds to raise cash, causing yields to increase.

291. As the Governor explained in his APF letter to me on 19 March 2020 (extract provided below), other things equal, the deterioration in gilt market conditions and the associated increases in borrowing costs would have further depressed the UK economy. The large-scale asset purchases through QE (£200 billion in March 2020) improved market liquidity

and lowered long-term interest rates, combatting an unwarranted tightening of financial conditions. The MPC believed that *“Conditions in the UK gilt market had deteriorated notably and gilt yields had risen sharply in the run-up to the special meeting on 19 March. Coupled with the falls in risky asset prices, there had been a material tightening in UK financial conditions, despite sterling having fallen sharply. UK banks’ funding costs had picked up further, broadly in line with their international peers. Spreads in wholesale unsecured funding markets, which were now largely closed, had exceeded their post-EU referendum peak. Bank CDS spreads and option adjusted spreads on UK banks’ additional Tier 1 issuance had also risen further, and major UK banks’ equity prices had fallen again.”*

292. Giving his rationale for further rounds of asset purchases in June 2020 (£100 billion) and November 2020 (£150 billion), the Governor said that further easing of monetary policy was warranted for the MPC to meet its statutory objectives. CPI inflation was 0.5% and 0.7% in May 2020 and October 2020, respectively, so the MPC’s action was intended to increase inflation towards its 2% target.

293. MPC member Gertjan Vlieghe said in a speech given on 23 April 2020 [**RS/164 – INQ000615980**]:

“But as financial conditions deteriorated further, with some market stress indicators approaching levels last seen during the financial crisis, market functioning began to deteriorate more rapidly in the week of 16 March, even in government bond markets. Amid increasing signs of market dysfunction, government bond yields began to rise. The rise in yields was driven by real yields, not a rise in inflation compensation, even as risky asset prices fell further. The change in the real yield curve on 18 March was the largest one-day change since the Bank of England independence in 1997, for maturities beyond five years.... This rise in yields occurred with most liquidity indicators deteriorating rapidly, and bid-ask spreads in long term bonds higher than during the global financial crisis ... 14 On their own, each of these developments might not necessarily have needed an immediate policy response, but taken together, they risked an unwarranted tightening in financial conditions and therefore a policy response was warranted.”

294. MPC member Jonathan Haskel said in a speech given to the Brighton Chamber of Commerce on 1 July of that year [**RS/165 – INQ000615997**]:

“Since the onset of the crisis, the MPC has cut Bank Rate from 0.75% to 0.1% and expanded our asset purchase programme by £200bn in March and a further £100bn in

June. The majority of the initial £200bn in purchases is complete, and we expect to complete the remaining announced purchases by around the end of the year. The first round of purchases aimed to prevent and stop in its tracks the financial market dysfunction resulting from the significant financial market adjustment that occurred at the onset of this crisis in March. Figure 2 illustrates that in the lead up to our announcement to expand asset purchases on 19 March, the UK government debt market was showing significant signs of strain. This was apparent in falling and volatile prices (panel A) and rising intermediation costs (panel B). These spikes we see in the panels, are highly unusual in what should be a deep and calm market for safe UK government debt. But this was no normal time, with heightened uncertainty creating a surge in the demand for cash ('a dash for cash'). By stepping in and providing a reliably ample supply of cash in the form of central bank reserves, the Bank of England was able to restore, almost immediately, normal market functioning, as we can see in figure 2. This in turn helped the functioning of broader UK financial markets and limited the potential amplification of the dramatic slowdown in economic activity we are experiencing."

295. The Governor said on 28 August in a speech to the Jackson Hole Economic Policy Symposium [RS/166 – INQ000616008]:

"So what is our latest thinking on the effects of QE and how it works? Viewed from the depth of the Covid crisis, QE worked effectively. Measuring this effect precisely is of course hard, since we cannot easily identify what the counterfactual would have been in the absence of QE. But QE clearly acted to break a dangerous risk of transmission from severe market stress to the macro-economy, by avoiding a sharp tightening in financial conditions and thus an increase in effective interest rates. QE is normally thought to work through a number of channels: including signalling of future central bank intentions and thus interest rates; so called 'portfolio balance' effects (i.e. by changing the composition of assets held by the private sector); and improving impaired market liquidity."

296. Similar to the UK, the Federal reserve banks and the European Central Bank ("ECB") also announced large and fast-paced asset purchase programmes in response to the Pandemic.

Reserve powers

297. Under section 19 of the BoE Act, HM Treasury may by order, after consultation with the Governor, give binding directions to the BoE with respect to monetary policy if it is satisfied that the directions are required in the public interest and by extreme economic circumstances. The order must be laid before Parliament and would cease to have effect after 28 days unless approved by both Houses of Parliament. This power has never been used.
298. In January 2021 the Economic Affairs Committee launched an inquiry into QE. In May 2021 I received a list of questions from the Committee. In the same month, I also received a letter from the Chair of the Economic Affairs Committee regarding evidence provided by Dominic Cummings to Health and Social Care Committee and the Science and Technology Committee, where he mentioned “*emergency powers to tell the Bank of England to buy the debt*”. I received advice from HM Treasury officials regarding how to respond to both letters.
299. I did not attend meetings on the potential use of emergency powers during the Pandemic nor did I engage in consultation with the Governor or any other BoE officials regarding its use.

Part H: Coronavirus Job Retention Scheme

300. The aim of the CJRS was to mitigate the risk of widescale redundancies, a loss of connection to the labour market and firm failures. The CJRS prevented 4 million direct job losses and saved many businesses from closure [RS/167 – INQ000609852]. “*The Coronavirus Job Retention Scheme final evaluation*” (“**the Evaluation**”) found that “*20% of employers who used the CJRS (around 250,000) would have closed permanently without the scheme*” [RS/073 – INQ000609893].
301. The Evaluation found the CJRS to be “*highly effective*” and “*good value for money, with a positive net benefit to society of £50 billion and a social benefit to cost ratio of around 4:1*”. The value for money assessment showed that money spent on the CJRS “*had significant positive impacts on jobs, incomes, businesses, tax revenue, welfare benefits spending and the macroeconomy.*” Without the CJRS, economic output in 2021 would have been lower “*resulting in a long-lasting and significant scarring effect on the economy*”. Instead, the CJRS raised economic output by 1.8% in 2021 and 0.6% in 2022 [RS/073 – INQ000609893].

302. The Resolution Foundation, an independent think-tank, stated in September 2021 that *“[t]he [C]JRS has been a great success: along with the other economic support measures, it has ensured that the worst recession for 300 years saw the smallest rise in unemployment of any recession in living memory... Without the [C]JRS, unemployment would have risen very sharply whenever significant economic restrictions were imposed; as it was, the scheme’s continued existence throughout the crisis prevented catastrophic increases in unemployment”* [RS/168 – INQ000659516].
303. Paul Dales, the Chief Economist of Capital Economics, stated that *“[f]urlough has been a huge success and quite frankly one of the best government policies I think that the modern economy has ever seen. Without that I do think we would have had unemployment rates of 8-9 per cent, similar to the peaks we saw during the global financial crisis”* [RS/120 – INQ000609664].
304. The TUC stated that *“The [C]JRS, argued for by unions, has done vital work protecting jobs”* [RS/169 – INQ000659517].

Initial design

305. Key decisions in respect of the CJRS were made in the week commencing 16 March 2020 and the policy was announced on 20 March 2020. Guidance was published on 26 March 2020 [RS/170 – INQ000659518] and the CJRS went live on 20 April 2020. The CJRS was developed at unprecedented speed so support could be delivered as quickly as possible to employers and employees.

Decision making processes and structures

306. I set objectives and steers for the CJRS, and the policy was designed jointly by HM Treasury and HMRC. It went through the normal decision-making process for fiscal measures, the concept was shared with the PM and subsequently approved by him.
307. HMRC led on operational delivery of the CJRS through adaptation of its systems, while HM Treasury led on policy development. The HMRC Permanent Secretary was the Accounting Officer responsible for delivering the scheme. I regularly met with officials from HM Treasury and HMRC, who also shared policy notes with me. HM Treasury and HMRC officials would then, jointly or separately, provide me with submissions setting out advice and recommendations in respect of the CJRS, and seek decisions from me.

My decisions would be communicated to HM Treasury and HMRC, usually through a readout.

308. HM Treasury undertook extensive engagement with external stakeholders, especially during the early stages of design and delivery. This included the TUC, business groups such as the CBI and BCC, think tanks such as the Resolution Foundation and IFS, tax experts, and businesses or business group representatives from specific sectors. There was also cross-departmental co-operation with other departments, for example BEIS.
309. The draft guidance for the CJRS was shared and discussed extensively with other Government departments and stakeholders in March 2020 before publication on 26 March 2020. A group of external experts including the Institute of Chartered Accountants in England and Wales (“**ICAEW**”), The Chartered Institute of Taxation (“**CIOT**”) and the Low Incomes Tax Reform Group (“**LITRG**”), reviewed the draft guidance.
310. When initial policy and operational decisions had been agreed, and in advance of the CJRS’s launch, a draft Treasury Direction was prepared by HM Treasury. This was tested by HM Treasury with trusted stakeholders (the Chartered Institute of Payroll Professionals (“**CIPP**”), ICAEW, the Institute of Chartered Accountants of Scotland (“**ICAS**”), CIOT, LITRG, CBI, Armstrong Watson, KPMG, Richard Greenhill and the Insolvency Service) [**RS/171 – INQ000609325**]. On 8 April 2020, HMRC opened up the IT service for the CJRS for testing with a small number of invited employers [**RS/172 – INQ000659519**].
311. The draft Treasury Direction for initiating the CJRS was sent to me on 9 April 2020 [**RS/173 – INQ000609324**] [**RS/171 – INQ000609325**] along with an update in respect of the CJRS [**RS/174 – INQ000609321**]. On 12 April 2020 I confirmed that I would like further options in relation to the CJRS to be explored by HM Treasury and HMRC [**RS/175 – INQ000609326**] [**RS/176 – INQ000583438**]. A further joint advice was provided by HM Treasury and HMRC officials on 13 April 2020 [**RS/176 – INQ000583438**] and I agreed with the recommended approach [**RS/177 – INQ000609327**].
312. On 14 April 2020, an update was prepared by HM Treasury in respect of the testing of the draft Treasury Direction with trusted stakeholders, “[n]one of their comments suggested that the drafting was deficient or otherwise provided for unintended outcomes” [**RS/178 – INQ000609331**]. On 15 April 2020, I made a Treasury Direction under sections 71 and 76 of the Coronavirus Act 2020, directing HMRC to be responsible for

the payment and management of amounts to be paid under the CJRS and setting out the scheme in detail [RS/179 – INQ000583316]. The CJRS went live on 20 April 2020.

313. A governance board was established by HM Treasury and HMRC, which monitored development and delivery of the CJRS and co-ordinated advice for me and the CST.
314. The policy partnership between HM Treasury and HMRC, and especially strong cross-departmental co-operation, helped to deliver the CJRS at an unprecedented speed. HM Treasury could draw upon a range of operational expertise from within HMRC. HM Treasury could also rely on the expertise of other delivery partners including the BBB, regulators and the private sector. Resources within HM Treasury could be deployed flexibly to ensure that legal, technical and financial analysis was carried out rapidly. As many countries were experiencing similar impacts from the Pandemic, HM Treasury could also look at their approaches to job retention schemes. By 19 March 2020, a number of countries had already announced the implementation of wage subsidy schemes [RS/180 – INQ000610817] and the number of wage subsidy schemes implemented internationally grew over the course of the Pandemic [RS/181 – INQ000609561].
315. The Evaluation found that the design and implementation process was “highly successful” and that “[e]mployers were very satisfied with the scheme, with 9 out of 10 employers and agents pleased with the scheme’s timeliness and clarity” [RS/073 – INQ000609893]. It is difficult to compare the pace of the development of the CJRS with policies developed in ‘ordinary times.’ The CJRS was designed to deal with exceptional circumstances and needed to be prepared at speed. The speed of delivery was a weighty factor when considering the best approach at each stage of the design.

Decision to use a wage subsidy scheme delivered through business

316. The CJRS was a wage subsidy scheme, which is a type of job retention scheme. There were policy and operational reasons for deciding on a wage subsidy scheme, delivered through business, rather than providing support through welfare alone.
317. The purpose of the CJRS was to support employers to meet labour costs whilst restrictions were in place and ensure, as far as possible, that when restrictions were lifted:
- (a) Employers still had experienced employees with the skills and knowledge to help them swiftly restart operations when they were able to do so;

- (b) Employees were still employed and connected to the labour market, and their incomes had been protected whilst they were unable to work; and
- (c) Employers were still able to operate and had not become insolvent because they had to meet the labour costs of employees who were not able to work because of restrictions.

318. Preserving the link between employer and employees would reduce the risk of the Pandemic resulting in 'economic scarring' whereby employers were forced to close permanently and workers who had been laid off as a result of the Pandemic struggled to re-gain employment.

319. The CJRS was designed following the Government's advice to the public on 16 March 2020 to avoid all non-essential contact. The announcement of the scheme on 20 March 2020 was followed by the announcement of a national lockdown on 23 March 2020. The scheme therefore needed to be designed so it was deliverable within a short timeframe; could rapidly get payments to those who needed them; and the risk of error and fraud was minimised. Using existing systems avoided the complexity of designing new systems, and existing systems would be familiar to end users. Using existing data and information as a reference point was simpler and reduced the risk of error and fraud.

320. HM Treasury's submission of 17 March 2020 stated that the "shock" situation we found ourselves in could justify a wage subsidy "*to prevent short-term job losses [sic] with long-term consequences*" and that a wage-based subsidy could be considered to "*reduce costs of employment*". It noted that wage subsidies had worked in other contexts to maintain employment levels. The submission outlined that at this stage other countries were introducing, or planning to introduce, schemes whereby the state subsidised wages for hours not worked: Germany, for example, was planning to pay 60-67% of lost earnings; and Sweden was planning to introduce a system where the state would pay 75% of wages **[RS/182 – INQ000609235]**.

321. At a meeting of 18 March 2020, officials from HM Treasury, HMRC, DWP and BEIS **[RS/183 – INQ000658385]** considered the design of a job retention scheme and looked at operational issues. The option of sending payments directly to individuals put on furlough was discounted at the meeting on delivery grounds. The view of officials was that the scheme should be delivered by HMRC through the Pay As You Earn ("**PAYE**") system. I shared that view.

322. On 20 March 2020, a submission from HM Treasury confirmed that I had asked them to “develop a scheme that would provide grants to firms to incentivise them to maintain employment during the coronavirus crisis” and that their recommended response to this issue was a wage subsidy scheme delivered by HMRC through PAYE **[RS/184 – INQ000609251]**.
323. Over the course of the Pandemic, all G7 countries made at least some use of job retention schemes to contain the employment fallout of the coronavirus Pandemic. According to the OECD estimates, job retention schemes were supporting 50 million jobs across the OECD by May 2020 **[RS/185 – INQ000659520]**.
324. The CJRS should not be viewed in isolation, and it was expected to operate alongside the existing welfare system, including UC (which provided income support to those out of work but also on low incomes in work) and other economic support schemes. It was part of a wider economic support package, which also included changes to welfare spending, see paragraphs 1000 to 1030.

Targeting as part of initial design

325. The CJRS was designed as a wage subsidy scheme targeted only at those employers who found it necessary to furlough employees because of reduced demand, and those employees who had been furloughed.
326. Concerns were raised at the outset about only targeting certain sectors with a wage subsidy scheme because it would be very difficult to predict all the sectors that would be adversely affected by the Pandemic in a way that caused them to contemplate making redundancies. There was a concern that a scheme that missed certain sectors or industries would fail to provide the reassurance intended **[RS/186 – INQ000609244]**.
327. On 19 March 2020, advice in respect of a wage subsidy scheme suggested possible ways of restricting the scheme to certain businesses **[RS/180 – INQ000610817]**. There were significant downsides to each approach:
- (a) Limiting eligibility to businesses in certain affected sectors (for example, tourism, transportation, leisure) would require HM Treasury to predict the severity of impacts across sectors, which was difficult. There was also the possibility of cross sector supply chain disruption. A sector-based targeting approach would have required firms to self-identify which sector they were in and it would have

been difficult to enforce the boundaries between sectors that were within and without the scheme.

- (b) Limiting eligibility to businesses in sectors where revenue had fallen by a set percentage would be difficult to enforce in real time, could create a moral hazard (i.e. firms could be incentivised to reduce revenue) and would be open to fraud.
- (c) Limiting eligibility to businesses that had already exhausted government loan opportunities may not sufficiently protect jobs. Employers might choose to make workers redundant before they had exhausted government loan opportunities.

328. The 19 March 2020 advice described a wage subsidy scheme that only supported employees who had been furloughed as being “*well targeted on impacted employees*”. This targeting approach was the one ultimately adopted in the CJRS [RS/180 - INQ000610817]. When subsequently making decisions about the future of the CJRS, I sought advice from HM Treasury and HMRC on whether further targeting was feasible and desirable, see paragraphs 385 to 393 below.

Timing of announcement

329. As explained above, one of the policy objectives of the CJRS was to stop workers being laid off and preserve the link between employer and employee. It was absolutely critical to give employers immediate confidence that there would be government support in order to stop millions of workers being made redundant. As set out above, the CJRS was announced on 20 March 2020, four days after the government had advised the public to avoid all non-essential contact on 16 March 2020, and three days before the announcement of a nationwide lockdown on 23 March 2020. The Evaluation concluded that the creation and announcement of the scheme prior to the first nationwide lockdown reassured “*businesses struggling with cashflow issues that support would be available. The CJRS was delivered successfully within a month... This enabled the scheme to have a major impact in preventing a significant spike in unemployment and business failures in spring 2020*” [RS/073 – INQ000609893].

Decision on the cut-off date

330. The initial plan was for the CJRS to only apply to those who were on the payroll on 28 February 2020. A question arose in April 2020 during discussions on the delivery of the

CJRS about what it meant to be 'on the payroll' on 28 February 2020. Whilst anyone who was employed by their employer at this date may have expected to have been considered to be 'on the payroll', I was told that employees only appeared on the payroll, which HMRC could access through the PAYE system, if they had already been paid. This would mean that there would be people who had been employed prior to 28 February 2020 but were not on HMRC's PAYE system and therefore not eligible for the CJRS. I was concerned about excluding people who were employed potentially for a whole month before the announcement of the CJRS, and for whom HMRC already had genuine payroll information [RS/177 – INQ000609327].

331. Taking into account these concerns, HMRC provided a submission on 13 April 2020 recommending that the scheme *"require[s] new starters to have been paid and on our [HMRC] systems by 19 March irrespective of when they were first employed"*. This option would include a greater number of people who were employed at 28 February 2020 but were not at 28 February 2020 included on HMRC's systems. It therefore helped to address my concern about excluding people employed at this date. Extending eligibility to those on PAYE as at 19 March 2020 was less onerous than using a manual process to try and identify every employee employed at 28 February 2020. Using a date for being on HMRC's systems which was prior to the announcement of the CJRS reduced the risk of fraud, organised criminals would not be able to make unverifiable claims that people had been employed prior to the announcement of the scheme. HMRC concluded that its recommendation was *"more generous and does not create the additional resource cost and fraud risk from creating a separate manual claim process"* [RS/176 – INQ000583438].
332. I agreed with HMRC's recommendation [RS/177 – INQ000609327]. This update was incorporated into the Treasury Direction and guidance was updated [RS/178 – INQ000609331].

Decision on the level of the CJRS

333. It was agreed with HM Treasury that the scheme would pay 80% of declared earnings, capped at £2,500 per month, with respect to furloughed employees [RS/184 – INQ000609251] [RS/187 – INQ000583305]. This level was similar to those levels adopted by countries with comparable economies, including Germany, France Italy, Belgium, Austria, Canada and Denmark, which paid between 70% and 100% of wages [RS/188 – INQ000659521] [RS/185 – INQ000659520]. The cap of £2,500 was above 80% of median income, it was chosen because the scheme was not designed to

subsidise those on very high wages. It was open to employers to top up the grants of furloughed employees whose wages were higher than the cap [RS/189 – INQ000609254].

334. On 20 March 2020, HM Treasury officials raised via email an issue of whether individuals on the National Living Wage (“NLW”) should be paid 80% of their salary where this would take their income below the NLW. The advice was that this was defensible because the NLW was a specified hourly rate for work undertaken, CJRS payments were only made when no work was carried out [RS/190 – INQ000609084].
335. On 22 March 2020, the view of HM Treasury officials was that *“it could be acceptable to allow grant payments to be less than NLW, as the NLW is calculated on the basis of hours worked, and furloughed workers will not be working for their employer. We recognise that there will be presentational issues with this approach but given this is a generous package of support to workers that would have otherwise been made redundant, we think they are manageable”* [RS/191 – INQ000609265].
336. A readout was provided on 23 March 2020, which confirmed that I agreed with HM Treasury’s advice [RS/191 - INQ000609265]. As set out above, the CJRS operated alongside the existing welfare system which provided income support to those on low incomes in work.

Decision for CJRS payments to be paid in advance

337. I was concerned about businesses having insufficient cashflow to make wage payments if CJRS payments were paid in arrears. I asked HM Treasury for further advice on whether HMRC could administer a system which made payments to employers before wages were paid, on the basis of estimates provided by employers. This was intended to support those businesses that would not be able to operate without funds being paid to them before they paid wages. HM Treasury stated in a submission of 26 March 2020 that they were not able to *“assess how many businesses would fail without advance payment of furlough wages from the government”* and did not *“have good data on which firms will struggle with cashflow”* [RS/192 – INQ000583437]. Their initial analysis was that there were *“A subset of firms”* who would *“not be eligible for either the Covid Corporate Financing Facility (“CCFF”) or CBILS and may face cash flow problems if required to make 80% of payroll with CJRS grants paid in arrears”*. On 25 March 2020, HMRC confirmed that making payments in advance was doable. On 26 March 2020, it

was confirmed that I wanted payments to be made in advance [RS/193 – INQ000609293].

Geographical scope of the CJRS

338. The CJRS was developed for the whole of the UK and businesses from all four nations were eligible for support. HM Treasury considered the impact across the whole of the UK. Officials from DAs were given an opportunity to discuss the CJRS and other interventions with officials from HM Treasury at a granular level during the initial design phase. A meeting between officials took place on the 9 April 2020. I have been shown the notes of this meeting as part of my preparation for this statement. The notes of that meeting record clarifications being sought about the functioning of the scheme, and discussion about the number of queries being received. There is no record of any requests for the amendment of the CJRS being made. If concerns had been raised I would have expected these to have been escalated to me as appropriate. I cannot recall being told about any concerns raised during this meeting [RS/194 – INQ000609322].

Extensions to the CJRS

Overview

339. There were a number of extensions to the CJRS throughout the lifetime of the scheme. The CJRS evolved with the Government's approach to NPIs, the trajectory of the Pandemic and the prevailing economic conditions. These changes were intended to strike a balance between ensuring that those who required support could still access it, whilst enabling some furloughed employees to work to support the economy and incentivising employers who continued to use the scheme to only do so where they were prepared to pay a contribution, indicating the value of continued retention of employees.

340. From 1 July 2020, employers who were already using the CJRS were able to claim for employees who were only on furlough for part of their usual working time ("*flexible furlough*"); and, from August 2020, the Government required employers to pay employer National Insurance Contributions ("**NICs**") and pension contributions. Employers were required to make contributions towards wages received for hours not worked in September and October 2020 when it was anticipated that NPIs would be less stringent. When a lockdown was announced in November 2020, this contribution requirement was removed. Employee contributions were re-introduced in July 2021 as Government

support was tapered downwards in advance of the CJRS's closure on 30 September 2021.

341. Throughout the lifetime of the CJRS, further targeting was explored because I wanted to ensure that the CJRS continued to efficiently meet the goals set out at paragraph 317 above. Further targeting options were considered that would have reduced the number of employers eligible to claim under the CJRS, and the number of employees for whom claims could be made under the CJRS. Further restrictions on eligibility under the CJRS may have reduced the money spent specifically on the CJRS, if those restrictions on eligibility could be effectively implemented. HM Treasury and HMRC also needed to consider whether a more restrictive CJRS would achieve the purposes of the scheme. Four options for further targeting of the CJRS were considered in depth. I was advised that there were policy and operational reasons for not implementing this further targeting:

- (a) Targeting specific sectors which were determined by HM Treasury to have been particularly affected by the Pandemic was deemed unworkable because it was difficult to predict which sectors would be affected by the Pandemic; some businesses in sectors that were generally badly affected were able to adapt their business models to operate successfully in the Pandemic; and some businesses operated across multiple sectors. Any decisions about what sectors to include and exclude risked legal challenge. There was no existing way of determining which employers were in which sectors. HMRC would be reliant on businesses self-declaring their sector. There were fraud risks associated with this and performing compliance work would be difficult.
- (b) Targeting employers who were required to close their premises by NPIs created risks. They could change at short notice. There were mixed-use premises where some functions would not be permitted to open under NPIs but other parts of the premises could. There were employers who were not required to close under NPIs but who faced significantly reduced or near zero demand either because they supplied businesses that were required to close or because their business was affected by social distancing requirements. As with sector-based targeting, there was no way for HMRC to independently verify whether a business was in a sector that was required to close. They would be reliant on self-declaration and there were attendant fraud risks.

- (c) Targeting employers who had suffered a fall in turnover was operationally complex. Difficult decisions would need to have been made about thresholds and reference periods, which could have led to unfairness. HMRC only had turnover information from VAT registered businesses, and information was one to four months old. Those not registered for VAT would have had to self-declare their income and there were limited ways to verify such declarations. This created a significant fraud risk. Turnover alone was not necessarily an indication of whether a business needed support; there could be important revenue that did not count towards turnover (for example charitable donations) or information in the balance sheet that suggested a business needed support when turnover levels did not. This targeting also risked supporting unviable businesses as a business' turnover may have declined for reasons other than the Pandemic.
- (d) Requiring employers' workers to work a minimum proportion of their usual hours was considered as a way of ensuring those furloughed would return to their role after NPIs were lifted. However, there was no way for HMRC to track how many hours employees were being required to work. This targeting was only suitable if NPIs did not require businesses to close or if there was a separate job retention scheme for closed businesses operating alongside it.

Extension announcement of April 2020

342. In advance of the CJRS opening, on 16 April 2020, officials sent me advice on the potential for extending the CJRS [RS/067 – INQ000609338]. At this time, the Government had committed to the CJRS running for at least three months initially, covering claims for the period of 1 March 2020 to 31 May 2020, with the potential for extension if necessary. The advice explained that because employers were legally required to conduct a 45-day consultation prior to making over 99 redundancies, some employers currently furloughing employees and accessing the CJRS were planning to begin redundancy consultations the next week, anticipating that the CJRS could end on 31 May 2020.
343. The advice noted that the CBI were planning to call for an extension of the CJRS the following day. Similar concerns had been raised by the TUC. HM Treasury were cautious about announcing an extension before there was a clear view on take-up of the CJRS and the strategy for removing NPIs. They also acknowledged that any announcement

of redundancy consultations, regardless of whether they ultimately ended in redundancies, would cause distress to employees.

344. HM Treasury officials joined a meeting with the TUC and the CBI on the afternoon of 16 April 2020 to discuss a potential extension. I was told that the TUC and CBI shared HM Treasury's concerns about the impact of redundancy consultations on employees, and also felt that if redundancy consultations were started, it was more likely that employers would ultimately make redundancies. They called for the announcement of a one month extension of the CJRS on 17 April 2020 **[RS/195 – INQ000609340]**. Following further discussion, on 17 April 2020 I decided to extend the CJRS by one month, to the end of June 2020. I requested that HM Treasury explore further options for targeting the CJRS or tapering contributions in advance of the CJRS ending, noting the advice that such modifications could be operationally difficult **[RS/196 – INQ000609090]**. I announced the extension of the CJRS to the end of June 2020 on 17 April 2020 explaining that the extension would provide clarity in a period of uncertainty, and that the CJRS would continue to be reviewed to ensure it supported economic recovery **[RS/197 – INQ000609892]**.

Further extension announcement of May 2020

345. On 1 May 2020, HM Treasury provided a presentation on CJRS decisions and options for withdrawing support **[RS/198 - INQ000658404]**. This presentation indicated that stakeholders were unanimous in supporting further support at the end of June 2020. Stakeholders favoured a gradual withdrawal. At this meeting, I asked for options on limiting the eligibility for CJRS by sector, allowing furloughed employees to work, and international comparisons. On 5 May 2020, officials set out an international comparison table for me **[RS/199 - INQ000658408]** in advance of a meeting that day.

346. At the meeting of 5 May 2020, I set out some potential options for HM Treasury to consider including:

- (a) A three month 'winddown' of the CJRS through July, August and September;
- (b) the Government contribution tapering down from 80% of wages to a lower percentage. I also asked them to consider asking employers to top up any amount reduced as a result of the taper so employees felt no fall in income;
- (c) allowing for 'part time furloughing'; and

- (d) closing the scheme to new entrants from a set date. I wanted to understand any complexities and fairness issues.

347. Advice was prepared by HM Treasury on 6 May 2020 indicating there was still work to be done in respect of the options being explored **[RS/200 – INQ000609381]**:

- (a) A summary of stakeholder views indicated that stakeholders did not think that the eligibility of employers for the CJRS should be reduced unless it was possible to co-ordinate the changes with the relaxing of NPIs. At this time, it was not clear how NPIs would be relaxed. Stakeholders recognised the challenges with trying to restrict eligibility based on sectors or even based on whether businesses were forced to close. They noted that even if businesses were legally able to open under less restrictive NPIs, those NPIs may still severely restrict their ability to trade **[RS/201 – INQ000658410]**.
- (b) Advice from HM Treasury on options for ending the CJRS noted that there were options for increasing employer contribution by requiring the employer to pay the employee alongside a reduced CJRS grant or requiring them to pay NICs and pension contributions. The advice noted that *“greater flexibility for furloughed employees to work has been a key ask of both businesses and unions”*. HM Treasury stated that they were still working on options for flexibility. The headline recommendation for this advice was that *“there remain substantial operational issues we are yet to work through related to this design, so there is a risk it will be difficult or impossible to deliver as currently outlined.”* **[RS/202 – INQ000658409]**.
- (c) The advice on introducing flexible furlough, closing the scheme to new entrants and introducing employer contributions **[RS/203 – INQ000609105]** stated that HM Treasury were *“continuing to work on draft guidance which we will test with trusted externals to ensure it is as easy as possible for employers to implement. We are also exploring the most effective and efficient ways to undertake compliance work during this phase. This includes identifying the lead department for ensuring employers make their new contributions (above), considering the right enforcement mechanism and considering if government requires new powers to underpin that activity.”*

348. On 11 May 2020, HM Treasury prepared an update on possible exit options for the CJRS in response to further queries from me. This update advised that an extension be

announced before 15 May 2020, this was again to avoid the risk of redundancy consultations commencing in anticipation of the CJRS ending. It contemplated that the CJRS could be extended in its current form until the end of July 2020 and then it could run for a further two to three months with changes. The changes at this stage were not agreed but the advice set out some options. It advised that the CJRS would need to be gradually withdrawn for economic and fiscal reasons and that, during this transition period, the objectives were to incentivise firms to increase production, minimise labour hoarding in unproductive jobs and allow workers to move to growing sectors [RS/204 – INQ000609389]. Following receipt of this advice, I had a bilateral call with the PM and relayed that I intended to extend the CJRS by one month before moving to a three month ‘wind down’, with the CJRS running to the end of October. I outlined plans for introducing flexible furlough and employer contributions in the future [RS/205 – INQ000658412]. This was formally announced on 12 May 2020.

Introduction of flexible furlough

349. On 15 May 2020, HM Treasury provided a submission on emerging evidence on the CJRS and potential impacts of exit [RS/206 – INQ000610871]. This stated that: *“if the return of furloughed employees to work takes place too slowly, this could act as a significant barrier to recovery.”* On the same day, HM Treasury provided a submission to set out the options for ‘flexible furloughing’ and closing the CJRS to new applicants [RS/207 – INQ000583334]. This stated that the objective was to allow *“furloughed workers to come back to work, while still providing employers with some government support”*. Allowing firms to bring back furloughed workers to work part time, whilst being able to obtain support for salaries for time not worked would help firms to restart production as the economy recovered. It was noted that stakeholders had *“requested that they still receive support from the government for when their workers are not working, while allowing them to bring them back for some work”*. It was also noted that NPIs were due to be lifted, and sectors were likely to reopen from July 2020.

350. The submission advised that the CJRS be closed to new applicants when flexible furloughing was introduced, and to restrict flexible furloughing to those who had been furloughed in the past. This was because the changes to the CJRS were designed to reduce the number of employees who were reliant on the CJRS by supporting their gradual return to work. If new applicants were permitted, then employers who had not previously felt it necessary to furlough workers but who had considered reducing their hours may have sought entry to the CJRS, having previously been ineligible. This would

have defeated the policy objective by expanding the CJRS rather than gradually reducing it.

351. On 19 May 2020, a readout confirmed that I wanted to introduce a part time element to the CJRS and to do this alongside closing the scheme to new entrants **[RS/208 – INQ000609103]**. A Treasury Direction was drafted the same day extending the scheme in its current form, with a small number of corrections and clarifications, until 30 June 2020. This was to ensure that there was time to prepare a further direction reflecting the changes agreed on 19 May 2020 **[RS/209 – INQ000609400]** **[RS/210 – INQ000609399]**. The Treasury Direction extending the scheme to 30 June 2020 was provided for signature on 21 May 2020.
352. On 21 May 2020, HM Treasury also set out options for phasing in increased employer contributions to the CJRS during the period August to October 2020. Employers would be asked to fund employer NICs and in subsequent months provide a contribution towards hours not worked **[RS/203 – INQ000609105]**. On 27 May 2020, I confirmed that I wanted to stop the CJRS covering all non-salary costs of employment (employer NICs and employer pension contributions) and for Government support for non-working hours to be tapered downwards in September and October. Employers would be required to contribute in order to cover the reduction in support. The Government would reduce support to 70% of wages in September 2020 and 60% of wages in October 2020. Employer contributions of 10% and 20% of wages respectively would be introduced alongside these reductions.
353. The further Treasury Direction incorporating the substantive changes including flexible furloughing and increased employer contributions, and extending the CJRS to 31 October 2020, was signed on 25 June 2020 **[RS/211 – INQ000609825]** . It was anticipated at this stage that the CJRS would end on 31 October 2020.

JSS and the decision to extend the CJRS of 31 October 2020

Advice on an alternative job retention scheme

354. On 2 September 2020, I commissioned HM Treasury to prepare contingency advice on options for a further intervention focussed on job retention. This request was made as I was concerned by this time that there could be an increase in Covid-19 infections, and resultant NPIs, that would make a further job retention intervention necessary when the CJRS was due to end on 31 October 2020 **[RS/212 – INQ000658422]**.

355. There was uncertainty about what NPIs would be deployed over the winter. Planning in Whitehall contemplated either:

- (a) Continuing to develop and use the NPIs deployed over the summer of 2020 to try and restrict the transmission of Covid-19. These focussed on local regulation.
- (b) Deploying more stringent NPIs if infections continued to rise.
- (c) Moving towards a national lockdown or similar if infection rates continued to rise following more stringent NPIs [RS/213 – INQ000609469].

356. Plans for the Job Support Scheme (“**JSS**”), an alternative job support intervention, were worked up in response to my request but, given the inherent uncertainty about what NPIs might be deployed and when, the option of extending the CJRS was also under consideration. As businesses faced a national lockdown at the time when the CJRS was due to end, I decided to extend the CJRS rather than deploy the JSS.

Initial design for the JSS

357. The JSS was designed to incentivise employers to bring employees back to work and be more targeted at businesses affected by the Pandemic. It was prepared to provide a transition following the ending of the CJRS. Under the initial design of the JSS, where reduced demand meant that employers could not bring employees back to work their normal hours, employees would be required to work part time, and they would receive some payment for the hours they did not work (i.e. the difference between the hours they worked part time and the hours they would usually have worked). This payment for the hours they did not work would be made up of a contribution by the employer and by the Government. Payments would only be made if:

- (a) Employees worked at least 33% of their usual hours.
- (b) The business was either a small or medium enterprise or was a large business that could demonstrate that their turnover had been impacted by the Pandemic [RS/214 – INQ000609478].

358. The JSS was announced to Parliament on 24 September 2020 with the intention that it would come into force on 1 November 2020 following the ending of the CJRS.

Further NPIs in October 2020 and JSS Closed

359. At the time that work was being undertaken on how to operationalise the JSS, it became clear through ongoing engagement across Government that further restrictions were contemplated. Against this backdrop, I asked HM Treasury to look at an additional intervention supporting employers who were required to close. HM Treasury designed an additional scheme that would have operated alongside the JSS. It became known as JSS Closed, with the original iteration of the JSS referred to as JSS Open. JSS Closed could only have been used by employers when an employee usually worked at premises that were required to close as a result of restrictions, and the employee was furloughed. The contribution towards wages would have been less generous than under the CJRS (66.7% up to a maximum of £2,100 per month) [RS/215 – INQ000583488] [RS/216 – INQ000611612].
360. On 14 October 2020, the government stopped using local regulations to try and restrict the transmission of Covid-19 in England and moved to Local Covid Levels, the system of placing different areas in different tiers of restrictions. Higher tiers of restrictions required some businesses to close. As infection rates increased more regions moved into higher tiers of restrictions and businesses that were open were experiencing significant falls in revenues and demand.
361. My office was informed by HM Treasury on the morning of 19 October 2020 that Mark Drakeford, then First Minister of Wales, intended to announce a 'circuit breaker' lockdown and that he wanted to bring forward the JSS for Welsh businesses. There were policy and operational reasons for not launching the JSS early to coincide with the announcement of the circuit breaker lockdown in Wales. The advice from HM Treasury said that *"[t]he FM wants to stand up at lunchtime and announce a circuit breaker. As part of that he wants to say that we are bringing forward the JS opening date to 1 Nov for Welsh biz/all biz. We can't do that as a matter of delivery (as well as policy) and furlough anyway runs to end Oct"* [RS/217 - INQ000397193]. I replied to Mark Drakeford on 19 October 2020, explaining that *"Unfortunately, as the Chief Secretary of the Treasury and I referenced in our briefings with the Devolved Administrations in advance of the announcement of the scheme, we are unable to bring the claims date for the expansion of the Jobs Support Scheme forward from 1 November to 23 October due to limitations in HMRC delivery timelines. My officials have been speaking to yours this morning to communicate the detail on this"* [RS/218 - INQ000216555]. There was no time during the Welsh 'circuit breaker' lockdown when Welsh businesses did not have access to the CJRS. The JSS was a less generous job retention scheme than the CJRS

and if I had introduced it in line with Mark Drakeford's request, Welsh businesses would have received less support.

362. The JSS was developed at a time of significant uncertainty, with the spread and path of the virus unknown. Throughout the period the JSS was under development, HM Treasury and HMRC officials kept under review and discussed with me the alternative option of extending the CJRS. The focus of advice and submissions was on the JSS, which was intended to replace the CJRS. I was not initially considering the possibility of extending the CJRS. This became of increasing focus as the public health situation changed and it became clearer that the country could move into another national lockdown, requiring CJRS scale support. Additionally, as HM Treasury and HMRC officials progressed delivery of JSS, policy and operational challenges were identified around its implementation, in particular the risk of 'effectively closed' sectors not receiving support, which would become more pressing if restrictions became more severe. 'Effectively closed' sectors were those that were not required to close by law but which could not operate effectively as a result of NPIs because of restrictions on their activities or indirect impacts on their demand. Businesses in these sectors would not be able to access the more generous support offered by JSS Closed. The HM Treasury advice of 20 October 2020 had explained that it would not be possible to develop exemptions to deal with these 'effectively closed' businesses when JSS was launched because of the delivery challenges [RS/219 – INQ000611618].

363. In the light of the increased restrictions on businesses resulting from higher rates of infection, I approved further changes to the terms of JSS Open in October 2020 that involved, amongst other changes, more generous Government contributions. On 22 October 2020, I announced JSS Closed and the updates to JSS Open. JSS Closed and JSS Open were less generous than the CJRS and there was therefore less fiscal cost, but they were operationally more complex because of the additional criteria that needed to be satisfied to access them. JSS Closed could also not be accessed by employers whose premises were not required to close but who were experiencing very low demand as a result of widespread restrictions.

The extension of the CJRS on 1 November 2020

364. On 31 October 2020, it became clear that there would be a stringent national lockdown with restrictions that were more extensive than the NPIs contemplated when JSS Open and JSS Closed were being developed. I received a submission from HM Treasury on 31 October 2020 stating "*You are considering extending the CJRS to provide additional*

economic support in response to the introduction of a more stringent lockdown across the UK. In particular, the inclusion of non-essential retail in the proposed health restrictions has resulted in a significant expansion in scope and likely use of the JSS-Closed. You are also considering options to increase the employee generosity of the support from 66% back to 80%. Given these considerations, you are considering extending CJRS as a simpler option to achieve these aims, ensuring employers can claim more quickly and receive support faster than would have been the case under JSS. I was advised that “[w]e recommend extending CJRS for the month of November initially” and that the JSS should be delayed by at least a month [RS/220 - INQ000397190]. I decided to extend the CJRS and to delay the JSS and announced this on the afternoon of 31 October 2020 [RS/221 – INQ000609135] [RS/222 - INQ000397191], following the announcement by the Prime Minister of the second lockdown [RS/223 - INQ000397194].

365. There were further discussions about the length of the extension of the CJRS following its announcement. HM Treasury advised on 2 November 2020 that I should extend the CJRS until 31 January 2021 to “*give employers three months to support their staff over the winter*” [RS/224 – INQ000583490]. Following a meeting with the Prime Minister on 3 November 2021, I agreed that the CJRS would be extended until at least January 2021 [RS/225 – INQ000610837]. On 5 November 2020, I announced that the CJRS would be extended until the end of March 2021 to give certainty to people and businesses over the winter, and in recognition that employers were likely to continue to experience economic effects even after restrictions had come to an end [RS/226 – INQ000659522]. A Treasury Direction extended the scheme from 1 November 2020 to 31 March 2021 [RS/227 – INQ000609765].

366. The OBR’s economic and fiscal outlook of November 2020 stated that the “*CJRS extension is expected to result in the peak in unemployment occurring two quarters later and at a lower level than would have occurred in its absence. The CJRS extension, along with other new measures, are expected to lower the level of unemployment in the second quarter of 2021 by around 300,000 compared to what would have happened in their absence*” [RS/137 – INQ000114451].

Decision to end the CJRS

367. As soon as a further extension of the CJRS was announced in October 2020, there was discussion with HM Treasury about what steps to take following the extension, and I sought a clear exit strategy from the CJRS. Discussions focussed on whether a modified job retention scheme with further targeting should be introduced and on ways to bring the CJRS to an end. Particular attention was paid to the targeting of arts, entertainment and recreation, and accommodation and food services sectors. These had been particularly affected by NPIs. Discussions took place over November and December of 2020, and January and February of 2021. Options discussed included:

- (a) Transitioning to JSS Open and Closed when the CJRS ended **[RS/224 – INQ000583490]**;
- (b) Transitioning to targeting support based on which businesses were required to close by NPIs **[RS/230 – INQ000610843]**;
- (c) Transitioning to targeting support based on sectors **[RS/230 - INQ000610843]**;
- (d) Transitioning to targeting support based on a 'Financial Impact Test' ("FIT"). This was an approach that other countries had taken. It would look at how turnover had been affected by the Pandemic and only support businesses who could evidence a decline in turnover **[RS/230 - INQ000610843]**;
- (e) Tapering support so that government support gradually reduced over time **[RS/230 - INQ000610843]**; and
- (f) Combining tapering with some form of targeted support **[RS/231 – INQ000610870]**.

368. HM Treasury identified issues with approaches to targeting discussed. In respect of targeting businesses that were required to close by NPIs, HM Treasury advised that they would have less control over how the scheme developed as it would have to move with the public health landscape. HM Treasury explained that such targeting would not capture some businesses that had suffered near zero demand, for example suppliers to businesses that were made to close. It could also be difficult to assess businesses which had mixed use premises where some of the functions were permitted to open, and others had to close. There were also legal issues associated with state aid provision. It was noted how NPIs within the DAs differed from those in England **[RS/230 - INQ000610843]**. From an operational perspective, HM Treasury and HMRC would need to work with

DHSC and DAs to understand which businesses were closed by NPIs. Initial discussions had suggested this was complex and would become more complex as restrictions eased [RS/231 – INQ000610870].

369. In respect of targeting specific sectors, HM Treasury advised that they would have to continually assess and update which sectors should be eligible. Within sectors there were likely to be significant variations in performance that targeting could not capture. It was *“almost impossible to clearly define sectoral boundaries”* and as a result *“HMRC would likely be reliant on a self-declaration of sector for eligibility”* [RS/230 - INQ000610843]. It was also noted that there were legal risks associated with the Government selecting sectors for support. I was advised in December 2020 not to pursue the option further [RS/232 – INQ000658440].
370. In respect of targeting based on a FIT, HM Treasury advised that it could encourage turnover suppression and there was a residual risk that it would support firms whose turnover had been reduced due to factors other than the Pandemic [RS/230 - INQ000610843]. It was noted that it was *“inevitably backwards looking and therefore will create mismatches between current need for support and what is granted”* and that looking at a decline in turnover only did not take into account other factors that would suggest a business needed support. It would not, for example, take into account the underlying balance sheet position of the business [RS/231 – INQ000610870]. I was advised that *“any FIT creates significant economic costs through inhibiting reallocation of labour to jobs and sectors with better prospects of being productive”* [RS/233 – INQ000583406].
371. I was advised that implementing a FIT would have been complex and operationally difficult. Decisions would need to be made about how to assess turnover, what level of turnover decline should be used as a threshold, and what reference period should be used to calculate the decline [RS/231 – INQ000610870]. Discussions about the threshold considered how the level would affect whether employers from the arts, entertainment and recreation; and accommodation and food services sectors would be eligible. There would be a number of difficult decisions about firms who were not registered for VAT (38% of employers, accounting for 13% of employments) and therefore did not provide details of their turnover to HMRC. HM Treasury advised against excluding these firms from a scheme with FIT based targeting but noted that they would need to self-declare their income, and there would be limited ways of verifying this. The verification method suggested, using Self-Assessment Corporation Tax data, could only partially verify data and it was anticipated that it would require a lot of compliance

resource to verify claims [RS/233 – INQ000583406]. There were also issues with newer firms who were not trading prior to the Pandemic and therefore unable to provide pre-Pandemic turnover; and employers who had been acquired or restructured since the start of the Pandemic which, similarly, would not have an appropriate reference period to demonstrate turnover changes [RS/231 - INQ000610870]. Charities' donation revenue was not reflected as income in VAT returns. Turnover declarations would not therefore reflect declines in donations. To enable charities who had experienced a decline in funding to access the scheme they would have to be permitted to self-declare that they held charitable status and self-declare their income. This created fraud and compliance risks [RS/233 – INQ000583406]. It was also noted that a scheme using a FIT would not “*automatically wind down*” as there would continue to be firms that would be eligible regardless of whether there were NPIs in place or not [RS/231 - INQ000610870]. There would therefore need to be a clear exit strategy from any scheme using FIT based targeting.

372. In respect of tapering of support under the CJRS I was advised that:

- (a) *“Tapering the level of support provided through the CJRS to all employers at the same rate would be the simplest way to start to withdraw it. The tapering implemented between August and October [2020] did this by asking all employers to contribute to the cost of hours not worked, which both reduced [the] cost of the scheme to the taxpayer and created incentives for employers to release labour that is not being used productively so that it can be reallocated. Early indications from the August-October period show that employment held up remarkably well despite the drop in GDP”* [RS/230 – INQ000610843].
- (b) *“It's easier to scale down the scheme by tapering its generosity than by restricting eligibility - many of those it would be easiest to start removing eligibility from will self-exit without policy intervention”* [RS/231 - INQ000610870].
- (c) Blanket tapering would mean that there was fewer “*hard cases*” and less complexity for businesses [RS/231 - INQ000610870].
- (d) Tapering “*significantly reduces the medium-term economic risks*” [RS/234 – INQ000658489].

373. I received advice questioning whether the 'gain' from introducing FIT based targeting was outweighed by the complexity of it. The CBI, BCC and TUC supported an extension of the CJRS and then tapering [RS/235 – INQ000658484].

374. A final decision submission was produced by HM Treasury on 18 February 2021, along with an accompanying annex with a full value for money and equalities assessment. It took into account the Government's NPI 'roadmap' and proposed a gradual taper of support as NPIs were anticipated to ease. The final decision record included the following recommendations:

- (a) *"we recommend that CJRS is extended from 1 one May 2021 to 30 September 2021"*;
- (b) *"we recommend maintaining existing generosity for employees of 80% of usual wages for the duration of the scheme extension"*;
- (c) *"we recommend that we don't target higher generosity towards any specific group of employers and instead introduce employer contributions equally for all employers"*;
- (d) *"we recommend extending the... scheme on current terms for May and June, and then introducing employer contributions to wage costs of hours not worked from July"*; and
- (e) *"we recommend that employer contributions are gradually increased so that the employer pays 10% of usual wages for hours not worked in July, 20% in August and 20% in September"* [RS/111 – INQ000609889].

375. In respect of 'targeting vs tapering' the decision recorded that:

"we have considered introducing targeting, so certain employers receive higher generosity whilst other employers are limited to more tapered support... the main targeting mechanism we considered is a Financial Impact Test (FIT), where only employers with a certain level of turnover decline pre- and post-Covid access higher generosity. However, a FIT would be complex to deliver, creates hard cases where there are data limitations, and risks preventing labour re-allocation from worst-hit firms to more productive roles. Given these issues and because the Government's NPI 'roadmap' would result in most restrictions being lifted by summer, we think just tapering equally for all employers would be a better option. This mirrors the approach taken last autumn and is broadly consistent with calls by employer groups." [RS/111 - INQ000609889]

376. On 23 February 2021, I agreed to all recommendations contained in the decision record **[RS/112 – INQ000609156]** deciding that the CJRS would come to an end on 31 September 2021 after a period of three months of tapering support over the summer of 2021. On 15 April 2021, I signed a Treasury Direction extending the CJRS from 1 May 2021 to 30 September 2021 and incorporating the tapering measures **[RS/236 – INQ000583649]**.
377. On 27 July 2021, I received a submission **[RS/119 – INQ000611620]** on contingency planning in advance of the planned end to the CJRS on 30 September 2021. HM Treasury’s Economics Group had modelled four different scenarios of what could happen in the fourth quarter of 2021 following the ending of the CJRS. The fourth scenario was described as “*High Impact downside*” and was modelled based on a reintroduction of restrictions equivalent to ‘Step 2’ restrictions in the period October 2021 to March 2022. During Step 2 of the Roadmap out of lockdown, there had been significant restrictions across a range of sectors. The Economics Group’s modelling predicted that, in the “*High Impact downside*” scenario, scarring and unemployment would both be worse than the OBR’s forecast. HM Treasury’s advice was that they “*would only suggest considering an economy-wide retention support scheme if we move to the high-impact, Step 2 equivalent downside (or worse).*”
378. The progress update to the Plan for Jobs published by the Government on 13 September 2021 **[RS/120 – INQ000609664]** explained the rationale for ending the CJRS and explained the effect of tapering of support thus far:
- (a) “*The scheme [CJRS] has supported people through the Pandemic as it was designed to do, and now the economy is reopening, people have been rapidly coming off furlough. The CJRS is therefore striking the right balance between supporting the economy as it opens up, continuing to provide support and protect incomes, while ensuring the right incentives are in place to get people back to work as demand returns.*”
 - (b) “*Since March 2020, the CJRS has supported the wages of 11.6 million people across the UK, at a value of £68.5 billion in claims.*”
 - (c) “*As the economy reopened, furlough numbers declined from a peak of 8.9 million last year, to 5.1 million in January, and to 1.6 million at the end of July. ... Both the CJRS and SEISS grants will be closing at the end of September but the government is maintaining its focus on helping people back into work*”

through the Plan for Jobs. This strikes the right balance between supporting the economy as it opened up, by providing support and protecting incomes through the summer, and ensuring incentives are in place to get people back to work as demand returns.”

379. An HM Treasury submission of 27 September 2021 advised that *“the growing tightness in the labour market suggests we should be particularly cautious about reintroducing job retention interventions”* [RS/237 – INQ000609790]. A tight labour market is one where there are many vacancies and a low unemployment rate. The CJRS came to an end on 30 September 2021.
380. Research with employers found that of those who last applied for the CJRS before 1 July 2021, and were aware of the introduction of tapering, *“40% said they made changes of some kind, most commonly bringing staff on furlough back to work (24%), re-opening their organisation after a period of closure (11%) or deciding to stop using the CJRS (8%)”*. The Evaluation found that *“[t]he scheme's closure in September 2021 had very little impact on unemployment, despite the CJRS still supporting 1.14 million jobs at the time... employers welcomed the support remaining until September 2021, as it enabled them to be ready to reopen swiftly as ... NPIs... were gradually ending”* [RS/073 – INQ000609893].

Decision not to re-introduce the CJRS in response to Omicron

381. I sought advice from HM Treasury on economic support options in anticipation of possible NPIs in response to rising numbers of cases of the Omicron variant of Covid-19 in the winter of 2021. I asked for advice on a version of the CJRS targeted at businesses that were forced to close. As part of that advice, HM Treasury recommended in a submission of 18 December 2021 [RS/238 – INQ000609881] that:

“there should be a high threshold for re-introducing job retention support - likely only where the economy is facing closures across multiple sectors - given that the current labour market is tight, with unemployment at 4.2% and there is current evidence of labour shortages, with vacancies c.300k above 2019 levels. A job retention scheme that ties individuals to furloughed roles risks inhibiting reallocation and exacerbating some shortages, which underlies the case for only using CJRS under severe restrictions and ensuring timely exit if deployed.”

382. On 19 December 2021, a readout indicated that I wanted HM Treasury to prioritise planning for a targeted CJRS in the event that there were to be NPIs, with a steer not to target by sector but by restrictions [RS/239 – **INQ000609692**].

383. A further HM Treasury submission was prepared on 23 December 2021 reiterating the advice that there should be a high threshold for re-introducing job retention support, likely only where the economy is facing closures across multiple sectors [RS/239a – **INQ000609880**]. In respect of DAs, the advice from HM Treasury of 23 December 2021 was that if “NPIs are in place before the scheme start date (before NPIs are introduced in England), we recommend not allowing premises closed by this legislation to claim for the period before the scheme's commencement [which would have been in line with the introduction of NPIs in England]”. It was also noted that:

“For HMRC to operationalise the scheme, DAs will need to word their health regulations so that employees normally working at the business premises which are deemed legally closed can receive the higher level of support. If they do not, there is a risk that DA businesses under similar restrictions to English businesses may not be able to access the support with lower employee contributions. This is also a significant change from previous versions of the CJRS given that eligibility for more generous support is tied to regulations, so it is important we engage early with the DAs on this. Consultation with the Northern Ireland Executive in particular, certainly before the Directions are made, will also satisfy the expectations of the Northern Ireland devolution settlement.”
[RS/239a – **INQ000609880**].

384. The introduction of the CJRS was only contemplated if there were significant NPIs in response to the Omicron variant that restricted people’s ability to work. As no such NPIs were being introduced, it was not considered necessary to re-introduce the CJRS.

Coverage and targeting

385. As set out at paragraph 325, the CJRS was designed as a targeted wage subsidy scheme that only supported employees who had been furloughed. If an employer was experiencing sufficient demand and was not required to furlough any workers, it could not access the CJRS. As is clear from the above, I consistently sought advice from HM Treasury on whether further targeting could be built into the design of the CJRS or whether an alternative, more targeted, job retention scheme could replace it. The objectives of targeting were to:

- (a) Focus support on employers most affected by NPIs;
- (b) Restrict eligibility from any employers judged not to require support; and
- (c) Target support to specific jobs that were likely to represent the most productive job matches. This would preserve a connection between an employer and employee when the employee was well matched to their role.

386. As I have explained at paragraph 327 above, further targeting was considered during the initial design of the CJRS in March 2020. Advice was sought on ways of restricting the CJRS to businesses who were in sectors particularly affected by the Pandemic, businesses that had experienced a set percentage of revenue reduction and businesses that had exhausted government loan schemes. HM Treasury advised that there were significant downsides to each approach **[RS/180 – INQ000610817]**.

387. As set out at paragraph 344 above, immediately upon agreeing to the first extension to the CJRS in April 2020, I sought advice on further targeting for the CJRS in advance of the CJRS ending **[RS/196 – INQ000609090]**. HM Treasury were clear that there were operational challenges to targeting certain sectors.

388. The introduction of employer contributions in August, September and October 2020 were examples of further targeting measures being incorporated into the CJRS. Requiring employers to pay a contribution to the costs of hours not worked, when NPIs imposed fewer restrictions, incentivised employers to only claim for employees where the value of retaining the job match outweighed the cost to the employer. When a further national lockdown was announced on 31 October 2020, this form of targeting was no longer appropriate. During such a period of severe restrictions, employers were unlikely to have the cashflow required to pay contributions for employees they wished to retain.

389. The JSS referred to at paragraphs 354 to 363 above was another example of policy development considering a more targeted approach. The initial design of the JSS discussed in September 2020 contemplated that it would only be available to small or medium enterprises, or large businesses who could demonstrate that their turnover had been impacted by the Pandemic. Employers were expected to make larger contributions in respect of hours not worked and employees would have to work at least 33% of their usual hours. As NPIs increased over October 2020, JSS Closed was developed, which was more generous than the original JSS (which was then termed JSS Open and revised to make it more generous) but was limited only to employees who were furloughed and usually worked at premises that were required to close as a result of restrictions. In the

build up to the anticipated launch of the JSS, HM Treasury identified a number of operational difficulties with the scheme. It was not, in any event, a suitable job retention scheme for the national lockdown that was announced on 31 October 2020, and which precipitated a decision to extend the CJRS.

390. Over the winter of 2020 and 2021, extensive work was undertaken by HM Treasury to consider the best approach to targeting. As set out at paragraph 367 above HM Treasury advised me on targeting specific sectors, employers who were required to close, and employers who had suffered a decline in turnover. Ultimately, I was advised that tapering employer contributions was the best way to further target the CJRS in the lead up to the scheme ending.
391. CJRS payments peaked in May 2020, and declined from June to October 2020 as restrictions were eased and tapered contributions were introduced over the summer of 2020. Costs rose following the announcement of a national lockdown in November 2020, before declining again from February 2021 as restrictions were eased, the end of the CJRS was announced and tapering was introduced in the summer of 2021 **[RS/073 – INQ000609893]**.

Figure 4: monthly gross and net cost of the CJRS

Accruals basis, £ billions	Private sector CJRS payments	Net CJRS cost
Mar-20	2.2	1.7
Apr-20	10.1	7.8
May-20	10.2	7.9
Jun-20	8.1	6.3
Jul-20	5.6	4.4
Aug-20	3.4	2.7
Sep-20	2.0	1.6
Oct-20	1.5	1.1
Nov-20	3.1	2.4
Dec-20	2.9	2.2
Jan-21	4.0	3.1
Feb-21	3.9	3.1
Mar-21	3.6	2.8
Apr-21	2.7	2.1
May-21	1.9	1.5
Jun-21	1.4	1.1
Jul-21	1.1	0.9
Aug-21	0.8	0.6
Sep-21	0.7	0.5

392. The Evaluation found that:

“A wide range of options were considered to target the CJRS and minimise deadweight... targeting options were not used where these would have meant unfairly excluding customers genuinely in need, creating additional avenues for fraud, or where they would not have been possible to deliver as emergency support, for instance because of limitations in data availability or challenges in defining populations.” [RS/073 - INQ000609893].

393. The Coronavirus Job Retention Scheme and Employer Agent Quantitative Research Report for HMRC of July 2022 (the “**2022 HMRC Report**”) found that:

“the CJRS was being used by employers that were most in need of external support. Users were more likely to have been negatively impacted by COVID-19: 83% reported that their sales or turnover had declined compared to 48% of Non-Users, and the scale of this decline was greater in size too. Users were also more likely to have temporarily ceased trading at the time of the survey (23% compared to 5% of Non-Users) while Non-

Users were more likely to have continued operating throughout the Pandemic (86% compared to 42% of Users).” [RS/240 – INQ000609885].

Job Retention Bonus

394. The Job Retention Bonus (“JRB”) was a further job retention intervention that was designed to follow the ending of the CJRS. Had JSS Closed and JSS Open been introduced on 1 November 2020, the JRB would have been introduced alongside them.
395. The policy objectives of the JRB were summarised in the HM Treasury Final Decision Record of 29 June 2020 [RS/241 – INQ000583491] and the letter from Jim Harra to me of 7 July 2020 requesting a Ministerial Direction [RS/242 – INQ000609480].
396. The HM Treasury Final Decision Record [RS/241 – INQ000583491] records the rationale of the JRB as being to:

“provide additional support and incentives to firms to keep employees during a period of depressed output. This aims to preserve the valuable firm/employee match that was protected through the CJRS, and it prevents employees from being made redundant and facing scarring impacts of unemployment in a depressed labour market. The flat rate bonus will protect more low-paid jobs that are at higher risk of unemployment and scarring.”

397. The letter from Jim Harra, explains the policy objective in the following terms:

“The objective of the scheme is to provide a financial incentive to employers to bring their furloughed staff back to work and keep them on over the coming months as an alternative to redundancy. ... The flexible CJRS will close at the end of October. From now until this point firms will have to decide whether to return their employees to work (and pay their full salary from November) or make them redundant. Based on Office of Budget Responsibility (OBR) and Bank of England (BoE) forecasts, there is likely to be continued uncertainty over the coming months and there are benefits from keeping employees attached to their employers until demand picks up. ... There is a sound policy rationale for this: the bonus would provide additional support and incentives to firms to keep employees during a period of continued uncertainty. This aims to preserve the valuable firm/employee match that was protected through the CJRS, and it prevents employees from being made redundant and facing scarring impacts of unemployment

in an uncertain labour market. The flat rate bonus is targeted to protect more low-paid jobs that are at higher risk of unemployment and scarring.” [RS/242 - INQ000609480].

398. The JRB was ultimately not introduced because of the evolving landscape and decisions to extend the CJRS. Policy designs for the JRB were being worked up in June and July 2020 in contemplation that the CJRS would end at the end of October 2020. The JRB was designed as a retention incentive, alongside the JSS, to encourage employers to keep on furloughed staff after the CJRS had ended. As set out at paragraph 364 above, the CJRS was extended in October 2020. HM Treasury advised against permitting employers to claim the JRB when they were still able to claim from the CJRS **[RS/229 – INQ000609862]**.
399. The CJRS ran in its current form from November 2020 until 1 July 2021, it was then tapered off and closed on 30 September 2021. As set out at paragraph 379 above, the advice of HM Treasury was that it was not appropriate for there to be any further job retention schemes (of which the JRB was one example) following the ending of the CJRS because of tightness in the labour market.

Fraud and error

400. HM Treasury advice highlighted risks arising from organised criminal behaviour and fraud, and more general opportunistic non-compliance by legitimate businesses **[RS/243 – INQ000610818]**.
401. To respond to those risks, HM Treasury and HMRC developed the following mitigations:
- (a) Systematic controls pre-transaction to identify non-eligible or non-legitimate claimants and reject claims up front;
 - (b) Identify known fraudsters and reject claims at the point of submission through cross-reference to a watchlist; and
 - (c) Identify hallmarks of criminal attack and fraudulent claims post submission during a 72-hour window pre-repayment. HMRC would then undertake monitoring transactions in near real time, as they did with other repayment systems.

402. More generally, to mitigate the risk of incorrect or fraudulent claims being accepted, a variety of compliance measures were built into the scheme design and the claims process from the outset. For CJRS, this included the eligibility criteria of the scheme being limited, so that claims were only accepted from employers with current records in HMRC's PAYE system; building automated controls into the digital claim process preventing ineligible or mistaken claims; limiting claims to employees who were registered on the payroll by set dates; requiring employers to retain the data HMRC needed to do any later necessary checks; and a 72-hour risk assessment window for claims to be amended or rejected after submission.
403. Pre-payment checks were developed, such as matching claims against lists of known and suspected organisations and devices. These checks helped to reduce the risk of organised criminal attacks. By November 2020, HMRC had identified 139,000 claims that required verification checks to be carried out before a payment was made.
404. By using the PAYE system, HMRC could link data relating to CJRS claims with data they already held on employers. HMRC had significant information available to verify the accuracy of claims, including how many employees were paid by an employer in the preceding months and at what rates. Employers who accessed the CJRS were required to retain data that would assist HMRC with further compliance checks if these were required. To further mitigate against the risk of fraud, employers could originally only claim the CJRS grant for those who were employed and on their PAYE payroll on 19 March 2020, the day before the scheme was announced. This prevented criminals from fraudulently claiming for employees who were not employed prior to the announcement.
405. Automated controls were built into the claims process to prevent ineligible or mistaken claims from being made. Controls also cross-referenced claims with a watchlist of known fraudsters to reject claims that appeared fraudulent at the point of submission. Following submission of a claim there was a 72-hour window during which criminal attack, and fraudulent and incorrect claims, could be identified and rejected by HMRC.
406. To avoid employers making incorrect claims in error, educational material was made available, HMRC operated a helpline, and an online calculator was developed so employers could accurately calculate their claim. Employers were warned of the risk of compliance action in respect of fraudulent or ineligible claims and required to declare that information was accurate when completing online forms.

407. As a result of the very short timeframe for delivery for CJRS, it was not possible to build into the initial design all the measures subsequently developed to reduce the risk of fraud and error. The HM Treasury submission of 20 March 2020 [RS/184 – INQ000609251] stated that:

“In order to prioritise rapid delivery there is a limit to the amount of upfront checks that can be built into the system. HMRC are urgently working to establish a delivery timetable. The initial system will be limited in its capacity to identify and deal with fraudulent claims. HMRC are establishing the options available to iterate the system in slower time to build in transaction monitoring and other background checks to try and protect against fraud and error.”

408. I noted in my readout of 20 March 2020 the fraud risk set out in the advice about the initial design, and it was explained that *“this was considered against the unusual nature of the COVID-19 response and need to support business, and the benefits to the economy in the medium-long term”*. I asked HMRC and HM Treasury in that same readout to take steps over time to reduce fraud [RS/187 – INQ000583305], some examples of these are set out at paragraphs 409 to 413 below. On 24 March 2020, I received an update on how delivery of the scheme was progressing which noted that HMT and HMRC were developing the following mitigations [RS/243 – INQ000610818] [RS/244 – INQ000609085]:

- (a) Systematic controls pre-transaction to identify non-eligible or non-legitimate claimants and reject claims up front.
- (b) Identify known fraudsters and reject claims at the point of submission through cross-reference to a watchlist.
- (c) Identify hallmarks of criminal attack and fraudulent claims post submission during a 72-hour window pre-repayment. HMRC would then undertake monitoring transactions in near real time, as they did with other repayment systems.

409. On 3 April 2020, HM Treasury recommended in a submission that amendments be made to the finance bill to give additional legislative powers to HMRC to reduce the risk of fraud: to recover CJRS grants where they have been incorrectly paid; to give HMRC powers to obtain information from CJRS applicants; and to enable HMRC to apply penalties where information requests were not complied with. The powers for HMRC to

compel information would, for example, enable them to require evidence that furloughed employees had not in fact been working [RS/245 – INQ000609312]. I agreed with this recommendation in a readout of 6 April 2020 [RS/246 – INQ000609315]. HMRC moved 700 staff to work on Covid-19 support scheme compliance, including dealing with fraudulent use of the CJRS.

410. On 9 November 2020, I was advised that publishing names and company registration numbers of claimants for the CJRS was likely to have a positive effect in terms of preventing opportunistic fraud [RS/247 – INQ000658430]. On 11 November 2020, a submission was produced by HM Treasury with outstanding issues for the Treasury Direction to be published on 13 November 2020 on the CJRS extension. This stated as follows:

“On 9 November, you agreed with advice to publish the name and (where applicable) the company registration number (CRN) of claimants of CJRS for claim periods beginning in December and onwards. You were minded also to publish the amounts claimed (which we flagged would create operational complexity, as amendments and voluntary disclosures would mean that the amounts published would need to be updated) ... Publishing names and CRNs is likely to provide a monitoring effect to deter opportunistic claims at a business-level. Publishing the claim size may have a further impact.” [RS/248 – INQ000609546].

411. The submission set out various options for the publication of information and legal risks associated with each and recommended that:

“if you are minded to publish the amounts claimed under the CJRS extension, we should publish banded amounts rather than actual amounts, as this represents a better balance of transparency, deterrence effect, and risk (recognising that legal risks will still remain fairly high).” [RS/248 - INQ000609546].

412. On 12 November 2020, I signed a Treasury Direction confirming that:

“34.2 The employer information that must be published is –

- (a) the name of the employer or the qualifying PAYE scheme,*
- (b) if the employer has a company reference number, that number, and*
- (c) the amount of the CJRS claim made by that employer*

34.3 In relation to the amount of the CJRS claim made by the employer, HMRC may publish an amount that gives a reasonable indication of the claim, rather than the exact amount.” [RS/227 – INQ000609765].

413. In the Spring 2021 budget, I announced that the number of HMRC staff working on Covid-19 support scheme compliance would increase to 1,265 [RS/249 – INQ000609773]. This taskforce was expected to work for two years, beyond the end of the CJRS.

414. I was advised during the initial design phase of the CJRS on 20 March 2020 that *“the system has no way of telling... whether the employer is furloughed or still working”* [RS/184 – INQ000609251]. As set out at paragraph 409 above, I agreed with the recommendation that HMRC should be given powers to compel information from those claiming CJRS so that HMRC could assess whether CJRS was being claimed in respect of employees who were still working. Employers were also required to notify employees that they had been furloughed. Employees would therefore be able to share details of fraudulent claims through the HMRC hotline if they were simultaneously informed, they were furloughed and required to work. HMRC assessed information including payment data and PAYE records and responded to information from the public to identify instances of employers claiming CJRS whilst employees were working [RS/250 – INQ000609595]. HMRC were able to identify potentially fraudulent claims from employers by:

- (a) Analysing debit and credit card sales of companies who were claiming that they had furloughed their employees and comparing their trade with pre-lockdown levels.
- (b) Identifying businesses which were simultaneously making EOTHO claims, which they could only legitimately do if they were open, and CJRS claims for their workforce.
- (c) Identifying online intelligence, such as recent reviews, that suggested businesses were open when they were making CJRS claims for their workforce.
- (d) Acting on intelligence provided through the HMRC hotline.

415. The Evaluation found that *“[t]he scheme’s design achieved an appropriate balance between getting support to employers quickly and managing the risk of error and fraud”* and that *“[o]ver 22,000 suspicious CJRS claims were blocked from being paid, valued*

at over £114.7 million. The final estimates for the CJRS error and fraud demonstrate that HMRC's pre-payment controls have been effective, with the amount lost to organised crime and criminal attacks being significantly lower than anticipated" [RS/073 – INQ000609893].

416. The final estimate of the level of error and fraud within the CJRS lifecycle of 1 March 2020 to 30 September 2021 was found to be at the lower end of the initial planning assumptions of 5% to 10% with a most likely estimate of 5.1%.

Equal access

417. The HM Treasury submission of 20 March 2020 relating to the initial design of the CJRS [RS/184 – INQ000609251] considered the potential equalities impacts of this measure and they were also considered in the submission of 24 March 2020 in respect of further policy decisions [RS/243 – INQ000610818]. Equality impact risks or assessments were a standard part of HM Treasury submissions on policy design and changes which I would consider when responding to submissions.

418. The submission of 20 March 2020 raised the issue that:

"Most women on maternity leave will be able to claim Statutory Maternity Pay as normal if they are furloughed, however the proposal could result in low earning pregnant women falling below the Lower Earnings Level and not qualifying for SMP. They should be eligible to apply for Maternity Allowance, however they would lose access to the first 6 weeks at 90% of average earnings. The design of the scheme and interaction with employment law might also mean that NLW workers are more likely to be furloughed. This might have a disproportionate negative impact on women as they are more likely than men to earn the NLW." [RS/184 – INQ000609251].

419. The HM Treasury submission of 24 March 2020 stated in respect of Statutory Maternity Pay that:

"A few [women] will lose entitlement due to the LEL [lower earnings limit] but this is replicated across the social security system and does not treat women less favourably. Past earnings are relevant to eligibility for SMP and the level of payment. If this period covers furloughed earnings or SSP then women will be worse off than they would have been before CVI9. We are working with DWP to establish how many women are affected and coming up with a solution to this problem. We want to ensure women on maternity

leave who expect to benefit from enhanced maternity pay have access to furlough to prevent them being treated less favourably to their colleagues.” [RS/243 – INQ000610818].

420. This submission also recommended that women on enhanced maternity pay are eligible to be furloughed so that employers could choose to move them onto furlough scheme, noting that this would make them better off.

421. On 24 April 2020, the Government announced that furloughed workers planning to take paid parental or adoption leave would be entitled to pay based on their usual earnings rather than a furloughed pay rate [RS/251 – INQ000659523].

422. When a new Treasury Direction was signed on 20 May 2020 to extend the CJRS and ensure clarity for stakeholders and consistency with published guidance, it was made clear that salaried employees returning from maternity or paternity leave should have their reference salary for CJRS calculated on the basis of their normal contractual pay. This prevented women returning from maternity leave, who were paid less than their normal contractual pay during that leave, from being worse off under the CJRS as a result of their maternity leave [RS/252 – INQ000609405].

423. I also decided that those returning from maternity, shared parental, adoption, paternity or parental bereavement leave after 10 June 2020, should be eligible for furlough for the first time even though this was after the scheme being closed to new entrants.

424. There were concerns raised on a number of occasions about whether contemplated changes to the CJRS would disproportionately affect young people, women or ethnic minority groups who were more likely to work in lower income jobs, in certain sectors or in certain regions. I was advised by HM Treasury in a submission of 18 February 2021 that:

“Whilst there may be a risk of some employers making redundancy selections on a discriminatory basis, all employers are subject to legal obligations regarding equalities, which we have been clear in drawing to attention in CJRS guidance, and we are entitled to place reliance on employers meeting their own legal obligations and facing legal redress through normal means if they do not.” [RS/111 – INQ000609889].

425. 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. The analysis [...] focuses on the additional protected characteristics of disability and ethnicity. The evidence suggests that there are no statistically significant differences [...] in usage of the CJRS by different ethnic groups or by disabled individuals relative to the total population, with the exception of 'Other Ethnic Groups'." [RS/073 – INQ000609893].

Consultation

426. As set out at paragraphs 308 to 310 above, HM Treasury consulted with key stakeholders during the initial design phase of the CJRS including trade unions, professional bodies, think tanks, businesses, and organisations representing businesses. Views of stakeholders and experts were sought and taken into account prior to each key decision on the future of the CJRS scheme (see for example paragraphs 310 and 344 above).
427. I set out at paragraph 338 above how officials from the DAs were engaged on the initial design of the CJRS, and meetings took place with officials from DAs to ensure they were aware of developments. As set out at paragraph 23 above, there were regular meetings between the HM Treasury Devolution Team and their counterparts in the devolved government. My exchange with Mark Drakeford described at paragraph 361 and my exchange with Conor Murphy set out at paragraphs 1126 to 1127 below are examples of how I engaged at a political level with devolved administrations in respect of decisions relating to the CJRS. The CDL led on engagement with the DAs' First Ministers during the response to the Pandemic.

Part I: Self-Employment Income Support Scheme

428. The SEISS was implemented in order to provide income support through a system of grants to self-employed individuals reliant on their self-employed income, and whose businesses had been adversely affected by the Pandemic. The key objective was to ensure such individuals' businesses remained viable and continued to operate. This scheme was pursuant to and consistent with HM Treasury's objectives during the Pandemic and a necessary feature of the package of economic support provided by the Government in order to protect the economy. The support provided to individuals under this scheme was broadly equivalent to that provided under the CJRS.

429. Grants were made under the SEISS across five tranches between May 2020 and September 2021:

- (a) SEISS 1 (13 May 2020 to 13 July 2020);
- (b) SEISS 2 (17 August 2020 to 19 October 2020);
- (c) SEISS 3 (30 November 2020 to 20 January 2021);
- (d) SEISS 4 (22 April 2021 to 1 June 2021);
- (e) SEISS 5 (29 July 2021 to 30 September 2021).

430. The Government's final evaluation of the SEISS, published in July 2023, provided that across the lifetime of the scheme (May 2020 – September 2021), a total of 2.9 million eligible self-employed individuals claimed SEISS grants, totalling £28.1 billion paid out across the five tranches. Since a proportion of that initial cost of grants was reclaimed through additional tax and NICs paid, and benefit payments avoided, the scheme's effective net cost was £19.5 billion **[RS/080 – INQ000583534]**. The SEISS interim evaluation, published in October 2022, also confirmed that a total of 10.4 million grants were claimed, and 99.4% were paid within the Government's target of six working days of receipt of the application **[RS/253 – INQ000583509]**.

431. By supporting claimants' businesses, the SEISS had wider indirect benefits as those businesses in turn sustained additional business activity that would not have existed without the scheme. These benefits are estimated at between £0.2 billion and £1.5 billion. In addition, wider economic activity, such as consumer spending, was supported as a result of the scheme, with these additional effects estimated at around £8.5 billion **[RS/080 – INQ000583534]**.

432. It is estimated that the total benefits created by the scheme were worth £19.3 billion, with an accompanying social cost of £5.1 billion. Overall, the SEISS provided a positive net benefit to society of £14.2 billion, and the SEISS Final Evaluation concluded the scheme was good value for money with a social benefit cost ratio of 3.8 to 1 **[RS/080 – INQ000583534]**.

433. On 28 May 2020, the Association of Independent Professionals and the Self-Employed wrote to me to endorse the SEISS. Their letter noted that "*feedback we have received from eligible self-employed individuals suggest the SEISS has been easy to use and vital funding has been delivered quickly to people's bank accounts*", and that they had

“been impressed by the hard work of Government officials in delivering [the scheme] ahead of schedule” [RS/254 – INQ000655722]. HM Treasury and HMRC have since developed a SEISS playbook which sets out potential considerations when introducing a support scheme, including a separate section on HMRC delivery considerations. It is aimed at policy officials who may be commissioned to deploy new employment and income support schemes in the future, and to ensure that a full range of feasible approaches is considered when doing so.

434. From my experience, all the officials I worked with across HM Treasury and HMRC on the design and implementation of the SEISS did an exceptional job under great pressure to produce a workable scheme which could be rolled out rapidly. The success of the SEISS is a testament to the dedication of those who worked so hard to establish it.

Initial Grant / SEISS 1

435. As with other aspects of the Government’s response to the Pandemic, decisions on SEISS had to be made at pace, often on the basis of imperfect data. In the context of SEISS, support needed to be delivered rapidly to ensure that it was available for the sizeable self-employed population. The core features of the SEISS were developed between 21 and 26 March 2020.
436. The SEISS was designed to quickly support individuals reliant on their self-employed income whose businesses had been adversely affected by Covid-19 restrictions. It was structured to offer support broadly equivalent to the CJRS; however, the primary aims of the schemes were not identical. The CJRS was designed to incentivise businesses to retain employees who would otherwise be made redundant. The SEISS was designed to support self-employed individuals whose income had been impacted by the Pandemic, while not unnecessarily disincentivising them from continuing to work. It was designed to deliver support quickly and at scale, while minimising the risk of fraud.
437. Government officials and I considered and balanced a range of factors when designing the SEISS - ensuring the scheme was deliverable at pace, minimising and mitigating fraud risk, effectively targeting the scheme on the basis of available data and via behavioural prompts in the application design and ensuring that any support continued to incentivise economic activity. As I go on to detail below, this was an iterative process, and the SEISS evolved over time in response to the Pandemic.

438. Whilst there were other types of support available for the self-employed, such as the suspension of the Minimum Income Floor for UC claimants (see paragraph 1004) and a VAT payments deferral scheme [RS/255 – INQ000659525], these measures would not have been sufficient to meet our objectives outlined above. Throughout the period when the initial scheme was being developed, I received frequent correspondence calling for support for self-employed individuals [RS/256 – INQ000658473] [RS/257 – INQ000658478] [RS/258 – INQ000658491] [RS/259 – INQ000658485] [RS/260 – INQ000658495].

Initial scheme design

439. On 21 March 2020, I spoke with HM Treasury officials about the development of a scheme to support the self-employed, following which I commissioned HM Treasury officials to prepare an analytical note on the self-employed population and work on various options for the prospective scheme which reflected the CJRS, including their costings [RS/261 – INQ000609083] [RS/262 – INQ000609257] [RS/263 – INQ000609256].

440. On 22 March 2020, HM Treasury officials provided me with an initial briefing note on the self-employed population. This provided that “*for the 3 months to January 2020, there were 5,033,000 self-employed people in the UK*”, which accounted for “*around 15% of all people in employment*”. Whilst there was limited information on the exact make-up of the self-employed population, BEIS business statistics from 2019 indicated there were around 3.5 million sole proprietorships, 400,000 partnerships and nearly 2 million companies. The note also provided sectoral analysis of the self-employed population [RS/264 – INQ000609082].

441. This note estimated that “*around 700-900,000 self-employed workers (around 14-18% of total) are currently claiming UC, or the legacy benefit equivalents*” and that number would increase due to the UC measures recently announced and the impact on Covid-19 on earnings [RS/264 - INQ000609082]. It also addressed the overlap between the self-employed population and tax returns, noting that in 2017-18 there were 5.75 million people who declared self-employment income to HMRC, of whom 233,000 (4.1%) had over £50,000 of self-employment income [RS/264 - INQ000609082].

442. I spoke with HM Treasury officials on 22 March 2020, following which I provided a number of steers on the development of the prospective support scheme for the self-employed [RS/261 – INQ000609083]. I asked HM Treasury officials to prepare a note

to include additional requested data, costings, a fiscal view and considerations on delivery of the scheme.

443. In response to my steers, HM Treasury officials prepared a submission later that day with initial advice on the design and delivery of the SEISS. The submission noted that whilst most self-employed people would be eligible for the SME loan guarantee scheme which had recently been announced, *“the self-employed typically find it harder to access finance than others”* [RS/265 – INQ000583444]. This reinforced the case for providing financial support to the self-employed, in accordance with HM Treasury objectives.

444. In order to set up the SEISS in the timescale needed, the design and delivery of the policy had to be simple. A key mitigation to the substantial risk of error and fraud was the ability to match information provided by the claimant to information that was already held on Government systems and in particular, HMRC’s Income Tax Self-Assessment system (“ITSA”). Figures submitted by self-employed individuals in their tax returns were (and are) the only reliable information available to HMRC for the purposes of assessing individuals’ trading profits and therefore the most logical basis for the design for the SEISS.

445. The advice I received was clear that reliance on ITSA returns was the only way to deliver a scheme effectively at the speed needed, as these returns were the most reliable and readily available source of data held by Government on the self-employed population and their earnings. Alternative designs for the scheme which did not rely on ITSA returns would open the scheme to significant risk of fraud as HMRC would not have been capable of verifying the claim. The trade-off was that individuals who were newly self-employed (i.e. those due to file a first ITSA return covering earnings in the 2019/20 tax year) would be unable to claim under the scheme. I was advised that officials were *“not aware of any dataset that can reliably and easily identify traders who have started trading since April 2019.”* Basing the scheme on ITSA returns also meant that Company Owner Managers (“COMs”) who paid themselves via dividends would not be eligible as these are not reported through an ITSA return. HM Treasury officials continued to consider the issue of COMs throughout 2020, and details of the key advice that I received on this issue is set out at paragraph 520 to 535.

446. In the initial advice, officials also recommended:

- (a) Covering only those with 50% or 66% of total income from trading/partnerships. This would *“remove the need to provide grants to employees with trivial*

amounts of trading income", and HMRC could easily identify taxpayers who met this criterion;

- (b) With respect to an upper limit of eligibility, the advice stated: "*[t]o constrain costs, and better target the support, we would strongly recommend limiting eligibility to at least £50,000, and you may wish to go further than this*" [RS/265 - INQ000583444]. On 23 March 2020, further advice was prepared ahead of my meeting with HM Treasury officials to discuss the proposed SEISS, including a costings table showing the impact of the eligibility limit [RS/266 – INQ000609264].

447. In terms of delivery, this submission considered whether payments would be made automatically or involve an application process. The advice noted (in line with my steers) that "*there is a strong case for making the grant conditional on meeting certain conditions given the considerable deadweight and fraud risks and overall costs associated with an automatic or blanket approach*" and "*[t]his will require HMRC to build an application or opt-in process*" [RS/265 - INQ000609185].

448. On 23 March 2020, I again met with HM Treasury officials to discuss the design of the SEISS. The advice that I received prior to this meeting prepared by HM Treasury officials regarding eligibility and conditionality of the SEISS recommended making the scheme opt-in and noted that HMRC estimated this could reduce take-up by 10-20% [RS/267 – INQ000609704].

449. On the same day, I received further advice setting out the scope of support available for different categories of the self-employed [RS/268 – INQ000609273], and a note setting out stakeholder analysis which noted that a large number of cross-sector organisations have been vocal in their calls for further support for the self-employed, including the FSB, Institute of Directors ("IOD") and TUC [RS/269 – INQ000609274].

450. On 24 March 2020, I met with HM Treasury and HMRC officials to discuss the development of the SEISS. The readout notes the various decisions I made during the meeting, which included that:

- (a) Eligibility for the SEISS was agreed to be on an 'opt-in' basis;
- (b) Applicants should derive at least 50% of their income from self-employment;

- (c) Grant awards should be calculated on trading profits rather than trading income (i.e. turnover) and capped at £2,500 per month to be paid as a single payment covering the three month accumulation period;
- (d) Individuals affected by the Loan Charge for whom HMRC has extended the filing deadline for their ITSA from 31 January 2020 to 30 September 2020 should be eligible for the scheme on the basis that permission had previously been given for them to file late;
- (e) It was fine in principle for individuals to be able to access the SEISS, CJRS and SME loans **[RS/270 – INQ000609276]**.

451. In light of my steers, HM Treasury and HMRC officials prepared a further submission on 24 March 2020 setting out the design decisions that had already been made, and the final decisions that needed to be made **[RS/271 – INQ000609186]**. An equalities assessment was provided with a view to ensuring that the SEISS operated equally and fairly.

452. The submission asked that I decide whether people who had not yet filed their 2018/19 tax returns should be eligible for the SEISS **[RS/271 - INQ000609186]**. Unlike brand new filers, HMRC already held some data on this cohort; however, they had not filed their ITSA tax return ahead of the deadline of 31 January 2020. This cohort included those who may have had reasonable excuses for late filing, and those for whom HMRC had already agreed a later submission date. The latter group included between 5,000 and 10,000 individuals affected by the Loan Charge policy, who had had their deadline for filing ITSA returns extended by HMRC to 30 September 2020 following an independent review.

453. The submission of 24 March 2020 also asked me to:

- (a) Confirm whether a £50,000 eligibility threshold should apply with reference to income in 2018/19;
- (b) Decide whether there should be a floor on trading income at 50% or 66%. I had previously indicated that the scheme should be limited to those for whom the majority of their income comes from trading/partnerships (i.e. their activity as a self-employed worker).

454. On 25 March 2020, I received a further submission which set out the outstanding decisions, as well as updated costings and suggested wording for the announcement of

the scheme. I was also provided with analysis of the numbers of workers within sectors of the self-employed population [RS/272 – INQ000609280] and a summary of engagement with key stakeholders [RS/273 – INQ000609282] [RS/274 – INQ000609281].

455. This submission also advised further upon the position in respect of taxpayers affected by the Loan Charge who had not yet filed their 2018/19 tax return. The submission on 24 March 2020 had set out that including late filers would increase fraud risk, although HMRC “*would try to mitigate some of this risk by applying some risk assessment checks to late returns this year.*” Weighing against these risks was the significant concern around unfairness for those groups where HMRC had previously given permission for late returns [RS/271 – INQ000609186].

456. I also received further advice on the same day (25 March 2020) which considered the issue of the SEISS potentially disincentivising self-employed workers. In designing SEISS, HM Treasury sought not to prevent or disincentivise self-employed individuals from continuing to work if they could, and if the restrictions allowed. This advice noted the work disincentives that would be created if a lump sum grant was awarded. This advice also noted the broader context of the Pandemic in that “*these disincentives should be viewed in the context of the health incentive to stay at home which may be just as persuasive for some people*” and, with regards to those on UC, “*the welfare system is relatively effective at incentivising people to work in normal times*” [RS/275 – INQ000609284].

457. It was possible and desirable to design a scheme which permitted the self-employed to continue working so far as possible during the Pandemic. Self-employed individuals were not required to abstain from working as this would have been counterproductive. Many self-employed individuals could work effectively and continue to earn money, supporting the economy in the process, within the public health restrictions put in place. In designing the SEISS, HM Treasury sought to provide a scheme that did not preclude or disincentivise self-employed individuals from continuing to work if they could and if the restrictions permitted. In practice, this meant that some people could receive the SEISS grant whilst still receiving a certain level of income, subject to meeting the eligibility criteria. Conversely, a pause in trade did not preclude them from receiving the grant.

458. On 25 March 2020, I approved the eligibility requirements for the SEISS, which included:

- (a) individuals were eligible if either their trading profits in 2018/19 accounted for more than 50% of their total income and were less than £50,000, or their average trading profits over the last three years were more than 50% of their total income over the last three years, and their average income of the last three years was less than £50,000;
- (b) 80% of an individual's trading profits would be covered by the scheme with awards capped at £2,500 **[RS/276 – INQ000609286]**.

459. I also confirmed that individuals who had not yet filed tax returns for 2018/19 should be included in the scheme, subject to additional compliance checks **[RS/277 – INQ000609279]**.

460. On 26 March 2020, I announced the SEISS **[RS/278 – INQ000086740]**.

461. On 2 April 2020, I received further advice from HM Treasury officials on various outstanding design decisions, which I approved on 3 April 2020 **[RS/279 – INQ000583413]**. This included advice on individuals who only had a partial year self-employment or gaps in trading, who would receive a lower grant than if they had worked the whole year; I agreed with the recommendation of officials that profits should not be pro-rated **[RS/280 – INQ000609314]**.

462. On 20 April 2020, I received advice from officials which outlined how the SEISS would work from the perspective of claimants. This advice indicated that when making the claim, the applicant will “*need to confirm they have been impacted by C-19*”.

463. This advice also addressed the risk of fraud with the scheme and noted that “*we recognise the imperative to make payments as quickly as possible*”. By way of mitigation against fraud risks, the advice provided that when processing claims they would be held for 24 hours beyond the 3-day BACS transfer (Bankers' Automated Clearing Services) processing period for anti-fraud checks for the majority of claimants, and “*HMRC will hold only those claims where there are markers of potential criminal attack for a further 48 hours for additional checks*”, noting that “*this is possible for SEISS where it wasn't for CJRS because of its specific design features and pre-claim risking*”. The advice noted that “*We have prioritised this pre-payment activity given the need to build the system quickly and defend against the primary criminal threat*” **[RS/281 – INQ000583765]**. On 21 April 2020, I agreed to these recommendations **[RS/282 – INQ000609357]**.

464. On 23 April 2020, I was sent a further submission by HM Treasury officials on final steers for the SEISS which included the proposed text for the claim form which would require applicants to self-certify that *“their business has been adversely affected by COVID-19”* [RS/283 – INQ000583877].
465. On 1 May 2020, HM Treasury published updated guidance on the SEISS [RS/284 – INQ000609375].
466. The first SEISS opened for claims on 13 May 2020 and closed on 13 July 2020. This was followed by a second grant application window (“SEISS 2”) between 17 August 2020 and 19 October 2020. Following officials’ recommendations, SEISS 2 covered 70% of an individual’s trading profits, with awards capped at £2,190 [RS/285 – INQ000609107].

Behavioural Nudges

467. Advice that I received from HM Treasury and HMRC officials throughout the development of SEISS suggested the inclusion of a tick box condition or declaration within the application form requiring applicants to declare that their trading income has been impacted by the Pandemic. This advice noted that any such declaration would be difficult to check or enforce, and its effect would be purely behavioural. For example:
- (a) A submission that I received on 22 March 2020 provided that *“a claims process could require applications to check a box that confirms their trading income has been impacted by Covid-19 ... though you should note these would be very difficult to check or enforce.”* The same advice also noted the scheme’s application process could invite applicants *“to confirm their business income has suffered impairment because of Coronavirus, to dissuade the most compliant self-employed taxpayers unaffected by Coronavirus from applying, reducing overall fiscal outlay”*. However, *“[i]t would be very hard for HMRC to go back and check after the fact, so the main effect would be behavioural”* [RS/265 – INQ000583444];
 - (b) A submission dated 23 March 2020 provided that one of the ways for building conditionality into the SEISS would be to *“[b]uild a series of questions into the application form which would require taxpayers to confirm they meet various criteria – this would primarily have a behavioural effect but could further reduce take up and cost.”* This advice recommended that *“any application process should require taxpayers to declare to HMRC that they meet certain conditions”*

and “[t]his could reduce take up and cost even further, primarily through behavioural effects.” This advice also noted that officials were exploring including a tick-box in which the applicant “confirms they are experiencing materially reduced trading or business income as a result of Covid-19 and government measures taken to combat it” [RS/267 – INQ000609704];

- (c) Advice that I received on 24 March 2020 suggested that “you could ask businesses to confirm that their income has been impacted by Coronavirus. This condition could never be enforced by HMRC, even on a backward-looking basis, as there is no way of determining how much money a business would have made absent Coronavirus.” As an alternative, this submission advised that “[y]ou could achieve the desired behavioural affect by including a strong statement at the top of the form explaining that the grant is intended to support self-employed taxpayers whose business income has been adversely impacted due to Covid-19, without asking taxpayers to check a box to declare this applies to them” [RS/271 – INQ000609186].

468. In subsequent iterations of the SEISS, a Reasonable Belief Test (“RBT”) was introduced, requiring applicants to declare their reasonable belief that their trading profits were significantly reduced as a result of reduced activity, capacity or demand due to the Pandemic [RS/080 – INQ000583534] (see paragraphs 497 to 499).

Consultation

469. My understanding is that HM Treasury officials made considerable efforts to reach all key stakeholders before preparing their advice on the scheme design, and this was reflected in the papers that were coming before me for consideration.

Stakeholder representing business and employees

470. HM Treasury officials had consulted with a range of key stakeholders ahead of the announcement of the CJRS on 20 March 2020 and had received calls for a scheme for the self-employed which would mirror the support offered to employees. This included the Association of Independent Professional and the Self-Employed (“IPSE”) and the Creative Industries Federation (“CIF”), who had organised a joint letter from a large grange of organisations to the PM calling for temporary income protection. Organisations including IPSE, CIF and the TUC also put forward proposals for how such a scheme could work. HM Treasury engaged with all these institutions as the SEISS was being developed, and after it had been announced.

471. HM Treasury officials also provided me with a summary of initial stakeholder analysis and engagement on 23 March 2020, prior to the scheme being finalised. This set out a suggested engagement strategy for cross-sector bodies and sector specific organisations, including the FSB, the IOD, the TUC, IPSE, Enterprise Nation, the Creative Industries Federation, TechUK, UNITE, United Private Hire Drivers, the Resolution Foundation, the Royal Society of Arts, and the Broadcasting, Entertainment, Cinematograph and Theatre Union [RS/269 – INQ000609274].

472. On 25 March 2020, I held calls with the FSB, IPSE and the TUC to discuss the emerging thinking on the design of the SEISS, which had been announced a day previously. The readout from the calls recorded that in general they “*welcomed the engagement, and supported the CX’s ambition and specific design choices. They recognised operational constraints, that the perfect should not be the enemy of the good, and that to be worthwhile the package would need broad, enthusiastic support from them and their membership*” [RS/286 – INQ000609287].

Devolved Administrations

473. HM Treasury officials held regular meetings with the DAs to ensure they were kept updated on development with the SEISS and subsequent extensions. From April 2020, HM Treasury officials attended weekly co-ordination meetings with the DAs, which were organised by the CO. There were also several separate meetings to keep the DAs updated on developments on UK wide economic support initiatives.

Socially and economically vulnerable groups

474. HMRC officials worked with the LITRG on communications and supporting material such as guidance to ensure that socially and economically vulnerable groups were aware of the SEISS. LITRG were part of HMRC’s advisory panel on SEISS, which ensured that the technical guidance and draft legislation were fit for purpose and provided the clarity needed by claimants [RS/279 – INQ000583413].

SEISS 3 and the circuit-breaker lockdown

475. As set out in paragraphs 150 and 158 above, the economic support measures throughout the Pandemic were implemented within the broader context of the Government’s strategy on NPIs to prevent the spread of the virus. As further restrictions were imposed, the economic support measures were extended or calibrated to provide

appropriate support to those affected. Where restrictions were eased, economic schemes and policies were pursued which were commensurate with and supportive of the economic activity allowed within that easing. This process was evident during the development of the third SEISS grant scheme (“**SEISS 3**”).

476. I engaged with officials in respect of the development of SEISS 3 from 16 September 2020 through to the opening of the application window for the scheme on 30 November 2020, and received updates on SEISS 3 beyond that date.
477. During the course of the development of SEISS 3, the epidemiological situation evolved. This required the Government’s NPI strategy for managing the virus to evolve in response, which meant that our approach to SEISS 3 also had to adapt to reflect that strategy. SEISS 1 and 2 were designed to work in the context of national shutdowns. By September 2020, NPIs were changing and operating on a localised basis. HM Treasury officials therefore had to consider scenarios where some sectors or geographical areas might close, whilst others would remain open. At the same time, officials were working on a successor scheme to the CJRS, which would eventually open as the JSS. The JSS was designed to ensure targeted economic support to businesses experiencing reduced demand due to the Pandemic, enabling them to ramp activity back up once NPIs were lifted.
478. SEISS 3 was initially developed within the context of managing the spread of the virus with localised interventions, in order to mitigate against the wider economic and social impacts caused by implementing more severe nationwide restrictions. Following the announcement of tiering on 12 October 2020, the scheme was recalibrated to provide greater levels of support to the self-employed whose ability to trade would be impacted by the imposition of restrictive NPIs. Again, following the announcement of the second lockdown on 31 October 2020, the SEISS 3 grant was again recalibrated to ensure that the provision of support was appropriate given the enhanced restrictions which were imposed nationwide. Whilst I was mindful of the need to ensure certainty for businesses and workers wherever possible throughout the Pandemic, the economic response was shaped by the spread of the virus and reflected the NPIs which were imposed in order to manage that spread.

Initial development

479. On 16 September 2020, I received a submission from HM Treasury officials on extending support for the self-employed. This was the initial advice I received on what would

become SEISS 3. This submission noted that *“the most straightforward option is extending the SEISS but targeting it more closely at those who have been significantly impacted by Covid-19 and reducing the generosity”* [RS/287 – INQ000609189]. Officials recommended that if the SEISS was to be extended then the conditions of the scheme should be changed, that the scheme should be more targeted, and the generosity of the grants reduced. In considering the options, officials sought to balance the trade-offs between targeting and fraud (because targeting would likely have reduced the costs of the schemes but increased the rate of fraud and error). In addition, officials also sought to take into account the data available and impact on compliance, particularly for the more targeted options.

480. The proposed ideas included:

- (a) The addition of further specific declarations to the application processes to act as behavioural nudges (for example, asking claimants if they had had a sustained fall in income or profits had decreased by a certain proportion) known as a Financial Impact Declaration (“**FID**”). This was revisited in respect of SEISS 4 (see paragraph 497 to 499);
- (b) A 'clawback' mechanism in which if the claimant's 2020/21 ITSA return did not show a decrease in profits, the SEISS 3 grant became repayable (this option had been ruled out for previous iterations of the SEISS due to complexity and the potential for hard cases. This was also revisited in December 2020;
- (c) A reduction to the generosity of the grant to mirror proposed changes in the JSS where for hours not worked, the recommendation was to split the costs equally between the employer, Government and the employee (through a pay cut) [RS/287 - INQ000609189].

481. On 22 September 2020, HM Treasury officials provided me with a further briefing note which set out the key arguments on whether to extend support for the self-employed, as well as some steers and decisions needed in relation to any such extension [RS/288 – INQ000609174]. Officials had considered the introduction of a scheme which was more targeted to those affected by local or national restrictions but noted there were considerable difficulties.

482. This advice noted that *“there is likely to be significant political pressure to mirror employment support, particularly targeted support for those affected by local or sectoral NPIs”*, and *“given we are providing employee support targeted at businesses told to*

close by the government (either on a local or national basis), there is a fairness case for parallel support for affected self-employed [RS/288 - INQ000609174].

483. This advice considered whether support could be targeted at those who were subjected to local NPIs. It noted that in the case of local restrictions “[w]e cannot determine whether the addresses we hold are home, business, agent or comms addresses”, and in any event “someone’s address may not be a good indicator of business impact - they may be operating in a local lockdown area but be unaffected.” I was advised that “[o]ur only sectoral data comes from self-assessment returns” and “it is not robust enough to verify sectoral impacts.” On the size of grants, the advice recommended reducing the proportion of income significantly from the 80% in the current SEISS. This advice also provided that “[g]iven the challenges of verifying anything beyond ITSA data, the only option that we could announce on Friday... is to extend the current SEISS but make the grant less generous” [RS/288 - INQ000609174].

484. Another potential option to target the SEISS was to impose a turnover condition, where applicants declared their income had fallen by a certain amount. However, no near real-time data was available to verify turnover reductions (only 10% of self-employed individuals submitted a quarterly VAT return and as noted above, ITSA is an annual return). Officials acknowledged that any further eligibility conditions would be reliant on self-declaration, with very limited downstream compliance.

485. On the same day, I met with officials to discuss the extension of support. Following this meeting I decided in line with the advice in the briefing note that I did not want to pursue a ‘local furlough SEISS’ option. The readout to officials asked that they deprioritise work on this over the coming days and instead focus on “working up an economy-wide extension to the SEISS”. I provided a further steer to officials that I wanted “to mirror as closely as possible the generosity and terms of the ‘Short Time Work’ scheme, but for the self-employed” [RS/289 – INQ000609128].

486. The same day, a decision notice was provided which set out two options for SEISS 3 [RS/290 – INQ000609474]. The “strongly recommended” option was to renew SEISS and require a self-declaration from applicants to confirm that they were “adversely affected”. This approach was designed to mirror the generosity of the JSS in which Government would pay 33% of costs for unworked hours, and the employer would pay another 33% and provided two options for the generosity of the grant, as follows:

- (a) Around 45% of trading profits, which would roughly mirror the total contribution (from Government and employer) on unworked house in the JSS;
- (b) Around 20% of trading profits covered, which would mirror the Government's contribution only on unworked house in the JSS.

487. The submission recommended the latter option on the basis that “*there is no requirement for a self-employed individual to work fewer hours, and therefore no minimum viability condition, a less generous grant will reduce deadweight from those who do not need the grant or will not be viable in future.*” This submission also recommended maintaining a maximum grant cap of either 40% or 20% of £3,125 profit (mirroring the CJRS maximum reference salary per month) [RS/290 – INQ000609474].

488. On 23 September 2020, I agreed with the second option of “*renewing the SEISS, and strengthening the wording and guidance of the current ‘adversely affected condition’ to drive behavioural response*” and confirmed that I would like the scheme to align with the Government contribution under the JSS [RS/289 – INQ000609128].

489. On 24 September 2020, I received a further submission from HM Treasury officials which set out further details on SEISS 3. This noted in respect of grant generosity that it was “*unlikely to be so generous as to disincentivise labour supply*” [RS/291 – INQ000609741]. The same day, I announced the extension of the SEISS (SEISS 3) in Parliament as part of the Winter Economy Plan [RS/292 – INQ000564285].

Introduction of the three-tier system

490. On 12 October 2020, the PM announced a three-tiered system of local alert levels, to come into effect on 14 October 2020. The tiers were categorised as having either a ‘medium’, ‘high’ and ‘very high’ local alert level, with each alert level having a corresponding set of NPIs.

491. On 15 October 2020, HM Treasury officials prepared a submission which requested steers on whether to extend the support to those who are unable to trade due to Government restrictions. This submission asked for a decision on whether to maintain the SEISS grant at 20% of trading profits [RS/293 – INQ000584018].

492. Over the weekend of 18 October 2020, I indicated that I wanted to make the State contribution towards the JSS more generous, and officials were asked to develop equivalent support for the self-employed. The readout to officials noted that “*in practice,*

this means that the SEISS is going to need to be much more generous” [RS/294 – INQ000609493].

493. The next day, I was provided with a submission from HM Treasury and HMRC officials which set out the options and cost implications of increasing the generosity of the SEISS 3 grant from 20% to 35% or 40%. The submission noted that I had confirmed I would like people who had been forced to stop trading due to restrictions to be eligible for the SEISS 3. It confirmed that *“the options presented are more targeted than the original SEISS generosity, to balance the deadweight that arises with different areas having different NPIs, reflect the shorter periods of NPIs and considering the more intense nationwide scale of the March lockdown”* and advised that *“the expansion of eligibility and increase in generosity the [SEISS 3] provides value for money”* [RS/295 – INQ000609494].

494. On 20 October 2020, I confirmed the position on eligibility for SEISS 3 in that people could access the scheme if they met either of the following conditions:

- (a) *“Currently actively trading and impacted by reduced demand”*;
- (b) *“Previously trading, intend to continue trading, can’t currently trade due to coronavirus”* [RS/296 – INQ000609502].

495. I also agreed to increase the generosity of the grants but asked for further costings to be undertaken by officials. I was subsequently provided with a table setting out the SEISS 3 requested costings [RS/297 – INQ000609504].

496. On 22 October 2020, a change to SEISS 3 was announced, which *“increases the amount of profits covered by the forthcoming self-employed grant from 20 per cent to 40 per cent, meaning the maximum grant will increase from £1,875 to £3,750”* [RS/298 – INQ000585852]. Prior to the announcement, I was provided with a briefing which reiterated the rationale and stated that *“[t]he Chancellor recognises the changing path of the virus that Covid-19 has had on the self-employed and has taken action to increase support”* [RS/299 – INQ000609510].

Second lockdown

497. On 31 October 2020, the PM announced the second national lockdown to commence on 5 November 2020. On 1 November 2020, I received advice from officials on the options for updating SEISS 3 in light of the new national restrictions which would soon be in force. Officials recommended increasing the generosity of the grant *“to reflect the*

stricter lockdown situation in November". The advice presented options to align SEISS 3 with either SEISS 2 (see paragraph 466) or SEISS 1 (see paragraph 458), noting that the latter "*equalises treatment of employees and self-employed individuals, as both will be receiving 80% to a maximum of £2500 for the month of November*" **[RS/300 – INQ000609784]**. On 2 November 2020, I confirmed that the SEISS 3 should align with SEISS 1 **[RS/301 – INQ000609137]**.

498. On 13 November 2020, HM Treasury officials prepared further advice on tightening the scheme, including introducing a RBT to allow for stronger messages and behavioural nudges in the guidance as well as amending the eligibility criteria to include those whose business had been affected by caring responsibilities directly resulting from the Pandemic, to align with the policy intent of the scheme **[RS/302 – INQ000609140]** **[RS/303 – INQ000584039]**.

499. The introduction of a RBT was considered to strengthen the targeting considering the decision to increase the generosity of the third grant and the extension of the CJRS, particularly in light of the removal of the 1-week minimum period under 'unable to trade'. The RBT that was recommended was a declaration that claimants "*reasonably believed that any reduced demand they suffer would result in a significant reduction in trading profits compared to what they would otherwise expected to have achieved*". The aim of this declaration was to encourage potential claimants to consider whether the impact was significant to their business profits (without having to require an apportionment of their total costs which they were unlikely to have been able to do at this point) and could not be mitigated through their wider circumstances, before claiming the grant **[RS/303 - INQ000584039]**. A similar condition for SEISS 1 had initially been considered in the advice of 24 March 2020 **[RS/271 – INQ000609186]**.

500. I approved these recommendations on 18 November 2020, and they were incorporated into the Treasury Direction implementing the scheme, and into public guidance ahead of the scheme opening **[RS/304 – INQ000609142]**.

501. The application window for SEISS 3 opened on 30 November 2020 and closed on 29 January 2021.

Decision to end the SEISS

502. On 28 January 2021, I was sent a briefing note on the future of the SEISS by HM Treasury officials, which set out the case for continuing support, a spectrum of options, and potential models within each **[RS/305 – INQ000609673]**. By that time, the detail of SEISS 4 was in development. The fact there was going to be a fourth grant application window had been decided upon and announced in September 2020. SEISS 4 was subsequently open for applications between 22 April 2021 and 1 June 2021.
503. On 1 February 2021, my Private Secretary responded to confirm that I was “*persuaded that, while we do need to continue supporting the self-employed beyond the end of SEISS 4, we should make any future schemes more targeted and flexible*” **[RS/306 – INQ000609150]**. I provided HM Treasury officials with steers as to development of this scheme which included that, as a starting point, SEISS 5 should broadly mirror decisions on CJRS, and should introduce a backwards-looking financial impact test. Further to my steers, HM Treasury officials worked on developing SEISS 5 over the subsequent weeks. On 3 February 2021, I received further advice from HM Treasury officials on the parameters for SEISS 5 **[RS/307 – INQ000609596]**.
504. On 12 February 2021, HM Treasury officials put up a submission for SEISS 5 which set out two models with a recommendation that I opt for the model of introducing SEISS 5 as a two-tier grant enabled by an FID **[RS/308 – INQ000609172]** **[RS/309 – INQ000609866]**. The purpose of the FID was to target support at those who need it the most as the economy reopened. I was advised that there was a stronger case for this targeting in SEISS than in CJRS, and that the FID would target the greatest amount of support to those who were most impacted between April 2020 and April 2021 while beginning to reduce support for the remainder. Officials advised that “*[t]his provides the clearest exit strategy, while potentially reducing the cost of the SEISS grant further and improving the value for money assessment.*”
505. On 16 February 2021, HM Treasury officials sent me advice on SEISS 5 outstanding policy decisions. This advice recommended that SEISS 5 cover impact between 1 May and 30 September 2021 and open for claims in July 2021 **[RS/310 – INQ000609833]**.
506. On 17 February 2021, I made the decision that SEISS 5 would provide a grant of 80% for those suffering a 30% turnover reduction or more, and a lower grant of 30% for others eligible. I also confirmed my decision that SEISS would cover the period 1 May to 30

September 2021 [RS/311 – INQ000609155]. SEISS 5 was announced in the Budget on March 2021 [RS/312 – INQ000609903].

507. Around the time that SEISS 5 was being developed, work was going on across Government towards the Roadmap out of lockdown and towards re-opening the economy. As set out earlier in this statement, the approach to the phased withdrawal of economic support measures was considered, developed and calibrated within the broader context of the relaxation of NPIs. On 8 February 2021 I attended a Bilat with the PM to discuss the Roadmap.
508. As recommended by SAGE, each step in the Roadmap out of lockdown would be separated by five weeks, giving four weeks to gather data and a further week to relax on the impact of the previous step before moving forward with the next stage on the Roadmap. The CSA endorsed this approach considering the uncertainties that existed [RS/115 - INQ000232135]. The PM announced the Roadmap on 22 February 2021, in which progression to the next step would be predicated on consideration across four metrics of the impact of the previous step [RS/114 - INQ000089798].
509. At a Cabinet Meeting on 20 April 2021, I provided an update on the economy. Whilst noting that *“the economy was performing better than expected”*, I said that *“the labour market was the Government’s number one challenge”* [RS/116 - INQ000089045]. This concern with the labour market provided the rationale and justification for the continuation of the income support schemes, including SEISS, at that time.
510. The proposed end dates for economic support schemes, including SEISS, were extended beyond the proposed dates by which the NPIs would be relaxed in the Roadmap in order to provide some leeway in case there was slippage with progress along the Roadmap and associated easing of restrictions. This approach proved to be prudent given that, following the emergence and spread of the Delta variant of the virus in June, I was advised by HM Treasury officials on 12 June 2021 to support delaying the move to Step 4 in light of the epidemiological data and public health impacts. Step 4 of the Roadmap was eventually delayed by four weeks from 21 June to 19 July 2021. The same briefing noted that the budget package was designed and communicated on the basis that it extended comfortably beyond the Roadmap and *“there is no need to adjust the economic support package announced at Budget to respond to a delay of the length under discussion”* [RS/088 - INQ000113743].

511. At a Cabinet Meeting on 12 July 2021, the decision to move to Step 4 on the Roadmap on 19 July 2021 was approved [RS/117 - INQ000088903]. Step 4 entailed the reopening of all closed settings, the revocation of social distancing guidance and Covid-secure legislation, and removal of guidance encouraging people to work from home where possible.
512. On 27 July 2021, I was sent a submission by HM Treasury officials which provided an update on contingency planning for economic support focused on the upcoming end of the September 2021 transition period when various economic support schemes, including SEISS, would end. This advice provided that “[e]xit from existing economic support schemes is a necessary part of the transition back to a normally functioning dynamic economy and a fiscally sustainable spending plan”. As already discussed above at paragraph 234, this advice noted that there was “a good case for moving away from the current package” of economic support schemes, in that “extending existing support would risk artificially propping up job matches and weaker firms that are no longer viable, inhibiting reallocation of capital and labour to stronger firms and offering poor value for money”. The advice provided that, in an upside scenario in which economic activity and output recovered, “we would not recommend ... further self-employed income support” [RS/119 – INQ000611620] [RS/313 - INQ000609651].
513. SEISS 5 opened for claims on 29 July 2021. HMRC officials provided an update to HM Treasury in an email of 11 August 2021 confirming that early data indicated “a significant decline in the number of claims for SEISS 5 compared to previous grants” [RS/314 – INQ000609657].

Transitional arrangements

514. On 6 September 2021, I received advice from HM Treasury officials which considered whether further support for the self-employed would be required during the transition period following the end of SEISS at the end of the month. This advised that “[w]e do not think that there is a case for providing any further blanket support to the [self-employed] when the SEISS and other support ends in September”, whilst noting that some self-employed people may continue to be impacted by ongoing sectoral specific impacts of NPIs beyond the end of September 2021. The advice recommended that Government proceed with signposting self-employed to existing support, without committing to any new spending; engage with DWP to ensure that the self-employed are supported by a new DWP policy for in-work progression; and engage with BEIS improve business focused support [RS/315 – INQ000658466] [RS/316 – INQ000656272].

I subsequently agreed to these recommendations [RS/317 – INQ000609666] [RS/318 – INQ000609665].

515. The Plan for Jobs update (see paragraph 1031) prepared by HM Treasury and published by the Government in September 2021 illustrated that the labour market was performing strongly, noting that “[t]he headline unemployment rate has fallen for 6 consecutive monthly releases”, and “job vacancies are now at record highs”. With respect to SEISS, the Plan for Jobs stated that “[i]n recent months the number of people claiming SEISS grants has dramatically fallen” and indicated that the rates of uptake for SEISS support had decreased from each grant cohort to the next [RS/120 – INQ000236929].
516. This demonstrated that the Government’s plan to support workers back into the labour market as the economy recovered was working, and the need to continue to provide support for the self-employed was diminishing.
517. The final evaluation of the SEISS published by HM Treasury and HMRC on 17 July 2023 confirmed that the take-up rate of the SEISS reduced from each grant to the next. This started at 77% for SEISS 1, 69% for SEISS 2, and 65% for SEISS 3, before reaching 58% for SEISS 4 and dropping significantly to 38% for SEISS 5 [RS/080 – INQ000583534].

Decision not to re-introduce SEISS in response to Omicron

518. As mentioned at paragraph 169, in response to the spread of the Omicron variant, the Government imposed the ‘Plan B’ measures in December 2021.
519. On 17 December 2021, I received a template term sheet from officials for a possible further SEISS grant. This set out the rationale for a ‘SEISS 6’ which “during a period of substantial NPIs would provide income support to many of the self-employed who have been adversely affected by Covid” and would be “likely only necessary where the economy is facing widespread closures” [RS/319 – INQ000609711]. It transpired that substantial NPIs and/or widespread closures were not implemented and as such economic activity was not severely impacted by Omicron. A reintroduction of the SEISS was therefore not required.

Consideration of COM Scheme

520. Officials considered options to design a scheme that would replace COM dividend income on multiple occasions over 2020 and 2021. However, there were fundamental problems, largely associated with the availability of data, meaning that it did not prove possible to design a deliverable scheme that met the policy intent, delivered appropriate value for money and limited fraud to a tolerable level. These problems are outlined below (see paragraphs 521 to 535) as they applied to all official attempts to design a workable scheme.
521. It was not possible for HMRC to distinguish between dividends paid to remunerate labour versus those paid for other reasons; for example, dividend income could include property income, dividends paid to a director's non-working spouse or returns to capital/investment. A complex set of eligibility criteria would be required to avoid replacing investment or other non-labour income, and it would be necessary to rely on claimants certifying the source and/or providing additional evidence which would require manual, downstream checks.
522. As there is no statutory definition of a COM, identifying this group and targeting compensation for eligible activities was extremely challenging and the proposed solutions relied on 'proxy' definitions. As a result, any eligibility criteria would likely be subject to further challenges, would create yet more 'cliff-edges' of support, and would likely still capture some unintended claimants. ITSA returns contained tick boxes which allowed HMRC to identify 'company directors,' and 'directors of close companies' and so officials used as proxy criteria those individuals who had indicated that they were directors of close companies, as they were more likely to be the appropriate targets of a support scheme (they have more control over dividend issuances, so were more likely to use dividends as a form of remuneration). However, reliance upon these tick boxes raised significant issues as it was not possible to confirm whether the director undertook work for the company rather than being a non-active director or investor. In addition, some close company directors may have failed to tick the 'close company director' box on the ITSA. Therefore, using the close company director box as eligibility criteria would both have; (a) ruled out people who should have been included and (b) included people who should have been ruled out.
523. Any solution was likely to be extremely resource intensive for HMRC - it would require HMRC needing to manually check the evidence provided from claimants, and cross check this with any data already held, often from disparate sources, such as corporation

tax returns, ITSA returns, or data from Companies House. Further, any new mechanism that permitted claims directly to HMRC could create an enormous volume of HMRC contact, which HMRC would struggle to manage given current pressures arising from other schemes already underway and could potentially threaten the successful delivery of the other economic support schemes.

524. There was a substantial risk of fraud. Officials noted this was likely to be a large and (based on previous evidence) behaviourally high-risk population; the self-employed and micro-business population represent a significant proportion of the tax gap. The scheme would be subject to significant error and fraud as, unlike the CJRS and SEISS, it would rely on claimants' own assessment of the source and quantum of eligible dividend income. The more complex the scheme was, the higher the risk of non-compliance due to error and the scheme was vulnerable to both opportunistic fraud (i.e. claiming for dividend income that is not eligible) and for more systemic criminal attacks on the system, (for example, using criminally controlled entities to submit false claims or hijacking legitimate claims). Any 'pay now, check later' approach is, by design, highly susceptible to fraud, and it would be extremely challenging to police the scheme and reclaim any inappropriate payments further later, once they have already been paid out. The scale of the population meant HMRC were unlikely to be able to achieve significant coverage through post-payment work making it difficult to sustain a narrative that downstream checks would mitigate the fraud and error.
525. The rationale for supporting dividend incomes was fundamentally different to supporting wages or trading profits through other schemes. This is because dividends are a distribution of profits; COMs could choose how and when to pay them. Therefore, the level of dividends paid at any point was unlikely to reflect a company's profitability, making a scheme designed on this basis poorly targeted.
526. The SEISS was announced on 26 March 2020. HM Treasury officials continued work on the position of COMs who took income in the form of dividends through April and May 2020, and considered this issue at many points during the operation of the SEISS. I was provided with advice on details of the COM population and dividends on 12 May 2020 [RS/320 – INQ000609390] [RS/321 – INQ000609719] in advance of a meeting the next day [RS/322 – INQ000609391], which was followed up by further advice on 20 May [RS/323 – INQ000583739] and information and statistics on 22 May [RS/324 – INQ000609408] [RS/325 – INQ000609703].

527. Stakeholders had suggested that compliance risk could be managed by using chartered accountants to verify some of the evidence that claimants would submit to HMRC. Although this could help mitigate some of the risk of error and serve as a behavioural deterrent to some opportunistic fraud, it would not have eliminated the need for self-certification throughout the scheme. This would also add considerable compliance and operational complexity – for example, HMRC need to verify the accountants providing the services and their relationship to the claimant; and accountants may charge a fee for these services to some clients, which would raise questions of fairness and accessibility.
528. The advice of 20 May 2020 did not recommend pursuing further support for this group, noting there were “*fundamental questions about whether COMs should be given further support; whether there is a coherent rationale for supplementing dividend income paid to COMs; and the priority of delivering this scheme over other commitments.*” On 28 May 2020, I decided not to pursue a specific scheme to support COMs [RS/326 – INQ000609410].
529. Over time, some stakeholders developed their own proposals for support schemes for those who pay themselves through dividends. HM Treasury and HMRC continued to consider this issue, including the feasibility of these proposals.
530. In November 2020, the FSB put forward proposals for a Directors Income Support Scheme (“DISS”) to support COMs, where a grant would be calculated based on Corporation Tax returns and paid to the company, who would then pass this onto directors [RS/327 - INQ000656262] [RS/328 - INQ000616545] [RS/329 - INQ000583501]. They suggested that such a scheme could cover sole director companies, companies with a small number of working directors, or persons of significant control in a micro-entity. HMRC compliance officials confirmed that the proposed scheme was heavily reliant on self-certification as HMRC had no way to verify dividend or director remuneration amounts or who they were paid to and so the proposed DISS would be difficult to police and vulnerable to fraud. Information on directors and shareholders from Companies House is self-declared and not verified for accuracy. In addition, the proposal suggested using company profits as a measure to calculate the grant, but this did not take into account how much income each individual COM actually took from the company (if any). Companies could therefore receive grants where the directors did not receive any money from the company, for example silent directors or shareholders such as spouses, or where profits had been retained in the company. COMs may also have had additional income from the company such as wages and

director's loan accounts as well as other sources, which if not taken into account, could lead to grant amounts awarded in excess of the equivalent for SEISS. Officials therefore felt that the DISS proposal was not viable due to these flaws in verification and the need for fraud prevention [RS/330 – INQ000608554].

531. In January 2021, officials returned to the position of COMs and had a meeting with me on 8 January 2021 to discuss whether it would be possible to define the COM population more narrowly to prepare a support scheme [RS/331 – INQ000609575]. Officials prepared a detailed submission on 13 January 2021 [RS/332 – INQ000609579] in advance of a further meeting [RS/333 – INQ000609581] where further advice on this issue was provided [RS/334 – INQ000609875] [RS/335 – INQ000609879]. The submission set out that in theory the target for support in the COM population would be those supplying labour through a company form or operating a micro-business and taking a substantial portion of their income through dividends, and who had seen a reduction in trade. The advice again attempted to design a targeted scheme that paid only to a subset of COMs, using criteria broadly aligned with the SEISS requirement for total income to be less than £50,000 with half from trading profits.

532. The general challenges of such a scheme remained, and in addition this advice set out the following challenges in identifying an appropriate subset of the COM population.

- (a) Restricting to all directors with less than £50,000 total income and at least 50% of their income from dividends would narrow the population but would systematically exclude lower income COMs - for example someone taking a salary up to £12,000 and supplementing this with £8,000 of dividend income;
- (b) It was very difficult to identify the relevant population. The support was only intended to target dividends that were paid out as a result of trade, but ITSA returns could not distinguish between this cohort and those who should not be receiving income support (for example, non-working directors such as investors or spouses);
- (c) There was no way to confirm whether dividends reported on a tax return came from the directorship rather than from other investments, meaning "*any calculation as to how much an individual was entitled to under a SEISS-style scheme would partly rely on self-certification.*" The alternative option of a flat-rate grant resulted in inefficiencies and deadweight and would not mitigate the issues around identifying the correct population;

- (d) Paying support to COMs who ticked the 'close company director' box (there were 300,000 individuals with an income of less than £50,000 but who receive more than 50% of income from dividends), would risk excluding a large number of COMs who were in the same position as those receiving support, but had not ticked the relevant box.

533. In addition, the advice noted that as it was not possible for COMs to be included in SEISS. A new scheme would need to be designed either based upon the SEISS or an entirely different scheme, potentially delivered through LAs. It also highlighted concerns around the deliverability of the scheme.

534. In response to my requests, officials prepared a note dated 19 January 2021 explaining why no COM scheme had been set up and how to respond to external suggestions for a scheme (such as the DISS). This note reiterated the lack of HMRC verifiable data, highlighting that external bodies had struggled to agree on how to identify an eligible population with estimates ranging from 710,000 to 1.8 million. It set out that approximately 3.3 million people had reported dividend income, and that taking external estimates of an active director population of 710,000, providing financial support to those with dividend income could result in more than three out of four grants going to people to whom support was not intended. The note also explained that no data was available to verify what parts of their income to support and that relying on self-certification to identify directors or determine income splits could therefore open any scheme up to unacceptable levels of fraud and error. Finally, the population of 3.3 million would still exclude large numbers of people who did not file tax returns or declare their dividend income to HMRC (for example, active directors with low dividend income below £2,000 tax-free allowance or those who reported their dividend income over the phone to HMRC) [RS/336 – INQ000609584] [RS/337 – INQ000609668].

535. On 21 January 2021, a readout acknowledged the hard work over many months considering this issue and confirmed that I had decided not to create a specific scheme to support COMs [RS/338 – INQ000609587].

Safeguards against Fraud and Error

536. Notwithstanding the urgent development of the SEISS, the advice that I received from officials throughout the development of the scheme demonstrates the prevalence of concerns within HM Treasury and HMRC about the risk of fraud and how this could best

be mitigated in the design and delivery of the SEISS. This resulted in less fraud across the scheme than they had initially anticipated. The final estimate of error and fraud for the entire SEISS scheme was between 4.2% to 6.3% (£1.2 billion to £1.8 billion), with a most likely value of 5.2% (£1.5 billion).

537. During the design phase of the scheme, to the extent it was possible to do so, controls were put in place to address concerns of potential organised crime. Compliance measures built into the scheme design and claims process included:

- (a) Potential eligibility and the grant amount paid was based on data already held by HMRC;
- (b) Individuals had to declare that they had been impacted by Covid when claiming SEISS grants and those rules were tightened throughout the scheme;
- (c) Controls were developed and introduced in response to known compliance risks within the ITSA population;
- (d) Controls in the payments process were strengthened to help ensure only genuine customers received payment where they reported their account had been compromised;
- (e) Clear messaging was set out that HMRC would recover overpaid grants;
- (f) Guidance was provided on GOV.UK on how to repay overpaid grants.

538. In addition, compliance checks introduced in April 2020 in order to reduce the risk of fraud from those filing late included:

- (a) Removing known criminally compromised Unique Taxpayer References before invitations were issued;
- (b) Using standard risking models, refreshed daily with latest data and intelligence, to identify and block bogus or hijacked accounts;
- (c) Building a window into repayment processes for essential anti-fraud checks – monitoring transactions and triaging suspect cases **[RS/339 – INQ000609372]**.

539. As the SEISS developed, further design features were considered and introduced to mitigate the risk of fraud and error including:

- (a) HMRC's Behavioural Insight specialists considered and amended guidance to better target the scheme extension of SEISS 1 to SEISS 2 **[RS/340-INQ000583946]**;
- (b) An RBT was introduced in SEISS 3 to provide stronger messaging which was complemented by updates to the accompanying guidance to the scheme (see paragraphs 497 to 499);
- (c) Officials provided detailed advice on the introduction of the 'Pandemic Year RBT' when initially considering the eligibility criteria for SEISS 4 **[RS/306 – INQ000609150]**;
- (d) For SEISS 5, an FID was introduced (see paragraph 504).

540. In January 2021, in light of continued concerns, officials prepared a detailed submission setting out a package of new Covid-19 anti-fraud measures **[RS/341 – INQ000609586]** **[RS/342 – INQ000609585]**. This included:

- (a) HMRC deployment of compliance resources of 1,150 people for 2 years on CJRS and SEISS. This would ultimately become the Taxpayer Protection Taskforce;
- (b) A targeted comms plan to significantly raise the profile of sanctions and act as a strong deterrent.

541. The final SEISS evaluation (discussed further at paragraphs 542 to 544 below) noted that pre-payment controls were put in place to address notable risks, including from organised crime groups who could have hijacked customer identities or manipulated ITSA returns to secure grants.

Evaluation

542. In 2022-2023, HM Treasury and HMRC undertook a joint evaluation of the SEISS to provide transparency and accountability around the use of public funds, and to learn lessons for the future.

543. An interim evaluation was published on 13 October 2022 covering SEISS 1 to 3 **[RS/253 – INQ000583509]**. The key findings of this interim evaluation were:

- (a) Delivery of the SEISS was implemented swiftly, from the policy design through to payment of grants to individuals;
- (b) Using data from filed Self-Assessment tax returns allowed support to be provided quickly to individuals and minimised the risk of error and fraud;
- (c) A lack of timely and verifiable data about self-employment income and profits constrained the scope of the scheme;
- (d) The scheme was easy to understand, and the claim process was simple;
- (e) The SEISS succeeded in helping many self-employed people who were most affected by Covid-19. However, there were significant variations in outcomes;
- (f) Early findings show that the SEISS helped support businesses to continue trading.

544. The final evaluation was published on 17 July 2023 [**RS/080 – INQ000583534**]. The key findings were:

- (a) The SEISS was good value for money, with a positive net benefit to society of £14.2 billion and a social benefit to cost ratio of 3.8:1;
- (b) The SEISS was designed and implemented swiftly. The scheme was easy to understand, and the claim process was simple;
- (c) The SEISS helped support trading profits and incomes for many self-employed people who were most affected by Covid-19. While some groups fell outside the eligibility criteria due to the use of Self-Assessment data, the need for the scheme to be easy to understand and access meant that it was not possible to create a highly detailed scheme that could perfectly account for the wide variety of individual circumstances;
- (d) The SEISS helped support businesses to continue trading in the short term, however whether the scheme had a longer-term impact on business survivability was less clear due to the lag in Self-Assessment data;
- (e) Error and fraud were effectively managed throughout the lifetime of the SEISS, even as stricter eligibility criteria were introduced, to successfully target the scheme.

Part J: Business Support – Business Grants

545. Throughout the Pandemic, the Government put in place financial support to safeguard as many businesses as possible from the effects of the legal requirements to close, and from the wider economic effects. The Covid-19 Business Grant Schemes (“BGSs”) package helped to support businesses and protect the economy against the adverse effects of the Pandemic, allocating almost £27 billion of funding to LAs in England to facilitate support for an estimated 1.4 million businesses [RS/343 – INQ000236871] [RS/079 – INQ000585832].
546. Approximately 90% of the funding was delivered by targeted BGSs offered to businesses in sectors required to close by law, including retail, hospitality and leisure (“RHL”), and those severely affected either by restrictions or guidance. The remaining 10% was delivered through discretionary schemes which extended support to other business sectors [RS/343 – INQ000236871]. When Covid-19 restrictions eased, the Restart Grant (“RG”) provided support to re-opening businesses. In January 2022, in response to the Omicron variant, additional targeted and discretionary funding was made available.
547. The BGSs were predominantly targeted at and delivered to micro businesses with less than 10 employees. 78% of targeted grants and 89% of discretionary grants were awarded to micro businesses. A further 15% of targeted grants and 9% of discretionary grants were paid to small business, with 10 to 49 employees [RS/343 – INQ000236871].
548. BGSs paid £22.6 billion through 4.5 million payments over two years and reached the smallest businesses that were expected to face the most significant disruption because of the Pandemic. The rapid mobilisation was crucial in stabilising consumer demand and protecting approximately 300,000 to 400,000 jobs [RS/079 – INQ000585832] and saving up to 59,000 businesses from closure.
549. The BGSs were welcomed and endorsed by a range of stakeholders and independent external bodies. For example:
- (a) In May 2020, the British Chambers of Commerce Director General noted *“it is welcome to see additional funding allocated to support some of these hard-pressed firms. Clarity and speed are of the essence. Many of the companies that have been unable to use existing government support schemes are already*

on borrowed time – and will need these grants paid out swiftly if they are to survive” [RS/344 – INQ000655725];

- (b) In June 2020, the Institute of Fiscal Studies reported that *“providing grants to the occupiers of almost half of all non-domestic properties in the country, will undoubtedly provide important support to both cash flow and balance sheets: businesses will be more likely to survive, and economic recovery will be stronger than in the absence of these schemes. And the schemes had to be designed and implemented rapidly given the sudden and large impacts of the coronavirus crisis on economic activity” [RS/345 – INQ000655726];*
- (c) In March 2021, the Federation of Small Businesses welcomed the announcement of further grant funding and noted *“this money – £5 billion for 700,000 businesses - is a significant cash injection for non-essential retail, pubs, bars, restaurants, gyms, hairdressers and beauty salons. It will provide a much-needed lifeline, offering firms some reassurance as we look to put lockdowns behind us and focus on a vaccine-fuelled recovery” [RS/346 – INQ000655727];*
- (d) In December 2021, the British Chambers of Commerce Director General wrote to me noting that *“the schemes you have put in place throughout the Pandemic have saved many firms and jobs as they looked to survive extended periods operating under restrictions” [RS/347 – INQ000609684].*

Policy objectives and challenges

550. A key concern at the outset of the Pandemic was that small businesses would face temporary cashflow problems and were at risk of failing without immediate support, particularly SMEs reliant on customer and visitor footfall, such as those in the RHL sectors. There were also concerns about the wider economic impact of SMEs failing without immediate support, such as the impact on growth and economic capability, together with the impact on other Government policy goals, such as the swift re-opening of businesses post-Pandemic and supporting employees through furlough.

551. One of the policy objectives of the Cohort One schemes was to ensure that businesses that would not benefit from business rates relief (because they already received Small Business Rates Relief (“SBRR”) which provided 100% relief from any tax burden) were able to benefit from an alternative form of support. The loan schemes launched during the Pandemic were not considered appropriate for some SMEs who were unlikely to be

able to repay their loans in the short to medium term. The intention was to target the

grant scheme where it would have the biggest impact, namely at SMEs who were unlikely to receive support under the wider package of economic support.

552. The development of the BGSs presented a number of significant challenges and, as with other economic support measures introduced during the Pandemic, required trade-offs in their design and implementation. Specific challenges were as follows:

- (a) The BGSs were designed to provide direct grants to private businesses on an unprecedented scale. This gave rise to difficult questions about targeting funds robustly and fairly. There was limited data within central Government identifying businesses based on their size or sector;
- (b) The design of these schemes was based on the best available information at the time about the Pandemic and there was uncertainty about the future course of the NPIs and how businesses would respond (for example, support was initially offered to all retailers whereas some businesses, such as supermarkets, continued to operate throughout the Pandemic). Further grants were introduced over the course of the Pandemic to respond to the various Government interventions and national and regional lockdowns. As such, the chronology of the different and multiple BGSs (as set out further below) is unavoidably complex;
- (c) Given the lack of data held by Government centrally on businesses size and sector, there was heavy reliance on business rates data held by local government. LAs were asked to rapidly distribute large sums, leading to questions about how to manage risk. It also meant that in addition to HM Treasury, three other central governments played a role, namely MHCLG, BEIS and the DHSC;
- (d) The BGSs were implemented at unprecedented speed. Several of the schemes were urgently developed over a matter of days to effectively mitigate against the risks of widespread business failings. This meant that there was little time to undertake full value for money and impact assessments and engagement was challenging;
- (e) Issues with fraud mitigation and risk were considered throughout in respect to the BGSs. However, this had to be balanced against the imperative to provide appropriate support to businesses quickly, to help maintain business confidence and viability.

Overview of the grants

553. The first BGSs were introduced in March 2020 comprising the Small Business Grant Fund (“**SBGF**”), the Retail, Hospitality, and Leisure Grant Fund (“**RHLGF**”) followed by the Local Authority Discretionary Grant Fund (“**LADGF**”). These were collectively known as the ‘**Cohort One**’ schemes. These grants ran from March 2020 to August 2020, largely in response to the first national lockdown.
554. In August and September 2020, the ‘**Cohort Two**’ BGSs came into effect, starting with the Local Restrictions Support Grant (Closed) (“**LRSG (Closed)**”) in September 2020, followed by the introduction of the Local Restrictions Support Grant (Sector) (“**LRSG (Sector)**”) and the Local Restrictions Support Grant (Open) (“**LRSG (Open)**”) in October 2020. The discretionary Additional Restrictions Grant (“**ARG**”) commenced in November 2020 and ran until March 2022. The Christmas Support Payment (“**CSP**”) was put in place in December 2020. Finally, the Closed Business Lockdown Payment (“**CBLP**”) was introduced in January 2021 as part of a wider Business Support Package for the third national lockdown. These BGSs reflected the NPIs strategy and initially targeted businesses impacted by restrictions which were implemented on a localised basis. They were then adapted to reflect the tier-based system and further extended and recalibrated in response to the second and third lockdowns.
555. The ‘**Cohort Three**’ BGSs comprised of the RG, which was open from April to July 2021, and the Omicron Hospitality & Leisure Grant (“**OHLG**”), which was open between January and March 2022. These were more sector based, with the primary objective of supporting businesses to safely reopen and recover as NPIs were eased in line with the Government roadmap for lifting the lockdown. It also included a final, targeted grant to assist businesses impacted by the rise of the Omicron variant of Covid-19.
556. The following timeline illustrates the opening and closing dates of all the BGSs [RS/343 – INQ000236871]. Whilst it refers to Cohorts One and Two only, the RS and OHLG should be considered as Cohort Three as per the delineation above.

Figure 5: Timeline of grant schemes showing opening to closing dates (Source: scheme guidance for Las)



Cohort One

557. At the date of closure of the Cohort One schemes, the number of grant payments made under the SBGF and the RHLGF was 906,689, equating to a value of £11.1168 billion. The number of grant payments made under the LADGF was 93,073, with a total value of £562.9 million [RS/079 – INQ000585832].

558. HM Treasury led on the policy design of the Cohort One schemes. I received advice from officials on the overarching design elements which had to be introduced at unprecedented speed. As mentioned above, the speed at which the Cohort One schemes had to be designed and delivered, together with the lack of data about the characteristics of individual businesses, created a significant challenge for the design and implementation of the BGSs. Central Government did not have a data system to identify or pay businesses targeted support based on size or sector, or to ascertain whether the business was still trading. Such a system would have allowed the Government to deliver more targeted support. This limited the options available to deliver grants to businesses. For this reason, it was decided that the most appropriate option was to use business rates data to target and facilitate rapid delivery of the grants to businesses. LAs also had legal authority to provide funds to businesses, and previous experience administering grants of a similar nature. Given the imperative to ensure support reached businesses as quickly as possible, the first BGSs were designed to be simple for LAs to administer and largely relied on an automated system to identify eligible businesses, without requiring them to apply. To help target support to businesses in

need, LAs were given discretion as to the distributions of grants to businesses in their area.

559. BEIS was responsible for translating the BGSs into operational programmes and allocating the funding to LAs. MHCLG provided assistance by, for example, ensuring appropriate guidance was in place for LAs. I have set out the chronology of my decisions concerning the design and implementation of the Cohort One schemes below. Given the sensitivities about information and announcements concerning the Government imposing or changing rules around NPIs, it was not always possible for HMT officials to engage in extensive consultation with LAs during the design of BGSs prior to their announcement. My understanding is that some targeted consultation was undertaken by HMT and MHCLG with trusted LAs during initial design, and further engagement then followed to agree details around delivery.

Cohort One – Small Business Grant Fund and the Retail, Hospitality, and Leisure Grant Fund

560. On 7 March 2020, I advised officials that I wanted “*to pursue grants to local businesses (SMEs) for Budget*” and requested further advice [RS/348 – INQ000609213]. Whilst I envisioned that the grants would be administered by LAs, I was open to alternative suggestions for delivery.

561. On 8 March 2020, I received a submission from HM Treasury officials on the options available to distribute grants through LAs to support small businesses. Pending advice from BEIS on other possible payment mechanisms, officials advised that “*LAs are conceivably a viable mechanism*” for administering small business grants. In the submission, HM Treasury officials set out the challenges of distributing a large-scale business grant scheme through LAs, including: setting up systems and processes to administer grants; establishing criteria to limit eligibility; and the risk of underspending by setting overly cautious criteria or lacking capacity to administer the schemes [RS/349 – INQ000609214]. Officials noted that LAs had experience of administering grants of a similar nature previously, for example for the business rates relief scheme in 2017 which included a £300 million fund for LAs to distribute over four years to support businesses facing higher business rates bills. An existing infrastructure was in place for LAs to use the business rates register within their local area and identify small businesses with physical premises that would be affected by Covid-19 restrictions. It was acknowledged that LAs had never administered a grant scheme on the scale proposed, which created delivery risks.

562. On 8 March 2020, I confirmed that I would announce the BGS at the Budget on 11 March 2020. I decided to proceed because I saw it as the *“only credible option that benefits microbusinesses/self-employed”* who were those who would otherwise miss out from the economic support package to be announced with the Spring Budget [RS/350 – INQ000609216]. I had also, by that point, spoken to the SoS for MHCLG, who had indicated he would also encourage his department to move quickly on small business grants [RS/351 – INQ000656273].
563. On 9 March 2020, I received advice from officials that recommended that the new grant scheme should support all business in receipt of SBRR and potentially Rural Rates Relief (“RRR”) [RS/352 – INQ000609221]. The advice noted that basing the grant on eligibility for SBRR would make it *“simpler for LAs to administer”*, as they already held information on the Rateable Value of properties and eligibility for SBRR, meaning *“the money could get to businesses in a more timely fashion”*. Basing grants on these criteria would provide funding to smaller businesses with premises, in all sectors of the economy. Using the SBRR to determine eligibility meant that the scheme would exclude certain businesses that were not active, for example second homes, holiday lets, beach huts or car parks. The main disadvantage was that the scheme would only benefit businesses with premises, so would exclude small businesses and the self-employed who do not occupy property. Because SBRR is linked to property value, officials anticipated more eligible businesses in LAs with lower property values, for example, outside London and the South East of England and outside of city centres [RS/352 - INQ000609221]. Officials advised that BEIS was best placed to administer the grant funding and that the scheme would require an Accounting Officer assessment ahead of implementation.
564. On 10 March 2020, I received a submission from HM Treasury officials on various measures under consideration as part of economic response to the Pandemic, including business grants [RS/353 – INQ000585067]. Officials recommended a LA-administered flat grant with eligibility based upon receipt of SBRR (or RRR). It was proposed that LAs *“would send a simple form to all eligible properties to get details about the business, for example their bank account details, and for occupiers to confirm a basic statement, for example, that they are operating a business from that property”*.
565. The advice recommended a flat rate grant rather than linking the grant to the rent paid by businesses. The advice noted that the Rateable Value was the hypothetical market rent assessed by the Valuation Office Agency (“VOA”) and therefore not directly linked to the rent a business actually paid. The submission considered the presentational rationale for the grant to be linked to average rental costs. However, this was not

recommended due to the expectation that there would be many cases where the actual rent paid was higher than a grant. A flat grant therefore “poses fewer presentational risks”. The advice included costings with differing levels of grant ranging from £1,000 to £3,000 per property, this being equivalent to a quarter of the annual Rateable Value for properties at or below the SBRR eligibility threshold of £12,000. HM Treasury had data on the overall property population and advised that of all the properties with a Rateable Value below the SBRR threshold, the Rateable Value of over half of these was below £6,000. This indicated that the grant would go to many small properties with a Rateable Value below £6,000 [RS/353 - INQ000585067]. On 10 March 2020 I agreed to the proposed grant design and a grant of £3,000 per property [RS/354 – INQ000609072].

566. On 11 March 2020, I announced the first Covid-19 grant to small businesses as part of the Spring Budget. The SBGF was targeted for small businesses to cover unavoidable ongoing costs linked to premises which had to close or which faced severe limitations on their operation as a result of Covid-19 restrictions. Following the announcement, HM Treasury continued to work with the relevant departments to develop the design and parameters of SBGF.

567. On 17 March 2020, I asked officials to investigate further support for businesses in the light of ongoing disruption [RS/355 – INQ000609077]. I wanted to explore options to support businesses facing acute challenges (such as rent demands and loss of revenue), in sectors such as retail, hospitality and leisure, including large corporates. These were face to face businesses where customers closely interact with staff and others.

568. On 17 March 2020, I attended a meeting with HM Treasury officials to discuss the proposed economic package to be announced in my statement to Parliament. Ahead of this meeting, I received a submission from officials which recommended increasing the £3,000 grant under the SBGF to £10,000. This submission also recommended implementing a new grant to support RHL businesses with a Rateable Value below £51,000 not receiving SBRR. The advice provided costings for what became the RHLGF of £3,000, £10,000 and £25,000 [RS/356 – INQ000609238].

569. On 17 March 2020, I delivered my economic statement to Parliament. As part of a wider package of economic support (including extending business rates relief for all retail, hospitality and leisure businesses), I announced that RHL businesses would receive a grant of up to £25,000 per business to help bridge through the period of uncertainty (the RHLGF). I also announced that the SBGF for the 700,000 smallest businesses would increase from £3,000 to £10,000 [RS/357 – INQ000585858].

Cohort One – Implementation and Delivery of SBGF and RHLGF

570. Prior to and following this announcement, HM Treasury officials liaised with BEIS and MHCLG officials on implementation of both schemes. Briefings I received from HM Treasury officials on 15 March 2020 noted that they were working with BEIS and MHCLG *“to define and implement the grant funding scheme”* [RS/358 – INQ000658382] and *“to resolve key challenges including the criteria and capacity of local authorities to deliver quickly”* [RS/359 – INQ000055904]. MHCLG prepared advice to HM Treasury setting out the practicalities of supporting LAs to deliver the grant and highlighted their intention to provide clear guidance. This guidance was prepared following MHCLG consultation with LAs. The advice from MHCLG reported that through this consultation, the LAs *“already know the key elements of the scheme”* and considered the guidance to be *“workable”* [RS/360 – INQ000609841]. On 23 March 2020, the SoS for BEIS wrote to LAs with a summary of the grants that had been announced and enclosed initial guidance (which had been developed by HM Treasury, MHCLG and BEIS) to assist LAs to *“act immediately to support [businesses] - and by extension support local economies”*. The letter requested that LAs contact eligible businesses that week to notify them that it was expected that grant payments would be made as soon as possible after 1 April 2020 [RS/361 – INQ000064765].
571. On 24 March 2020, BEIS published the guidance for LAs in relation to both schemes [RS/362 – INQ000543172].
572. On 26 and 27 March 2020, BEIS, MHCLG and HM Treasury officials exchanged emails regarding the two grant schemes [RS/363 – INQ000609301] and the plan to manage the fraud risk. BEIS officials reported feedback they had received from LAs that *“introducing onerous pre-payment checks will delay things by 4-6 weeks ... We have therefore, broadly, brokered a position where the focus will be on post-payment checks”*. BEIS officials also advised that the LAs could be assisted by using the Spotlight application (which helps identify irregularities and avoid errors and fraud). BEIS officials recommended that they *“set the detail of the post-payment checks process out in subsequent guidance”* noting that *“our focus now is on getting LAs up and running to identify eligible businesses and make payments.”* They noted *“Local authority S.151 officers have to assure themselves that local authorities are managing the grants effectively and will be alert to fraud and the need to protect the local authority.”*

573. I remained focused on accelerating delivery of business grants. I commissioned advice on delivery of the grants [RS/364 – INQ000657641] and on 14 April 2020 I received a delivery update submission from HM Treasury officials [RS/365 – INQ000609332].

Cohort One – Local Authority Discretionary Grant Fund

574. On 14 April 2020, I commissioned advice from HM Treasury officials on extending SBGF [RS/366 – INQ000609329]. This followed a conversation I had with the German Federal Minister of Finance about Germany’s grant scheme for businesses with less than 10 employees. In light of this conversation, I felt that there was a case to provide more support to companies in England with less than 10 employees. Eligibility for SBGF and the RHLGF was limited to companies who had property and paid business rates. I therefore wanted to explore extending the BGSs to businesses with less than 10 employees which had not already received a grant. I commissioned analysis from HM Treasury officials on the business population missing from the current BGSs, costings for supporting these businesses and any challenges around delivery. Using business rates data to determine eligibility for BGSs had previously been done in order to ease the deliverability challenges.

575. On 15 April 2020, I received a submission from HM Treasury officials advising against expanding SBGF [RS/367 – INQ000609335].

576. On 17 April 2020, I confirmed that I was content not to proceed with expanding the SBGF for the time being, but I wanted to keep this under review pending how the Pandemic developed [RS/368 – INQ000609091].

577. On 20 April 2020, I commissioned further advice from HM Treasury officials on options to expand coverage to small retailers [RS/368 - INQ000609091]. I was concerned about possible gaps in the coverage under the current schemes, for example small retailers who would otherwise be eligible but were excluded because they had premises within a larger property and therefore did not pay business rates. My initial sense was that we should provide discretionary grant pots to LAs.

578. On 21 April 2020, I received a submission in response. The advice noted that the gaps in the scheme, by which businesses who “*may not have their own business rates assessment*” because they “*rent space in a larger building (e.g. market halls, shared office spaces)*” and therefore “*are not able to access the existing grant schemes*” had “*attracted significant stakeholder criticism, because of the perceived unfairness of*

similarly situated businesses being treated differently." This submission noted that *"the FSB and IOD have lobbied for changes"* [RS/369 – INQ000609354].

579. The submission advised against extending the existing BGSs to businesses in shared spaces without their own ratings assessment and presented options for how to target support to these businesses. One option proposed giving LAs a general discretionary pot for 'hard cases' (i.e. marginal cases which fell outside of the support available). Based on indicative numbers of hard cases, the advice provided that *"giving LAs a discretionary pot of 5% of the total grants funding they have received ... should be able to cover the majority of the worst marginal cases (including shared offices)"*. This advice also confirmed the continued justification for the scope of BGSs *"on the basis that businesses in the Business Rates system are most likely to face high fixed costs, and that tying the delivery of grants to information which LAs already have means the cash can reach businesses in need quickly"* [RS/369 - INQ000609354].
580. On 22 April 2020, I met with HM Treasury officials to discuss their advice. My concern was that, under the existing grant schemes, we were treating the same business differently depending on whether they paid their own business rates or not, which seemed odd and gave rise to inequitable treatment. Upon considering the advice I had received and discussing this with officials I was minded to proceed with the discretionary pot option [RS/370 – INQ000609092].
581. On 24 April 2020, I received a submission from HM Treasury officials about the design of the new discretionary grant pot for LAs in England [RS/371 – INQ000609364]. This advice recognised that *"there are gaps in coverage of the current scheme"* and that *"many LAs have asked for some form of discretionary pot"*. The advice proposed the following design features:
- (a) granting LAs an additional discretionary pot at 5% of the value of their existing grant allocations to date.
 - (b) asking LAs to use existing underspends on grant funding to deliver the discretionary scheme, and only top up where required, which may reduce the additional costs of the scheme to less than £400 million.
582. In terms of eligibility criteria for the discretionary grant pot, the advice noted that there was a *"trade-off between providing a high degree of specificity at a national level and the flexibility to deal with individual circumstances."* The advice noted that *"being more specific will reduce the scope for LA decision-making, which may speed up the design*

and delivery of LA schemes”, however there was “also a risk that any eligibility criteria that we set could prove harder to administer than we anticipate, which could result in further delays” [RS/371 - INQ000609364].

583. Officials therefore recommended “*not setting specific criteria about the precise types of businesses which should benefit*”. The advice instead recommended national guidance that stated:

- (a) “*grants that should be aimed at businesses with high ongoing fixed costs from property or equipment;*
- (b) *businesses must also demonstrate that they have seen a significant drop of income due to Coronavirus restriction measures;*
- (c) *grants should go to small businesses: that is those with under 50 employees (but can go to businesses with no employed);*
- (d) *businesses must demonstrate that they were trading on or before 11th March, in order to reduce fraud;*
- (e) *businesses which are eligible for the existing grants schemes or SEISS are ineligible; and*
- (f) *grants are capped at £25,000, with the next 'tier' of grants being £10,000; but LAs are allowed discretion to make payments under £10,000. This would align the scheme with existing funding, but give some flexibility to allow the pot to stretch further.” [RS/371 – INQ000609364].*

584. The advice stated that this proposed approach had “*the benefit of allowing Local Authorities to tailor their programmes based on local need*” [RS/371 – INQ000609364].

585. On 28 April 2020, I attended a call with HM Treasury officials to discuss their advice. Following this call, I agreed to proceed with a 5% top-up on the value of grant allocations of circa £734 million (including Barnett), and for LAs to use underspends first. I also agreed with the criteria officials set out in their advice. I advised officials that I wanted the eligibility criteria to include a clear preface stating that the grant scheme was being brought in specifically to help those businesses that should have been included in initial BGSs, and that the policy intention had been to include them, but they had been excluded due to not paying business rates and other quirks of the billing system [RS/372 – INQ000609093].

586. During the development of the LADGF guidance, LAs asked for the guidance to explicitly set out that businesses with a Rateable Value of above £51,000 were ineligible for the LADGF. This requirement would be in line with the SBGF and RHLGF. Further to my steers, HM Treasury officials suggested using softer language in the guidance, namely that LADGF was “*primarily and predominantly aimed at*” businesses with a Rateable Value of under £51,000, rather than making this a hard requirement. On 11 May 2020, I agreed to this recommendation **[RS/373 – INQ000609098]**.

587. On 1 May 2020, the LADGF was announced to support businesses that were not covered by the SBGF or RHLGF.

Cohort One – Implementation and Delivery of LADGF

588. The LADGF guidance was published on 13 May 2020 and set out how funding would be provided to businesses, levels of funding and who would be eligible. The key elements were that LAs were able to distribute grants up to the capped values of £25,000, £10,000 or any amount under £10,000 according to their discretion, and businesses who had received grants under the SBGF or RHLGF were ineligible.

589. The guidance included measures on managing the risk of fraud. The digital assurance tool, Spotlight, was made available to LAs along with user support to assist with pre-and post-payment assurance. The guidance also noted that any businesses caught falsifying their records to gain additional grant funding would be prosecuted and funding issued subject to fraud or error would be clawed back **[RS/374 – INQ000597678]**.

Cohort One underspends, local support and closure

590. On 2 June 2020, the SoS for BEIS wrote to update me on the progress of the SBGF and RHLGF. In this letter, he proposed giving LAs until 22 June 2020 to make any further SBGF and RHLGF payments. Beyond that date, he suggested reclaiming any underspends from LAs and redistributing that funding to allow for a second round of the LADGF at the end of June **[RS/375 – INQ000543242]**. On 3 June 2020 I sought advice from HM Treasury officials on this matter **[RS/376 – INQ000656255]**.

591. On 5 June 2020, I received a submission from HM Treasury officials on when to close the SBGF and RHLGF and when to ask LAs to return their underspends **[RS/377– INQ000609415]**. This advice recommended setting a closure date for the schemes as we were starting to see “*diminishing returns*” as most LAs had, by that point, paid out 80% of grants and, despite efforts to reach them, remaining eligible businesses were

not coming forward. Officials advised that the date proposed by the SoS for BEIS of 22 June 2020 was too soon, and that closing the schemes at the end of July 2020 would provide sufficient time for LAs to contact all remaining businesses. On balance, however, the advice recommended setting the closing date for the SBGF and RHLGF at the end of August 2020, rather than July 2020, to avoid them closing at the same time as the CJRS started to become less generous (which was scheduled for the end of July 2020) **[RS/377 - INQ000609415]**.

592. The submission estimated there would be an underspend of circa £170 million from the initial BGSs allocation of £12.33 billion and recommended that this be returned to HM Treasury rather than using it for another round of the LADGF **[RS/377 - INQ000609415]**. Officials advised against allowing LAs to use their own underspends on the basis that “*a couple of LAs have very large underspends (c. 50%) reflecting significantly over-generous allocations, whereas other LAs have no underspends*”, so it would be “*clearly unfair to allow additional funding for businesses in some areas based on quirks in the original allocations of funds*” **[RS/377 - INQ000609415]**.
593. On 15 June 2020, I confirmed my agreement to the SBGS and RHLGF closing at the end of August 2020 and for the underspends to be returned to HM Treasury **[RS/378 – INQ000609116]**. On 16 June 2020, my office wrote to SoS for BEIS’s office, in response to the letter of 2 June 2020, to convey that the SBGS and RHLGF should close at the end of August and to request that LAs and BEIS return the underspends associated with all three of the Cohort One schemes to HM Treasury **[RS/379 – INQ000609421]**.
594. Over 22 and 23 June 2020, officials from my office and SoS for BEIS’s office discussed the projected BGSs underspend. On 24 June 2020, BEIS confirmed the total underspend was closer to £1 billion, and queried whether that would change my position about the August end date for the schemes **[RS/380 – INQ000609425]**. On 25 June 2020, BEIS provided the latest underspend estimate across the Cohort One schemes as ranging from £697 million to £1.28 billion **[RS/381 – INQ000609117]**. On 29 June 2020, my office confirmed to BEIS that I had noted the updated underspend estimate and that my view remained that the underspend should be returned to HM Treasury as planned **[RS/382 – INQ000609426]**.
595. On 4 July 2020, a regional lockdown was announced in Leicester and parts of Leicestershire due to a localised outbreak of Covid-19 **[RS/383 – INQ000086717]**.

596. On 15 July 2020, I received advice from HM Treasury officials regarding using underspends from the BGSs to support areas under local lockdown. This advice noted that the grant scheme closure date and underspends were separate issues to the response to local lockdowns. This advice reiterated that there was significant variation in the level of underspends across LAs, so allowing LAs to use underspends to support businesses which had to shut down again would not be a fair response to local lockdowns. Officials advised that, should I be minded to use grants to support areas going through local lockdowns, these grants should be delivered via a new scheme **[RS/384 – INQ000609445]**. I discussed the matter with some MPs and, on 16 July 2020, asked HM Treasury officials to provide me with costings for recycling some of the underspends into targeted support for Leicester **[RS/384 - INQ000609445]**.
597. On 16 July 2020, HM Treasury officials provided me with initial advice and costings for a Leicester grant scheme. This advice warned that whatever I decided to do in Leicester would set a precedent for other local lockdowns. The advice also noted the potential unfairness with LAs using underspends in circumstances where the significant variation in the level of underspend across LAs would lead to unequal support. This would “*allow some Local Authorities to support many businesses, while others would have to make very difficult decisions about which businesses to support*”. The advice also noted that there would be pressure for LAs to spend “*up to the full underspend amount*”, whereas a more targeted approach would allow better control of costs **[RS/385 – INQ000609446]**. This would also allow support to be more focused.
598. That day, I requested more granular data on the sectors affected by local lockdowns and costings for an “*average grant*” for the original grant schemes (both for the local lockdown area and the UK as a whole). My rationale for this request was that I wanted to understand, across the UK and for this area, what a defensible average was from the initial support, which lasted three months. This would help with calibrating the options for a one month support scheme **[RS/386 – INQ000609122]**.
599. On 17 July 2020, I received more detailed advice from HM Treasury officials on proposals for grants to small businesses affected by the local lockdown in Leicester **[RS/387 – INQ000609714]**. The advice recommended restricting grants to those businesses which would stay closed in Leicester City Council, Oadby and Wigston, but which were now open in other parts of England, including pubs, bars, restaurants, cafes, hair and beauty services, and cinemas. The advice also recommended excluding offices, non-essential retail and other businesses that continued to remain closed across the UK, such as theatres, bowling alleys and casinos (since this would not align with the national

approach towards supporting these sectors). Officials recommended setting the grant amount at one third of the value of grants already received by businesses in Leicester under the original BGSs. This was to reflect the extended lockdown in that area, which lasted approximately four months, compared with the national lockdown which lasted approximately three months. Officials also recommended varying the grant amount by Rateable Value, which meant that businesses with a Rateable Value of £15,000 or less would receive £3,300, and businesses with a Rateable Value of between £15,000 and £51,000 would receive £8,300.

600. Whilst I was sympathetic to the case for support for small businesses in Leicester, I was concerned about precedent risk, affordability and ensuring the LAs could respond at local level to ensure the money reached those who needed it **[RS/386 – INQ000609122]**. Rather than implementing a new scheme, I wanted a pot of funding to be administered and distributed locally. This was set at £3 million to ensure it was affordable. The detail was to be worked through with DHSC and BEIS, but I indicated that the funding should be distributed fairly across the two impacted councils (Leicester and Oadby & Wigston). This approach was favoured because it would avoid setting a precedent for any areas affected with local restrictions.
601. On 21 July 2020, HM Treasury officials notified BEIS and the DHSC of my decision to make £3 million available to Leicester City Council and Oadby & Wigston Borough Council to support the businesses most in need in their areas. Officials explained that the LAs had complete discretion when it came to making grants, “*empowering them to distribute the funding according to local economic need.*” It was suggested that “*the LAs could run an application process for individual businesses in order to determine who will receive funding.*” In order to ensure that funds reached impacted businesses as quickly as possible, the two LAs were to be instructed to use underspends from the SBGF and RHLGF in the first instance as the source of funding for the £3 million pot. As at 13 July 2020, “*both Leicester City and Oadby and Wigston had underspends which together significantly exceed £3 million*” **[RS/388 – INQ000609448]**.
602. I note that HM Treasury officials exchanged emails on 22 July 2020 about an alternative scheme proposed by BEIS. Officials noted that it was deliverable, “*However, it would set a significantly stronger precedent than the £3m funding method currently proposed. It would be very hard not to do this for businesses in future local lockdowns*”, and “*it’s also obviously much more expensive*” **[RS/389 – INQ000609450]**. When responding to BEIS to reject their proposal, officials explained that this was a “*specific issue which*

needs to be solved, and for which we need to get the £3m of support out to businesses as soon as possible” [RS/390 – INQ000609449].

603. I note that between 21 and 23 July 2020, HM Treasury, BEIS and DHSC officials exchanged emails, discussing the proposals at pace [RS/390 - INQ000609449]. Final Accounting Office advice was sent to BEIS Ministers on 23 July 2020. As it was a one-off payment to two LAs and not a UK-wide policy, it was ultimately not a scheme that necessitated BEIS involvement. DHSC therefore agreed to take policy ownership (on an exceptional basis) and Accounting Officer responsibility [RS/389 - INQ000609450].
604. On 31 July 2020, BEIS confirmed to my office that they had written to all LAs notifying them that the Cohort One schemes were to close on 28 August 2020 [RS/391 – INQ000609453].
605. On 31 August 2020, the Cohort One schemes closed for new grant payments.

Cohort Two

606. The Cohort Two grant schemes were initially developed over the summer of 2020 during the phased relaxation of NPIs and reopening of the economy. The Cohort Two schemes were used to support businesses in areas impacted by local NPIs and restrictions. As the Government’s NPIs strategy evolved to manage the spread of the virus, the BGSs were calibrated and modified to ensure that they provided effective support for businesses.
607. A total of three million grants were paid through the Cohort Two schemes and the total value of these grants was £7.4 billion [RS/079 – INQ000585832].
608. The design of the Cohort Two schemes is addressed below. I have set out how they were developed in line with advice from HM Treasury officials, steers from No. 10, and input from BEIS, MHCLG and LAs. I have also set out the evolving position of each of the schemes as the country moved through various stages of restrictions.

Cohort Two – the Local Restriction Support Grant (Closed)

609. The LRSG (Closed) was developed in the context of the Government’s strategy to manage outbreaks of Covid-19 by imposing localised restrictions. This approach was intended to mitigate against the need to impose another nationwide lockdown. The

LRSO (Closed) was therefore developed to provide targeted support for businesses which were forced to close due to localised restrictions. This scheme was initially announced on 9 September 2020. An expansion of the scheme with enhanced generosity was announced on 9 October 2020, alongside the LRSO (Sector) (see paragraphs 625 to 628).

610. On 3 August 2020, HM Treasury officials prepared a submission for me on financial support options for local lockdowns. This was in response to requests from No. 10 to find ways of supporting businesses in areas where localised restrictions were to be imposed. The submission noted that LAs, business groups, and other Government departments were calling for additional funding to support local businesses forced to close or significantly impacted by restrictions via an extension of the LADGF. The advice recommended that I agree to MHCLG and DHSC looking at *“options for operationalising a model, linked to JBC [Joint Biosecurity Centre] governance processes, that would allow LAs to provide limited, targeted financial support to businesses that are legally required to close by local restrictions”*. The advice proposed providing *“support for businesses who were unable to operate due to nationally imposed NPIs, through a discretionary business grant scheme consistent with the precedent set [in] Leicester and Oadby and Wigston.”* The proposed approach would establish defined criteria but leave flexibility for LAs to exercise discretion and to shape the form of support to the particular NPIs in their area. The advice provided justification for the proposed measures in that *“seeking to preserve viable closed businesses through a period of short, localised NPIs (as we did in Leicester) would support a swifter local recovery”* [RS/392 –

INQ000088098

611. The advice recommended that No. 10 commission MHCLG and DHSC to design and operationalise a proposal in consultation with trusted LA representatives to ensure design of a programme that could be implemented quickly if needed. It noted that HM Treasury officials had tested this concept with MHCLG officials and some trusted LA Chief Executives who thought that LAs could deliver support of this sort, provided they were consulted on the design of the scheme [RS/392 –

INQ000088098

612. On 5 August 2020, in line with the steers I provided on 3 August 2020, HM Treasury officials prepared a note on my behalf for me to send to the PM outlining the options for financial support to local areas, which I approved [RS/393 –

INQ000232097

programme [RS/393 – INQ000232097

613. The note to the PM suggested that support for businesses unable to operate due to nationally imposed NPIs be provided by way of a new, discretionary scheme which issued grants to businesses “*with a Rateable Value less than £51k forced to close for more than 4 weeks*”. The note provided that the overall costs of any such programme would be highly uncertain, determined by how the outbreak progresses and the targeted approach taken to imposing local NPIs, and would increase as more local areas became subject to restrictions **[RS/393 – INQ000232097]**
614. On 14 August 2020, I received a submission from HM Treasury officials on financial support packages in the event of a second wave of Covid-19 in the Autumn/Winter of 2020. One of the options proposed was to “*pursue business focused grants*”, noting that the primary benefit of such grants “*is that they are flexible and can be used [sic] targeted at specific locations or sectors, or at businesses facing certain costs.*” This advice noted that “*Local Authorities now have experience of delivering business grants and should be well-placed to make payments more quickly*” **[RS/394 – INQ000609458]**.
615. On 17 August 2020, No. 10 informed my office that the PM wanted to roll out a programme of financial support packages along the lines outlined in the 5 August 2020 note, including providing business grants to sectors forced to close **[RS/395 – INQ000609459]**. The PM asked HM Treasury to work with other Government departments and No. 10 officials to take this forward **[RS/396 – INQ000609460]**. That day, I asked HM Treasury officials to engage with selected LAs as well as other government departments and work up a package of financial support to be delivered by LAs to make local lockdowns work better, including support for businesses in areas required to close due to nationally imposed NPIs **[RS/395 – INQ000609459]**. HM Treasury officials agreed that the next steps were to engage with MHCLG and LAs (which MHCLG would lead on) to test operational issues, such as timescales for delivery.
616. On 2 September 2020, I requested advice from HM Treasury officials about targeting grant schemes to businesses in particular areas or sectors **[RS/397 – INQ000609471]**.
617. On 7 September 2020, I requested and received a submission from HM Treasury officials on local lockdown business grants and a wider update on lockdown support **[RS/398 – INQ000609466]**. The advice provided details of a proposal for a business grant scheme for local lockdowns developed by BEIS. The key elements of this proposal included:

- (a) Payments triggered by a JBC decision to close businesses in a high incidence area;
- (b) Payments made for each three-week lockdown period (consistent with the JBC review timetable);
- (c) A £500 average grant per eligible business per lock down period, with LA discretion to make larger payments of up to £1,000 to some businesses;
- (d) To be eligible businesses must be required to close due to a local lockdown (meaning businesses closed at a national level would not be eligible);
- (e) A business must also either be liable for business rates and occupying premises with a Rateable Value less than £51,000 or occupy a property or part of a property subject to an annual rent or mortgage payment of less than £51,000.

618. The advice recommended that I accept this proposal **[RS/398 - INQ000609466]**. On 9 September 2020, I announced the LRSG (Closed), providing businesses which were forced to close for three weeks or more due to an imposed local lockdown in England with grants of up to £1,500 per three-week period of closure.

619. On 11 September 2020, I received a submission from HM Treasury officials on options for targeted business grants in the event of a second wave, in response to my request of 2 September 2020. This advice noted that grants were well suited to providing funding to businesses with fixed costs to assist during short-term, temporary hits to their income. Whilst being a relatively expensive support option, costs could be estimated with a reasonable degree of certainty. Business grants were also relatively simple to deliver and likely to reach businesses **[RS/399 – INQ000610832]**.

620. This advice recommended that grants should be restricted to businesses with property because they tended to face higher fixed costs, including businesses without property would vastly increase costs of the scheme, and identifying and verifying businesses with property was much easier and could be done by LAs. The advice also recommended that grants only be given to businesses which were forced to fully close by restrictions. Officials recommended that any new grant scheme should include a 5% discretionary component for LAs to help hard cases. The advice included costings for different sizes of grants and suggested that the amount of grant could be tiered by the Rateable Value

of the property. This submission included detailed sectoral analysis in business properties in England **[RS/399 - INQ000610832]**.

621. On 2 October 2020, I received a submission from HM Treasury officials on options for raising the value of the LRSG (Closed) in England **[RS/400 – INQ000609747]**. This advice recommended that, if I wanted to raise the grant size, then all properties, regardless of Rateable Value, should receive £1,500 per three-week period that they were closed and that this increase should be backdated, so that businesses in local lockdown before the value of the LRSG (Closed) was raised received the higher amount of funding. Officials advised that raising the grant amount to £1,500 for businesses with a Rateable Value of less than £51,000 would mean that 76% of businesses in England would have their rent covered by the grant.
622. On 6 October 2020, I requested a meeting with officials to discuss the 2 October 2020 submission and better understand the costing assumptions and number of businesses and sectors that might be included in the scope of the extended grant. I asked officials to ensure that the sectors which would receive grants reflected those impacted by NPIs **[RS/401 – INQ000609751]**.
623. On 7 October 2020, I attended a meeting with HM Treasury officials. During the meeting, I confirmed to officials that I wanted to increase the generosity of the LRSG (Closed) given the evolving epidemiological situation. Later that day I received a further submission from HM Treasury officials seeking agreement to the final design of the scheme **[RS/401 - INQ000609751]**. Grants were to be paid for every two weeks of closure, rather than every three weeks, and tiered from £1,334 per month for properties with a Rateable Value of less than £15,000, £2,000 per month for properties of a Rateable Value between £15,000 and £51,000, and £3,000 per month for properties with a Rateable Value of over £51,000. The advice provided that this level of grant award meant that rents would be covered in full for all businesses with Rateable Values under £15,000, and at least 31% of properties with a Rateable Value of between £15,000 and £51,000 should also be covered in full. This advice recommended backdating the increased grant amounts to the start of September 2020 which would allow businesses in Bolton, which had been under local lockdown since then, to be eligible **[RS/401 - INQ000609751]**.
624. I confirmed my agreement to these recommendations later that day **[RS/402 – INQ000609487]**. On 8 October 2020, I received a policy summary prepared by officials which set out the key features of the expanded LRSG (Closed) to be announced **[RS/403**

– **INQ000609488**]. On 9 October 2020, I announced the increase in generosity of the LRSO (Closed), alongside the LRSO (Sector) and the expansion of the CJRS as part of the Government’s Winter Economy Plan **[RS/404 – INQ000609913]** **[RS/405 – INQ000609914]**.

Cohort Two – the Local Restrictions Support Grant (Sector)

625. The LRSO (Sector) was established to support businesses which were required to close on a national basis for the entire period from the first lockdown and had not been able to reopen since due to the restrictions, such as nightclubs. This scheme was announced on 9 October 2020. The LRSO (Sector) opened for applications on 1 November 2020. Funding was made available to LAs to administer the grants, and guidance was published to support LAs in administering the scheme.

626. During the discussions around increasing the generosity of the LRSO (Closed), I advised officials that I was minded to provide additional support to nightclubs which had been closed since the first national lockdown in March 2020 **[RS/406 – INQ000609484]**. These businesses were ineligible for the LRSO (Closed) because they had been closed by national restrictions rather than local restrictions.

627. The 7 October 2020 submission from HM Treasury officials regarding the final design of the expanded LRSO (Closed) recommended “*national closure payments (affecting nightclubs)*”. The advice recommended that this grant should be effective from 1 November 2020 onwards and noted that LAs would continue to receive the 5% top up which they received for the LRSO (Closed) as a discretionary fund, to support ‘hard cases’ **[RS/401 – INQ000609751]**.

628. On 9 October 2020, I announced the LRSO (Sector), the increase in generosity of the LRSO (Closed), and the expansion of the CJRS as part of the Government’s Winter Economy Plan **[RS/404 – INQ000609913]**. The level of support provided throughout the LRSO (Sector) was the same value as for businesses under the LRSO (Closed) **[RS/405 – INQ000609914]**. HM Treasury officials worked with BEIS officials to develop guidance for LAs, which was published on 1 November 2020. The guidance confirmed that in the event of a national lockdown, the LRSO (Sector) would cease to apply as businesses would receive funding from the LRSO (Closed). It also confirmed that to be eligible, a business had to demonstrate that it was listed as a business rate payer as of 1 November 2020 and that it was trading as of 23 March 2020 **[RS/407 – INQ000543465]**.

Cohort Two – the Local Restrictions Support Grant (Open)

629. On 14 October 2020, in response to increasing infection rates, a new three-tier system was introduced in England. Tiering replaced the system of local lockdowns which had been in operation since July 2020. Under the tiered system, local areas were assigned to a tier, and each tier had an accompanying set of NPIs which restricted social and economic activity within that area. These tiers and their associated NPIs had varying impact across sectors. For example, in Tier 2 areas, pubs and bars were required to close unless they were serving a substantial meal with drinks, whereas in Tier 3 areas, all hospitality businesses were required to close.
630. The LRSG (Open) was developed in this context to support businesses which were impacted by the tiering restrictions. This scheme addressed a gap in the support available given the LRSG (Closed) and the LRSG (Sector) did not provide support to businesses that were not forced to close but were economically impacted by the restrictions.
631. On 16 October 2020, HM Treasury officials prepared a submission which set out options for further grants for businesses that were not forced to close but were severely impacted by the tiered restrictions **[RS/408 – INQ000609492]**. One option proposed was to provide LAs in Tier 2 with a lump sum for business support and leave the LAs to decide how to allocate this funding. The submission advised that, if I was minded to introduce grants for Tier 2 areas, these should be provided to *“hospitality, hotel & B&Bs, and leisure businesses across England as these are the business categories which have been hit hardest by local and national restrictions.”*
632. The advice proposed calculating the amount of the lump sum *“based on the number of hospitality/leisure businesses in an area, and an implied grant amount per business.”* The advice noted that sectors such as hospitality were receiving between 30% and 40% of pre-Pandemic revenues due to a combination of national and local restrictions. Fixing the grant amount at between 60% and 70% of the value of grants given in the LRSG (Closed) and the LRSG (Open) would therefore be defensible. The advice included costings for the scheme based on various levels of grant (namely 50%, 60% and 70%). Officials advised that a grant for *“open but affected”* businesses in Tier 2 could be extended to Tier 3 areas **[RS/408 - INQ000609492]**.
633. On 19 October 2020, I advised HM Treasury officials that I was minded to give grants to Tier 2 sectors only, with additional business support funding being negotiated with LAs in Tier 3 **[RS/409 – INQ000609495]**. That day, HM Treasury officials provided further costings on different levels of grant amounts and eligibility **[RS/410 – INQ000609496]**

[RS/411 – INQ000609498] [RS/412 – INQ000609497]. I confirmed to officials that I was minded to provide grants by way of a lump sum to be distributed by the LAs.

634. On 20 October 2020, I received advice from HM Treasury officials on the proposed scheme design and costings. Under the proposal, funding would be provided monthly for as long as the LA was under Tier 2, LAs would be responsible for determining precise eligibility, grant amounts would be based on their assessment of local economic need and targeted to help the businesses most affected by the local restrictions **[RS/413 – INQ000609506]**.
635. On 21 October 2020, I received a submission from HM Treasury officials seeking my approval on the proposed definitions for categories of sectors to be used when calculating the level of funding to be provide to LAs for this scheme **[RS/414 – INQ000609507]**.
636. On 21 October 2020, I received a final decision record from HM Treasury officials on the proposed support, which largely consolidated the advice I had already received on these issues. The advice noted that the proposed scheme was intended *“to support businesses which aren't closed but are severely affected by restrictions”*. The advice recommended that I agree to LAs in Tier 2 *“receiving funding equivalent to paying all hospitality, leisure, hotels, and B&Bs in their area 70% of the amount which legally closed businesses can receive per month,”* along with a 5% top up amount to account for any errors or hard cases. The advice noted that LAs were to have discretion in determining the exact eligibility criteria and size of grants. LAs would be encouraged to pay businesses on a two-weekly basis to mirror the LRSG (Closed) **[RS/415 – INQ000609508]**.
637. The advice noted that this support was *“predicated primarily on the fact that the banning of household mixing will significantly reduce demand for many businesses which aren't required to close”*. On this basis, the advice recommended backdating compensation to the point at which bans on household mixing were introduced, this being the point at which businesses would have experienced reduced demand. The advice also recommended that I agree to the grant being paid monthly, but that if a LA moved into Tier 2 for less than one month, they should still receive a full month of support **[RS/415 - INQ000609508]**.

638. On 22 October 2020, the LRSG (Tier 2), as it was then known, was announced [RS/416 – INQ000609514] and a factsheet was published setting out the parameters for the scheme.
639. Following this announcement, HM Treasury officials liaised with BEIS to clarify elements of the scheme and with a view to preparing guidance for LAs [RS/417 – INQ000609518] [RS/418 – INQ000609519]. I understand that BEIS officials were concerned about allowing LAs that had moved out of Tier 2 during the one month period to keep funding received for the full month, rather than have this pro-rated. HM Treasury officials explained the policy justification for this approach in that providing the full month's funding upfront would give certainty to LAs and enable them to distribute payments to impacted businesses quicker, which would help those businesses to remain viable. In circumstances where an area moved from Tier 2 to Tier 1 there would likely be a lag in the return to normal levels of consumer behaviour and businesses would require support for slightly longer than the date of the official switching between tiers.
640. On 28 October 2020, HM Treasury officials confirmed to BEIS that I wanted to extend the scheme to LAs in Tier 3 *"to ensure that businesses which can remain open in Tier 3 as well as Tier 2 will not be disadvantaged if their local authority moves up from Tier 2"* [RS/419 – INQ000609521]. The scheme was re-named the LRSG (Open). HM Treasury officials confirmed that the provision of grant funding to Tier 3 areas would be done according to the same formula and timescales as Tier 2, and LAs would retain the same discretion as to which businesses were eligible for support and the amount of funding to provide. The extension of the grant scheme to Tier 3 areas would be backdated to when the first area entered Tier 3. Officials suggested that, where operationally feasible, we *"should net off the funding from the LRSG (Closed) grant for Tier 3 areas from the funding provided by the LRSG (Open) formula. This is to avoid providing double funding for the same businesses"*, with HM Treasury and BEIS officials to work together to deliver this. I asked BEIS to lead on the extension of the scheme take Accounting Officer responsibility.
641. On 12 November 2020, BEIS published guidance to support LAs in administering the LRSG (Open) [RS/420 – INQ000543464].

Cohort Two – the Additional Restrictions Grant

642. The ARG was developed in parallel with the LRSG (Open). The ARG was a discretionary scheme designed to support businesses that did not receive a grant from the LRSG

(Open) or the LRSG (Closed). The ARG was part of an overarching policy objective to mitigate the impact of Tier 3 restrictions on local economies. This scheme provided LAs with a high degree of discretion to distribute grants on the basis of local knowledge.

643. I had previously approved a funding pot of £200 million to negotiate bespoke agreements with LAs in Tier 3 to help them deliver additional support to businesses.
644. In the 21 October 2020 submission (see paragraph 636), HM Treasury officials recommended replacing the £200 million pot on the basis that it would soon run out **[RS/415 – INQ000609508]**. This was due to an increasing number of LAs entering local lockdowns, leading to greater demands for funding from central Government. This advice noted the need to “*set a robust and clear nationwide approach*” and requested my confirmation to replace the £200 million pot with a £20-per-head lump sum to cover six months of support for local businesses in Tier 3, to be distributed at the LAs’ discretion. The advice estimated the cost at approximately £1.125 billion nationally (excluding Barnett) **[RS/415 - INQ000609508]**.
645. On 28 October 2020, my office wrote to the SoS for BEIS office regarding the ARG. BEIS and MHCLG were asked to work with LAs to provide support and guidance to ensure that “*LAs have the support needed*” and that the ARG was used in a manner which secured value for money. This note indicating funding was to be used by LAs for a range of activities so long as they contributed to the “*overarching aim of mitigating the impact of Tier 3 restrictions on their economies*” **[RS/419 – INQ000609521]**.
646. Further to discussions between HM Treasury, BEIS and MHCLG officials, in which feedback from LAs was considered, on 31 October 2020, the details of the ARG were agreed, as follows **[RS/421 – INQ000609525]**:
- (a) LAs would receive a one-off payment of £20-per-head of their population upon first classification of Tier 3;
 - (b) LAs could use the ARG for a range of activities, such as providing direct support for local businesses and wider measures to support businesses, so long as they contribute to the overarching aim of mitigating the impact of Tier 3 restrictions on businesses – including business recovery;
 - (c) LAs would have discretion to align the amount of any grants to the ongoing costs borne by businesses, and to locally prioritise based on their impact on the local economy.

647. BEIS took Accounting Officer responsibility for the ARG [RS/421 – INQ000609525]. The ARG was announced on 31 October 2020 [RS/422 - INQ000656067], and guidance was published by BEIS on 3 November 2020 [RS/423 – INQ000658497].

Cohort Two – policy development during the second national lockdown

648. By the end of October 2020, it became clear that the existing NPIs strategy was no longer sufficient to manage the spread of the virus and more significant national restrictions were required. On 31 October 2020, the Government announced a second national lockdown in England from 5 November 2020. The lockdown was due to end on 26 November 2020 but was extended to 2 December 2020.

649. On 31 October 2020 I received advice from HM Treasury officials on BGSs during the second national lockdown [RS/424 – INQ000625770]. This advice recommended that we continue to implement the LRSG (Closed) on a national basis, paying closed businesses up to £3,000 per month, and pay all LAs a one-off £20 a head business support payment previously agreed for all LAs entering Tier 3. I agreed to these recommendations [RS/425 – INQ000625771].

650. Later on 31 October 2020, I commissioned further advice from HM Treasury officials to ascertain whether the eligibility criteria and generosity of the Cohort Two schemes remained appropriate in light of the second national lockdown, as I was concerned that we might not be doing enough to support businesses [RS/426 – INQ000609526].

651. On 1 November 2020, I received advice from HM Treasury officials that noted fewer businesses could benefit from the BGSs during the second lockdown than had during the first lockdown. However, the advice noted that the discretionary funding available through the ARG in Cohort Two was double the amount of the LADGF in Cohort One, which would allow LAs to help hard cases and mean those businesses missing out would nonetheless receive grants. The submission advised against increasing grant values as these were “*in the main well-calibrated to rents*” and “*broadly sustainable for a prolonged period*”. The advice also noted that since the PM had announced the second national lockdown, no-one had yet pushed back on the generosity or coverage of the Cohort Two grants [RS/427 – INQ000609528].

652. On 2 November 2020, I attended a call with HM Treasury officials to discuss their advice. Following this call, I confirmed my agreement with their advice to keep the existing generosity for the LRSG (Closed) and that the ARG provided sufficient support for the hard cases [RS/428 – INQ000609530].

653. On 5 November 2020, when the second national lockdown came into force, all LAs were given the one-off ARG payment, except those who had already received the ARG because of entering Tier 3 local restrictions. This was in addition to the LRSG (Closed) and the LRSG (Open) which would continue on a monthly basis.
654. On 12 November 2020, I received a submission from HM Treasury officials in relation to a post-lockdown strategy and the potential for a return to tiering [RS/429 – INQ000113689]. At a Cabinet meeting on 17 November 2020, the PM confirmed that the “*plan was for the country to come out of national measures on 2 December and return to a tiered, local system*” [RS/430 - INQ000089030]. This was announced by the PM on 23 November 2020.

Cohort Two – the Christmas Support Payment

655. The CSP was a flat rate £1,000 grant introduced to provide targeted support to pubs during the Christmas period. This was introduced in recognition of the fact that pubs had been particularly impacted by the NPIs and would continue to be impacted under the tiering system, and the Christmas period was usually a busy and profitable trading period.
656. On 26 November 2020, I received advice from HM Treasury officials on the existing economic support package and the likely economic impact of moving from the second national lockdown back to a tiered system [RS/431 – INQ000609552]. It was recognised that the hospitality industry would continue to be hit particularly hard.
657. On 29 November 2020, No. 10 emailed HM Treasury officials with suggested options of further support for the hospitality sector, and pubs in particular. One suggested option was to implement “*bespoke financial support for [December], recognising the importance of this month for the sector*” [RS/432 – INQ000609553].
658. On 1 December 2020, I was advised by HM Treasury officials on options for a targeted grant scheme for pubs. The aim was to support pubs over the Christmas period in light of the significant restrictions on trade caused by the NPIs in place in December 2020. Officials recommended that the grant scheme should either be available for all pubs or ‘wet only’ pubs (which do not serve any food). Further advice I received from officials suggested linking the grant size to the Business Rates Relief pub discount of £1,000 in 2020/21, and for the scheme to be targeted at granting every pub which benefited from that relief a further £1,000 [RS/433 – INQ000609555].

659. Later that day, I agreed to proceed with a £1,000 grant for all 'wet-led' pubs (for which the majority of their turnover is from alcohol sales) in Tiers 2 and 3 **[RS/433 – INQ000609555]**.
660. On 1 December 2020, the PM announced additional support measures following the end of the second lockdown, including the CSP. Following this announcement, No. 10 asked HM Treasury and BEIS to provide advice on the hospitality sector. This advice, provided on 3 December 2020, noted the heightened vulnerability of pubs to closure, and advised that wet-led pubs "*are most likely to be at risk due to Tier 2 and 3 restrictions*". This advice noted the socio-economic importance of pubs, and adverse impact that pub closures could have on local communities **[RS/434 – INQ000609828]**.
661. On 3 December 2020, my office emailed SoS for BEIS office setting out the details of the CSP **[RS/435 – INQ000609556]**. I asked BEIS to lead on delivery of the CSP with Accounting Officer responsibility. I emphasised the importance of LAs receiving the funding as quickly as possible.
662. The final design of the CSP was that LAs would receive a one-off payment of £1,000 per wet-led pub in each Tier 2 or Tier 3 LA area. LAs could use their discretion to determine whether businesses met the eligibility criteria for the scheme. As part of the application process for the grant, all pubs were required to self-certify that they met the eligibility criteria (which were determined by the LAs). Pubs in England could apply for the CSP from 2 December 2020 until 29 December 2020.

Cohort Two – the LRSB (Closed) Addendum: Tier 4

663. By the second week of December 2020, it had been identified that there was a need for action against rising cases of infection in London and the South-East. Shortly thereafter, it was confirmed that a new variant of the virus had been identified, which was suspected of being highly transmissible and responsible for the sudden and unexpected rise in case numbers **[RS/436 - INQ000232186]**.
664. On 17 December 2020, I received a submission from HM Treasury officials regarding additional support options for medium and large businesses. This noted that "*given the months of disruption or closure facing many hospitality and leisure businesses in tier 2 and tier 3, the rate of cash burn is likely to push many into insolvency*". The submission advised that, aside from rent reform, further business grants were the best remaining lever for supporting these businesses. The submission set out a variety of options for me to consider **[RS/437 – INQ000609194]**.

665. On 19 December 2020, the PM announced a new Tier 4 'stay at home' alert level added to the tiering system, with associated and yet to be confirmed tougher NPIs. HM Treasury officials advised that Tier 4 was expected to have the same restrictions as the second national lockdown, so they saw "*no case to increase funding for Tier 4 areas*" [RS/438 – INQ000609567]. I agreed that the economic support was sufficient [RS/439 – INQ000609566]. At that stage, HM Treasury had not received a request for additional funding support to LAs [RS/438 – INQ000609567].
666. Whilst no new measures were introduced in response to the creation of Tier 4, it was necessary to amend the LRSG (Closed) so that it reflected the new national measures. The LRSG (Closed) Addendum Tier 4 was introduced as effectively an extension of the LRSG (Closed). It was aimed at businesses that remained closed and subject to Tier 4 restrictions, including NER, leisure, personal care, sports facilities and hospitality. The LRSG (Closed) Addendum Tier 4 was largely unchanged from the LRSG (Closed), including the grant amount, eligibility, payment details and grant conditions.
667. On 21 December 2020, the Tier 4 restrictions came into force for London and the South East. On 26 December 2020, a number of other areas moved into Tier 4. The LRSG (Closed) Addendum Tier 4 ended on 4 January 2021 when the third national lockdown was imposed.

Cohort Two – the Business Support Package for the third national lockdown and the Closed Business Lockdown Payment

668. On 4 January 2021, the PM announced a third national lockdown which would come into effect on 6 January 2021 [RS/440 - INQ000054404]. On 3 January 2021, I commissioned advice from HM Treasury officials on the generosity of the grants and discretionary top-ups. My preference at the time was to err on the side of generosity given the strain on businesses due to the restrictions [RS/441 – INQ000609568].
669. On 4 January 2021, I received a submission from HM Treasury officials summarising the existing support available to businesses and advising on further business grant options [RS/442 – INQ000609619]. The advice set out various policy options. One of the options (referred to as 'Option 1a' in the advice) included the following three elements: a one-off top-up equivalent to doubling grants for three months (what later became the CBLP); the LRSG (Closed) and (Open) to continue; and a £500 million discretionary funding pot to be allocated on a per person or per business basis to cover hard cases.

670. Later that day I met with HM Treasury officials to discuss their advice [RS/443 – INQ000609195]. I agreed to pursue Option 1a on the costings provided in the officials' submission, with the £500 million discretionary pot to be on a per-head basis. My immediate instructions were for the CBLP to be paid to LAs as soon as possible, and for six-week upfront payments of the LRSG (Closed) to be made by LA to assist with delivery and ease cashflow problems for businesses given the challenges they faced [RS/444 – INQ000609569].
671. On 5 January 2021, HM Treasury officials asked BEIS to lead on delivery of the Business Support Package and take Accounting Officer responsibility [RS/445 – INQ000609570]. HM Treasury officials emphasised the importance of transferring funds for LAs to distribute to businesses as quickly as possible. To ease delivery for BEIS and LAs, I asked for six weeks of LRSG (Closed) payments to be made to LAs up front for them to distribute the grants alongside the CBLP.
672. On 6 January 2021, the SoS for BEIS wrote to me to express appreciation for the further support established for businesses to keep them afloat during the national lockdown. The letter confirmed that the package of support and new grant funding announced had been "*hugely welcomed*", and "*businesses and representative groups had reacted positively*". The letter also confirmed that the SoS for BEIS was "*working to push LAs to deliver grant payments more quickly*". The letter also expressed concern that the number of grant schemes created complexity and risked slowing delivery and suggested that any new payments should be made through existing schemes if possible and with BEIS input [RS/446 – INQ000543611]. Two days later the SoS for BEIS was replaced in a ministerial reshuffle.
673. Guidance to support LAs administer the Business Support Package for lockdown was published on 21 January 2021 [RS/447 – INQ000609912]. This package ran until 8 March 2021.

Challenges with Cohort Two – complexity and delivery issues

674. As with all decision-making in policy design and implementation throughout the Pandemic, there were trade-offs. The priority was in ensuring that the schemes were up and running and the grant funding was distributed to the impacted businesses as soon as possible. This was to ensure that they remained viable and to mitigate against business closures. The BGSs were prepared in consultation with other Government departments, mainly BEIS and MHCLG, which were asked to prepare and publish

guidance for LAs to assist with delivery and implementation of the BGSs to help cut through some of the complexity. This guidance was prepared in consultation with and on the advice of HM Treasury officials.

675. On 20 January 2021, BEIS provided a performance update on the BGSs up to the week ending 3 January 2021. This update noted that, based on “*patchy, incomplete data*” received from LAs so far, LAs had struggled to deliver the Cohort Two BGSs as quickly as the Cohort One schemes. BEIS cited reasons for this as being the volume of grant schemes, the tiering system before the national lockdown, and businesses dipping in and out of eligibility for different BGSs. BEIS also noted that many LAs were focusing on administering the BGSs rather than producing high-quality reporting data **[RS/448 – INQ000609583]**.

676. BEIS confirmed that they were working with LAs to improve performance and reporting. The update noted that BEIS would urge LAs to speed up grant payments and highlight that the eligibility criteria remained consistent where there were multiple guidance documents for the same scheme, so this should not hinder grant distribution **[RS/448 - INQ000609583]**. On receipt of this update, I emphasised that we must do everything possible to ensure payments go out to business as soon as possible **[RS/449 – INQ000658450]**.

Cohort Three

677. The Cohort Three schemes consisted of the RG and the OHLG. The RG scheme was developed in early 2021 in the context of the Roadmap. It replaced the LSRG (Closed), LSRG (Open), and LSRG (Sector), and provided businesses with support as they reopened following the third national lockdown. The RG provided approximately 396,000 grants between April and December 2021, totalling around £3 billion. The OHLG was introduced in response to the impact caused by the Omicron variant. It was operational between January and March 2022 and provided around 134,600 grants totalling £456 million **[RS/079 – INQ000585832]**.

Cohort Three – Restart Grant

678. In February 2021, work was underway across Government to develop the Roadmap. On 5 February 2021, I received advice from HM Treasury officials on options for

business grants beyond March 2021 which set out the four scenarios for easing NPIs being considered by CO and the Covid Taskforce **[RS/450 – INQ000609197]**.

679. The key decision was whether to continue the LRSG (Closed) and/or the LRSG (Open), as they were rolling monthly grant schemes, or whether to replace them with larger, front-loaded grants as we had done with the CBLP in January 2021. Officials advised on the benefits of front-loaded grants and also noted that I needed to consider the level of grant generosity **[RS/450 – INQ000609197]**.
680. On 9 February 2021, I confirmed to officials that I was minded to provide grants in one up-front payment “*calibrated to where we end up on the exit roadmap*” **[RS/451 – INQ000609598]**.
681. On 10 February 2021, I received advice from HM Treasury officials with costed options for this payment (known by then as the RG) calibrated against the scenarios being considered for re-opening. The advice reiterated the advantages of an up-front grant, including that it gave businesses cashflow certainty around which they could plan, and it was much easier for LAs to deliver as it was insulated from shifting regulations. Officials suggested that the RG could cover a three month period from April to June 2021 **[RS/452 – INQ000609198]**.
682. The advice recommended engaging with BEIS’s Accounting Officer prior to the announcement of the scheme due to the increased risk of deadweight from a large up-front grant. Officials recommended co-ordinating closure of the LRSG (Closed) and LRSG (Open) with the opening of the RG as running them in parallel would add complexity and undermine the advantages **[RS/452 - INQ000609198]**.
683. In terms of the generosity of the RG, officials suggested three costed options – one of which was maintaining a level of grant support commensurate with the combined support businesses were currently receiving through the LRSG schemes and the January 2021 top-up (‘Option 1’) **[RS/452 - INQ000609198]**.
684. On 15 February 2021, I met with HM Treasury officials to discuss their advice. Following the meeting, I confirmed that I was minded to close the LRSG (Closed) and LRSG (Open) at the end of March 2021 and replace it with the RG per Option 1 **[RS/453 – INQ000609602]**. This would maintain the current level of support received through the LRSG schemes and the Business Support Package for the January 2021 lockdown for eligible businesses. I confirmed to officials that I was content for LAs to consolidate the remaining LRSG scheme payments into a single payment covering the period from 15

February 2021 to the end of March 2021. My view was that we needed to do another version of the discretionary fund alongside the RG, modelled on what was done at the last Budget (i.e. per business not per capita). I discussed with HM Treasury officials a range between £350 million and £500 million but requested final advice from officials on the merits of this and on the recommended size of the discretionary fund. These decisions were subject to final decisions on the Roadmap.

685. On 17 February 2021, I received a submission from HM Treasury officials on contingency options for the RG if non-essential retail remained closed into April 2021 **[RS/454 – INQ000609199]**.

686. This advice also provided options for topping up the ARG, alongside the RG, to be allocated to LAs on a per business in each authority basis. The advice recommended a pro-rated top up of £320 million (excluding Barnett) if non-essential retail opened in April 2021, or £425 million (excluding Barnett) if non-essential retail remained closed in April 2021. This advice also recommended putting a three month time restriction on LAs accessing the increased ARG top-up, starting in April 2021, meaning that *“any funding should only be released to LAs once they have distributed their previous ARG allocations”*. This was suggested to speed up dispersal of ARG **[RS/454 - INQ000609199]**.

687. On 17 February 2021, I met with officials to discuss their advice. Following the meeting, I reiterated and confirmed that the LRSG (Closed) and LRSG (Open) would close at the end of March 2021 and be replaced with the RG **[RS/455 – INQ000609605]**. I confirmed that RG should be calibrated to reflect the anticipated opening of different sectors within the Roadmap, meaning that hospitality, leisure, personal care and gyms would receive a grant of up to £18,000 and NER would receive a grant of up to £6,000. I also agreed to topping up the ARG in line with the figures recommended by HM Treasury officials on the basis that NER would remain closed in April 2021, and that LAs should use existing underspends before being issued new funding. I requested a three-page brief summarising the final parameters of the RG.

688. On 22 February 2021, I received the three-page brief from officials **[RS/456 – INQ000609611]**. This confirmed that LAs would receive funding for the RG in April 2021 and were expected to make payments to businesses as soon as possible. On 28 February 2021, I announced the RG as part of the Spring Budget 2021.

689. On 3 March 2021, I received an update from HM Treasury officials setting out early feedback from business representatives in response to the Spring Budget. This stated that the introduction of the RG was “*especially welcomed*” [RS/457 – INQ000609615].
690. On 8 March 2021, the third national lockdown ended, and restrictions were eased in accordance with the Roadmap. I note that on 10 March 2021, HM Treasury senior officials emailed the SoS for BEIS confirming the closure of the LRSG schemes at the end of March and introduction of the RG from 1 April [RS/458 – INQ000609618]. BEIS was asked to lead on the delivery of the RG and to take Accounting Officer responsibility [RS/459 – INQ000609620].
691. On 17 March 2021, the guidance for the RG was published [RS/460 – INQ000543737]. The LRSG (Closed), LRSG (Open) and LRSG (Sector) closed for applications on 31 March 2021, and on 1 April 2021, the RG opened for applications.

Cohort Three – adjustments to the RG and the ARG and Summer 2021 contingency planning

692. Throughout spring 2021, the country progressed along the Roadmap, with the relaxation of the NPIs and reopening of the economy. On 11 May 2021, I received a submission from HM Treasury officials on options for economic support over the summer given progress with the Roadmap and that we were on target to remove all NPIs during the summer [RS/313 – INQ000609651]. Given the evolving situation, this submission advised that a timely exit from the existing support schemes was critical to meeting the Government’s objectives of enabling labour and capital to move freely to where it was needed in the economy to support growth and recovery. Officials explained that economic support should focus on reducing economic scarring which, in practice, meant targeting support more effectively. The advice noted that “*the existing package of support, which erred on the side of caution to provide certainty, is likely limiting necessary reallocation across the economy*”. The advice also noted that “*further support for unviable firms would not be economically beneficial nor good value for money*.” The advice set out various options for support packages modelled on different upside and downside scenarios and requested early steers on my preferred approach to assist with directing policy development.
693. On 18 May 2021, I asked HM Treasury officials for further advice on options to focus support on the sectors that had been hardest hit in the upside scenario of their earlier advice [RS/461 – INQ000609629].

694. On 14 June 2021, I received advice from HM Treasury officials on next steps for business grants. The advice noted that I was not inclined to extend the economic support schemes beyond what had been announced in the Spring Budget, meaning that the economic support would “*lean heavily on the remaining money in the discretionary ARG fund*”. Internal BEIS data suggested that, as of 10 June 2021, 62% of the ARG allocation had been spent, leaving approximately £800 million unused. The advice recommended taking steps to maximise the value of the remaining ARG funds and extending the deadline for LAs to distribute their underspends from 30 June 2021 to the end of July 2021. The advice noted that LAs had flexibility to deliver the ARG based on local needs and recommended that the guidance be updated by BEIS to prioritise businesses who remained severely impacted by restrictions, such as nightclubs and travel agents. Officials also recommended that the guidance be updated to explicitly reiterate that businesses which received the RG remained eligible for the ARG [RS/462 – INQ000609640].
695. On 15 June 2021, I confirmed my agreement to these recommendations and HM Treasury officials were asked to communicate the decision to BEIS officials to action [RS/463 – INQ000609641].
696. On 30 June 2021, the RG closed for applications, as initially planned. Final payments were to be made by 31 July 2021.

Step 4 and full reopening

697. After delaying the planned move to Step 4 of the Roadmap from 21 June 2021 due to concerns about rising incidence levels, the PM approved the move, and the country progressed to Step 4 on 19 July 2021.
698. On 27 July 2021, I received a submission from HM Treasury officials with an update on contingency planning for economic support, focused on the end of September transition point where much of the ongoing wider economic support was due to finish, including the CJRS and SEISS. The advice noted that we would be moving to a different phase of the Covid-19 response as the economy fully re-opened. There was therefore “*a good case for moving away from our current package, with its focus on preservation of existing firms and job matches*”, as “[e]xtending existing support would risk artificially propping up job matches and weaker firms that are no longer viable, inhibiting reallocation of capital and labour to stronger firms and offering poor value for money”. This advice noted that whilst “*we should not stand in the way of evolution from the pre-Covid economy*”, it

was nevertheless “*right to consider the risk that withdrawing all support too quickly may result in firm failures and redundancies for higher productivity firms*” which could inhibit economic recovery [RS/119 – INQ000611620].

699. The advice set out various options, together with the risks and benefits of withdrawing and increasing measures in different economic scenarios, which also included business support. The advice included options for support if businesses were forced to close again in future due to Covid-19 restrictions and recommended consideration be given to assisting businesses in the most affected sectors with their fixed costs at that time. Officials suggested that, if necessary, a further LA grant scheme could be introduced, via similar mechanisms to previous BGSs. These could be targeted at specific sectors, discretionary, or a combination of both with varying levels of generosity [RS/119 - INQ000611620].

Cohort Three - Omicron Hospitality and Leisure Grant

700. On 8 December 2021, in response to the rising incidence levels of the Omicron variant of the virus, the PM announced additional NPIs, known as the ‘Plan B’ measures. HM Treasury began developing contingency plans for further economic support in the event of further restrictions [RS/464 – INQ000609682].
701. On 10 December 2021, I received a letter from the British Chambers of Commerce requesting an extension of support for businesses impacted by Omicron. The letter noted that the schemes put in place throughout the Pandemic had “*saved many firms and jobs as they looked to survive extended periods operating under restrictions*” and that “*as the economy has reopened, it was right that these schemes tapered to reflect firms returning to operations.*” This letter noted that whilst the Plan B measures were more moderate than previous restrictions, “*their economic impact will place downward pressure on consumer confidence*” [RS/347 – INQ000609684]. The letter also included feedback from businesses and suggested, amongst other measures, that additional grant funding could be made available for locally administered distribution on a need’s basis [RS/465 – INQ000609683].
702. On 13 December 2021, I received advice from HM Treasury officials on the latest modelling scenarios for Omicron and the impact of further restrictions. This advice included a hierarchy of interventions to be considered in order to support businesses and sectors, with grants listed as “*broad based e.g. ARG and sector specific ... or new grants targeted at the hardest hit sectors*” [RS/466 – INQ000113780].

703. On 16 December 2021, I chaired a roundtable with the SoS for BEIS and the hospitality sector to discuss their concerns about the impact of Omicron. HM Treasury officials provided me with a briefing ahead of this meeting [RS/467 – INQ000609686]. The briefing note recommended that I avoid committing to further support at that stage, but that I not take a hard line that there would be no further support. In the briefing note, officials set out the existing support, including the ARG (which was to remain open until March 2022). I note that on 16 December 2021, HM Treasury officials met with the CBI to discuss the impact of Covid-19 [RS/468 – INQ000609687].
704. On 18 December 2021, I met with the PM to discuss the economic case for further support in light of Omicron [RS/469 – INQ000184558]. Following this meeting, I requested further analysis from HM Treasury officials on the economic case for and against resuming broad based fiscal support [RS/470 – INQ000609691].
705. On 20 December 2021, a final decision record was prepared setting out advice from HM Treasury officials on a new grant scheme to support businesses in the hospitality and leisure sectors that were impacted by the NPIs [RS/471 – INQ000609694] [RS/472 – INQ000609695]. This set out options to support these businesses with property-related and other fixed costs. The advice also suggested a 10% top up of the ARG, noting that there were arguably “*more excluded and ‘hard-case’ businesses than before*”, and prioritising those LAs with little or no allocation remaining [RS/472 - INQ000609695].
706. On 21 December 2020, I confirmed my decision to proceed in line with the advice from HM Treasury officials to set up a new grant scheme and top-up the ARG. I opted for the more generous of the two costed options recommended by HM Treasury officials. I was advised this would be consistent with the grants available under the LRSG (Closed) during the third lockdown from January until June 2021.
707. The same day, my office engaged with SoS for BEIS office to confirm that I would be announcing this package of business support measures [RS/473 – INQ000609697]. BEIS was asked to prepare guidance and make the payments to LAs, with funding prioritised to LAs which had spent most of their previous funds.
708. On 21 December 2021, I announced the OHLG and the ARG top up [RS/474 - INQ000609696]. The announcement explained that these schemes were necessary due to the specific impact of Omicron on the hospitality and leisure industry and because many of the Covid-19 support schemes had already ended. The OHLG grant amount was as follows:

- (a) £2,667 for hospitality, leisure and accommodation businesses with a Rateable Value of £15,000 or less;
- (b) £4,000 for hospitality, leisure and accommodation businesses with a Rateable Value between £15,001 and £51,000;
- (c) £6,000 for hospitality, leisure and accommodation businesses with a Rateable Value over £51,000.

709. Once announced, I continued to engage as needed with officials on specific points of detail in relation to Cohort Three grants. On 17 January 2022, I requested advice from HM Treasury officials on the current situation regarding eligibility of second homes/holiday lets for the grant schemes **[RS/475 – INQ000609700]**. In light of their advice, I asked HM Treasury officials to instruct BEIS officials to update the guidance to LAs to clarify that they should use their discretion on whether second homes/holiday lets were genuinely eligible for the OHLG and the ARG, and to confirm that there was no requirement to automatically pay grants **[RS/476 – INQ000609171]**.

710. On 19 January 2022, BEIS officials advised HM Treasury officials that they had produced and shared an FAQs document with LAs, and they were separately working on updating the fuller guidance for the OHLG and the ARG **[RS/475 – INQ000609700]** **[RS/477 – INQ000543808]** . On 20 January 2022, the updated guidance was published **[RS/478 – INQ000609701]** **[RS/479 – INQ000658498]**.

711. The OHLG and the ARG were closed on 31 March 2022.

The BGS Tables

712. I have summarised key details in respect of each of the BGSs across the three cohorts in the below tables **[RS/079 – INQ000585832]** . These highlight how the BGSs provided broad ranging support to businesses throughout the Pandemic.

Table A – Cohort One

Grant Scheme	Application period	Eligibility and generosity	Total support distributed
Small Business Grant Fund (“SBGF”)	Announced on 11 March 2020 and closed on 31 August 2020.	Eligibility based on premises being liable for business rates but which received Small Business Rate Relief (“SBBR”). Up to £10,000 per business was available through the SBGF and £25,000 through the RHLGF.	907,000 grants totalling £11.1bn.
Retail, Hospitality and Leisure Grant Fund (“RHLGF”)	Announced on 17 March 2020 and closed 31 August 2020.	Eligibility was based on the rateable value of premises (up to £15,000 for SBGF and £51,000 for RHLGF).	
Local Authority Discretionary Grant Fund (“LADGF”)	Announced on 1 May 2020 and closed on 31 August 2020.	Grants were capped at £25,000 per business. LAs had discretion to set eligibility criteria however: Firms had to be ineligible for the SBGF or RHLGF. Aimed at businesses with ongoing fixed building-related costs and who had been adversely affected by Covid-19. Predominantly aimed at businesses with an RV of under £51,000.	93,000 grants totalling £560m.

Table B – Cohort Two

Grant Scheme	Application period	Eligibility and generosity	Total support distributed ¹
Local Restrictions Support Grant (“LRSG (Closed)”))	Applications opened on 9 September 2020 and closed on 31 March 2021.	Provided to businesses that were required to close due to local restrictions. Grant size differed by RV of the business premises and paid for	LRSG, ARG and CSP, and CBLP totalled 3m grants and £7.4bn ²

¹ Figures taken from Ipsos Evaluation, *Evaluation of the Local Authority COVID-19 Business Support Grant Schemes, Final Report*, Available at: [Evaluation of the Local Authority COVID-19 Business Support Grant Schemes](#)

² Table 1.1 in the Ipsos Evaluation (*Id.*) notes this figure of £7.4bn as covering grants awarded as part of the LRSG, ARG and CSP schemes. My understanding from HM Treasury officials is that the figure also includes grants as part of the CBLP. The figures was maintained by BEIS, and the full breakdown will be held by one of its successor departments.

Grant Scheme	Application period	Eligibility and generosity	Total support distributed ¹
		every 2/3 weeks of closure. Amount of grant increased further in early October 2020.	
LRSO (Open)	Applications opened on 1 November 2020 and closed on 31 March 2021. Funding provided retrospectively for businesses affected by restrictions from August – November 2020.	<p>Provided to business based in England; in an area subject to Tier 2 or Tier 3 local restrictions since 1 August 2020 and severely impacted because of the local restrictions; established before the introduction of Tier 2 or Tier 3 restrictions; and not required to close but impacted by local restrictions.</p> <p>Grant size differed by RV of the business premises and paid for every 2/3 weeks of restrictions.</p>	
LRSO (Sector)	Applications opened on 1 November 2020 and closed on 31 March 2021.	Businesses that were required to close due to national restrictions imposed on 23 March 2020 and were not able to re-open.	
Additional Restrictions Grants (“ARG”)	5 November 2020 until 31 March 2022	<p>LAs had the discretion to determine eligibility but were encouraged to support:</p> <p>In the first payment - businesses from all sectors that may have been severely impacted by restrictions but were not eligible for LRSO or CBLP grant schemes.</p> <p>In the second payment - businesses from all sectors that may have been severely impacted by restrictions but were not eligible for the Restart grant scheme.</p> <p>In the third payment - businesses severely impacted by the Omicron variant.</p> <p>Grant size differed by RV of the business premises and paid for on a monthly basis.</p>	
Christmas Support Payment (“CSP”)	1 December 2020 until 29 December 2020	Provided to ‘wet-led’ pubs where Tier 2 or Tier 3 restrictions were imposed.	

Grant Scheme	Application period	Eligibility and generosity	Total support distributed ¹
Business Support Package for January 2021 Lockdown, which included: the LRSG (Closed) Addendum (an extension of the Local Restrictions Support Grant) (Closed) which was adapted due to the national lockdown); the Closed Businesses Lockdown Payment (“CBLP”); and a top up to the ARG.	Announced 5 January 2021 until 8 March 2021		

Table C – Cohort Three

Scheme	Application period	Eligibility and generosity	Total support distributed ³
Restart Grant (“RG”)	1 April 2021 until 30 June 2021	Up to £6,000 for non-essential retail premises and £18,000 for hospitality, accommodation, leisure, personal care, and gym businesses.	396,000 grants totalling £3 billion
Omicron Hospitality and Leisure Grant (“OHLG”)	30 December 2021 until 31 March 2022	Up to £6,000 to businesses offering in-person services from fixed rate-paying premises in the hospitality, leisure, and accommodation sectors.	134,600 grants totalling £456 million.

New Burdens Funding

713. New Burdens Funding was provided to LAs in relation to the administration of the grants, in line with long-established practice that when the Government asks LAs to take on new responsibilities, it also funds LA administrative costs associated with the task, including new staff costs. I understand that BEIS received requests for New Burdens Funding from the LAs during the time they were implementing the grant schemes. BEIS carried

³ Figures taken from Ipsos Evaluation, *Evaluation of the Local Authority COVID-19 Business Support Grant Schemes, Final Report*, Available at: [Evaluation of the Local Authority COVID-19 Business Support Grant Schemes](#)

out new burdens assessments and submitted proposals for additional funding to HM Treasury to approve. My understanding is that around £210 million was provided to LAs in New Burdens Funding for the implementation and delivery of the various BGSs. BEIS engaged with LAs to ensure that the New Burdens Funding was adequate and proportionate to the additional work that they were required to undertake. Payments were made by MHCLG using section 31 of the Local Government Act 2003 and paid out in arrears.

General comments on the operation of the schemes

Value for Money

714. The unprecedented scale and necessary speed of delivery of the BGSs meant that it was not possible to demonstrate that the funding deployed would represent value for money to the standards usually expected when managing public funds. As I have set out above, the priority was speed of response to ensure that businesses received appropriate support and were protected from failing. The need to act with speed and its implications for value for money was recognised in the Ipsos evaluation report, which stated that the NPIs “*created a perceived need to act with urgency, with value for money partly linked to the speed with which grants were allocated*” [RS/079 - INQ000585832]. To have compromised this speed at the expense of creating a more targeted scheme which could have provided better value for money, but which would inevitably have been more complex and taken longer to establish, would have risked widespread business failures and associated economic harm. This was the outcome that we sought to avoid by introducing the BGSs.
715. Despite the challenges caused by the necessary scale and pace of delivery, the Ipsos evaluation report noted that the BGSs were a significant achievement which oversaw the distribution of £22.6 million through 4.5 million payments over two years to many of the smallest businesses which were most vulnerable to disruption brought by the Pandemic. This report estimated that between 21,000 and 59,000 workplaces may have avoided closure as a result of the BGSs. Through enabling the survival of businesses, it is estimated that the BGSs safeguarded 300,000 to 400,000 jobs. The report also found that the BGSs were crucial in stabilising consumer spending and facilitating the reopening of the economy [RS/079 - INQ000585832].

716. As discussed above, the available data which was relied on in order to best target the BGSs was limited. Whilst we were aware of the limitations of using the data at the time, there was and remains no better alternative data source or one which provides a more comprehensive and detailed central directory of businesses, their size and sector. The Ipsos evaluation report notes that the advantage of using LAs to deliver and distribute the BGSs was their knowledge of the businesses within their local area. However, in practice, the quality of the information available to LAs was not as high as anticipated. Parts of central Government which might have been able to assist with targeting delivery of the BGSs were also exceptionally busy at the time, such as HMRC, which had been largely deployed on delivery of the CJRS.

Fraud and error

717. Given the importance of getting support out to businesses as quickly as possible to inject liquidity and help keep as many as possible from failing, at each stage we had to balance speed of delivery with the risk of fraud and error if pre-payment checks were not conducted. These risks were known and accepted given the countervailing risks of mass unemployment, economic scarring and long-term damage associated with failing to intervene promptly. As the BGSs developed, significant steps were taken to improve the processes and mitigate the risk of fraud and error, led by BEIS and the LAs as the delivery bodies. I set out below the fraud mitigation measures which were taken across the three cohorts of BGSs.

Cohort One fraud mitigation measures

718. The approach to the Cohort One schemes prioritised speed to prevent widespread business failures and safeguard jobs, recognising the trade-off between rapid delivery and comprehensive pre-payment checks. At the time these schemes were developed and introduced, there was a significant risk that many businesses would not survive the Pandemic. The NPIs had a significant impact on the cashflow of businesses, with sectors reliant on customer footfall and social contact particularly exposed. Widespread business failings would result in job losses, the destruction of productive capital and could result in economic scarring. The Ipsos independent evaluation of the Covid-19 grant schemes, published in 2022, noted that the BGSs programme *“was designed and established rapidly without an existing programme delivery template or much of the required data and payments infrastructure in place. Given the range of operational and resourcing challenges faced, the speed with which the programme was delivered*

(particularly the first cohort of schemes introduced with the first national lockdown)
should be considered a significant achievement” [RS/079 – INQ000585832].

719. The Cohort One grants succeeded in their objective of getting financial support to businesses as quickly as possible in the circumstances, but this required the use of business rates data with no requirement for pre-payment checks to be conducted by LAs before distributing the funds. LAs were required to submit weekly reports to BEIS via the DELTA reporting system, covering the Cohort One schemes.
720. In order to ensure payments were made to businesses sufficiently rapidly to mitigate the potential economic damage caused by the Pandemic, LAs made payments directly into business bank accounts (where contact details and account information were held on file and there was no missing or contradictory information). The absence of an application process accelerated the payment of grants, however, it came with the trade-offs that LAs could not conduct pre-payment checks, formal needs-based assessments or review supporting documents, such as bank statements, tenancy agreements, and proof of occupancy, prior to distributing the funds. For the Cohort One schemes, measures to mitigate fraud and error were therefore limited to post-payment assurance checks.
721. The guidance issued by BEIS for the Cohort One schemes provided that the Spotlight application, which is a digital assurance tool used to spot irregularities, would be available to LAs to help avoid errors and fraud. Support was made available to LAs for using Spotlight and interpreting results. The guidance outlined that this tool, along with other checks conducted by LAs, could help with pre-payment and post-payment assurance, although no specific checks were mandated. BEIS also encouraged LAs to use Spotlight to collate and present statistics and data, cross-referencing to data held by Companies House, the Charities Commission and Experian to respond to fraud **[RS/362 – INQ000543172] [RS/374 – INQ000597678]**.
722. The guidance outlined that any business caught falsifying records to gain additional funding would face prosecution, and any funding issued would be subject to claw back, as would grants paid in error. The guidance also encouraged LAs to work with BEIS to develop good practice, *“including protecting eligible businesses which may be targeted by fraudsters” [RS/362 – INQ000543172] [RS/374 – INQ000597678]*.

723. Assessing the Cohort One scheme later, the Ipsos evaluation report concluded that comparatively high levels of irregular payments in the Cohort One scheme were a consequence of the rapid mobilisation as the schemes were launched.

Cohort Two fraud mitigation measures

724. The rates of fraud and error under the Cohort Two and Three schemes have been assessed to be significantly lower than Cohort One due to the fact that lessons learnt from Cohort One were incorporated into their design. The assurance framework that applied to the BGSs developed significantly across the three cohorts, with increasing emphasis placed on pre-payment and post-payment checks.

725. For the Cohort Two schemes, all LAs were required to provide assurance that the grants had been paid in line with the eligibility for the scheme. LAs developed pre-payment and post-payment assurance plans, requiring an eligibility and recipient check on all payments. The guidance also advised LAs that fraud risk assessments of the likelihood of fraud and/or error should be undertaken as part of the assurance plan. The extent of the checks undertaken were expected to be proportionate to the grant value and informed by a fraud risk assessment [RS/407 – INQ000543465].

726. The guidance required LAs ensure the safe administration of grants and put appropriate measures in place to mitigate against the risk of fraud and error. LAs were advised to consider supplementing existing controls with digital tools to support appropriate and accurate distribution of grants. Although the use of Spotlight was not mandated for the Cohort Two grants, it was “*strongly recommended*” in the guidance. Experian was also offered to provide fraud-checking and data validation services. These tools were made free for LAs and allowed them to verify the bank accounts of companies in receipt of business grants and provide insight into whether the company was trading for the purpose of determining eligibility [RS/407 – INQ000543465] [RS/420 – INQ000543464].

727. The Government Grants Management Function and Counter Fraud Function supported LAs to carry out post-event assurance work to identify high risk payments and to estimate and measure the likely incidence of fraud and error that had occurred in the scheme. This required statistically significant sample testing of key residual risks to assess the level of fraud and error arising from the residual aspect of identified fraud risks.

728. BEIS guidance for managing the risk of fraud and payment in error was expanded upon

in the guidance for the Business Support Package for the third national lockdown to

include a requirement for LAs to report fraud in real time. The guidance recommended that LAs report fraud simultaneously to the National Anti-Fraud Network and the National Investigation Service (“NATIS”) [RS/447 – INQ000609912]. Local authorities were also able to use Experian to assist with addressing residual fraud risks when dispersing funds. Experian allowed LAs to “*verify the bank accounts of companies in receipt*” of the business grants and “*provide insight into whether the company was trading during the relevant date*” for the grants. The tools could be used for both pre- and post- payment checks and applied to both Companies House registered companies and unregistered companies such as sole traders [RS/407 – INQ000543465].

Cohort Three fraud mitigation measures

729. Further enhancements were introduced for the Cohort Three schemes to strengthen fraud protections and reduce error. HM Treasury worked with LAs to share best practices in fraud detection and support the introduction of pre-payment checks. BEIS guidance for the RG mandated LAs to undertake pre-payment checks for all RG payments [RS/460 – INQ000543737]. These checks had to be undertaken before any payments were issued to a business and the requirement was not limited to new applicants. BEIS guidance suggested that the checks “*should look at both the company and the company’s bank account*”.
730. Guidance issued by BEIS mandated the use of Spotlight for enhanced checks and evidence was required to be retained by LAs for audit purposes [RS/079 - INQ000585832]. Bank account checks were required, with the requirement for grant payments to only be made to UK bank accounts. The guidance also recommended use of the Bank Account Verification Tool, which was available to LAs, to mitigate the risk of business impersonation fraud.
731. LAs were also mandated to complete fraud risk assessments, with BEIS providing risk assessment templates for each scheme. For the OHLG, LAs were required to run a mandatory application process to confirm that businesses met the eligibility criteria.
732. LAs were also responsible for completing due diligence. They were required to make an assessment as to whether an application was eligible and genuine. A BEIS audit of processes and the submission of data on a sample of payments to BEIS was used by LAs to check eligibility. LAs could decide whether to undertake eligibility assessments before or after payments were granted. LAs were also responsible for pursuing any losses from irregular payments. The Ipsos evaluation report noted that risks identified

included false misrepresentation through posing as an eligible business, multiple individuals receiving a grant for the same business and receipt of a grant despite the firm no longer trading [RS/079 - INQ000585832].

Reduction in fraud and error

733. In my view, all of the measures, and particularly the lessons learnt from Cohort One schemes and actions taken thereafter, ensured that any losses were minimised.

734. As set out above, the need to establish the BGSs at speed to mitigate against the potential economic harm caused by failing to intervene swiftly was balanced against the added complexity and time it would have taken to institute more thorough fraud and error mitigations from the outset. The relative success of the various measures taken to mitigate these risks in the Cohort Two and Three schemes is demonstrated by the improvements in the levels of fraud and error, which have been assessed to be significantly lower than for Cohort One. This is not to say that the later schemes were completely watertight in terms of fraud and error – but the Ipsos report estimated that losses due to fraud and error from all of the grant schemes at around £1.1 billion, with 90% of those losses resulting from the Cohort One schemes [RS/079 - INQ000585832] and only a small fraction from Cohorts Two and Three. In March 2023, the head of the National Audit Office commented that: “*BEIS and local government deserve credit for working quickly to set up and distribute grants to businesses. Early schemes lost significant sums to error and fraud, but BEIS addressed this in later iterations*” In total, losses amounted to just under 5% of the value of the grants paid to businesses [RS/081 – INQ000655729].

Governance on fraud and error

735. In July 2020, the Covid-19 Fraud Ministerial Board was established by the General Public Sector Ministerial Implementation Group to oversee the response to Covid-19 fraud with a focus on fraud against the public sector, including grant schemes [RS/480 – INQ000609439]. Members included the SoS for BEIS, the Economic Secretary to HM Treasury and DHSC [RS/481 – INQ000609438]. Meetings took place monthly between July and November 2020 before they were moved to a quarterly basis [RS/482 – INQ000609779]. This board considered ways to increase fraud intelligence sharing between banks, police and public sector post Covid-19.

Recovery of irregular payments since the Pandemic

736. In February 2022, LAs reported the recovery of £12.9 million in irregular payments, and had referred a further £6 million to DBT which took over the remaining responsibilities from BEIS in February 2023 in respect of the recovery of funds resulting from fraud and error. By May 2023, this figure had increased to £20.9 million. As of January 2024, the DBT have stated that £34.7 million of fraudulent payments have been recovered for return to HM Treasury. The current recovery estimate based on LAs' returns is £85 million.

Part J: Business Support – Business Rates Relief

737. On the outbreak of Covid-19, with the support of HM Treasury officials and advisors, I made a number of interventions to the business rates system, in particular by introducing a scheme which became known as the Business Rates Relief Scheme (“**BRR scheme**”).

738. The priority of the BRR scheme was to ensure support, by way of a reduction in the business rates, was directed at sectors most affected by restrictions. The focus was on providing extra support to businesses, specifically small and independent businesses in sectors most affected by a decline in footfall and visitor numbers because of the Covid-19 restrictions.

Background on the business rates system

739. In simple terms, the business rates system in England and Wales is a system of local taxation funding local services by charging rates. These rates are based on the ‘Rateable Value’ of non-domestic property, to which a relevant ‘multiplier’ is applied. A business rates bill is calculated by multiplying this Rateable Value by the annual multiplier set by HM Treasury each year. Businesses can benefit from a reduction in their bill if they are eligible for any relief schemes. Some properties are wholly exempt from business rates.

740. It is delivered by HM Treasury, MHCLG, LAs and the VOA. The VOA is an executive agency of HMRC. Each department/agency handles a different aspect of the business rates system.

- (a) HM Treasury sets the overarching policy for the system, including any necessary legislative reform. As the department with responsibility for strategic tax policy, HM Treasury sets the annual multiplier, as well as setting the criteria for various business rate reliefs, for example, small business rate relief and

charitable relief. HM Treasury also advise on broader considerations such as State aid;

- (b) MHCLG then sets the framework and policy governing how LAs collect and retain rates, ensuring effective operation of the system;
- (c) Property valuations (non-domestic property and land) are the responsibility of the VOA. The VOA maintains a rating list, which is updated every five years, and responds to challenges to property valuations from business rate payers, with appeals heard by the independent Valuation Tribunal;
- (d) Local Authorities are responsible for administering the system under the framework of the Local Government and Finance Act 1988 and related measures, retaining a proportion of the rates collected to pay for local services. They may also set additional reliefs under devolved powers.

741. In line with convention, HM Treasury and MHCLG have worked together on the business rates system since well before the outbreak of Covid-19. HM Treasury officials regularly share information on policy options with MHCLG and MHCLG provide input on costings and delivery.

Decision-making during the Pandemic

742. The priority of the BRR scheme was to ensure support was directed at sectors most impacted by restrictions. Officials from HM Treasury and MHCLG, together with the VOA, worked closely together to design a scheme with this in mind. The strength of the HM Treasury and MHCLG relationship ensured effective communication and helped the design and development of the BRR scheme to progress at pace.

743. As we moved through the various phases of the Pandemic, the shape and scope of the BRR scheme evolved. Throughout the process, I took my decisions after considering the advice of HM Treasury and MHCLG officials on policy design and costings.

Initial development of the BRR scheme and lead up to Spring Budget 2020

744. The BRR scheme was designed to expand on measures already introduced before the Pandemic. Those measures increased the retail discount rate which applied to retail properties, cafes, restaurants and pubs with a Rateable Value of less than £51,000, from 33% to 50%, as well as expanded it to include cinemas and music venues with a

Rateable Value of less than £51,000 – which was a 2019 Conservative manifesto pledge. The measures were due to come into effect from 1 April 2020.

745. In early March 2020, I was provided with advice prepared by the Business Rates team setting out the options to expand the scope of the existing BRR to meet the impact of Covid-19 restrictions on small businesses most affected by a decline in visitor numbers. The advice included costings for increasing the BRR from 50% to 100% (while maintaining the £51,000 Rateable Value threshold). It also included costings for expanding the rates relief to businesses dependent on consumer or visitor footfall that may have been significantly impacted by Covid-19, but were not currently eligible for BRR, such as leisure facilities, and places where people assemble, for example, hotels and guesthouses. Officials estimated these measures with expanded eligibility would cost approximately £1.1 billion. If 100% BRR was based on existing eligibility, it would cost approximately £815 million. I was advised not to expand BRR to include a wider range of commercial properties, such as offices or industrial spaces, as this would, in effect, bring all non-residential property below the £51,000 Rateable Value threshold into scope and the cost would be significant [RS/483 – INQ000609184].
746. On 4 March 2020, I met with HM Treasury officials to discuss tax options and the wider Budget package [RS/032 - INQ000232147]. Following these meetings, I advised HM Treasury officials that I wanted “*to take the retail discount to 100% on a temporary basis for 1 year (and so making it more credible to go back to 50% as we can link to it being specifically to provide support during Coronavirus)*”. I also wanted to explore expanding the relief to the leisure and hospitality sector and asked officials to prepare updated advice on this as soon as possible. I requested examples of businesses affected and not affected by the £51,000 Rateable Value cap at 100% BRR. I also requested further advice on expanding the retail discount to leisure and hospitality and asked HM Treasury officials to “*engage with policy partners as needed*” [RS/484 – INQ000656235].
747. On 7 March 2020, I received a further submission from HM Treasury officials on BRR options [RS/485 – INQ000609210]. The advice gave costings for increasing the new pubs discount for larger pubs above the £51,000 Rateable Value threshold, who would have otherwise received limited support.
748. In the submission, officials also provided various options to expand BRR for 2020/21, including increasing the £51,000 Rateable Value threshold, which would “*provide support to small businesses who occupy more valuable property, for example, in city centres*”. Officials advised against pursuing this option at that stage because it would be

expensive and would affect “a *small number*” of businesses as 90% of retail properties had a Rateable Value of below £51,000. Officials also advised against including any additional BRR measures at the upcoming Spring Budget (for example, allowing financial services, medical services and professional services to claim BRR) citing strong policy reasons, the key to which was the fact that they were less impacted by the decrease in consumer and visitor footfall.

749. I agreed with advice from officials to not expand BRR in a way that was not targeted to those who were most affected by a decline in customer and visitor footfall. I also confirmed that I would grant a business rates discount of £5,000 to pubs **[RS/486 – INQ000658380]**.

750. In the Spring Budget on 11 March 2020, I announced 100% BRR for 2020/21 for RHL properties with a Rateable Value below the £51,000 cap and that the business rates pubs discount would increase to £5,000 **[RS/487 – INQ000609915]**. As with other Budget measures, these were agreed with No.10 before they were announced, and the Cabinet was briefed on the morning of the Budget.

Changing circumstances after Spring Budget

751. Following the Spring Budget, the scale of the economic and social impact of the Covid-19 outbreak was becoming clearer. As restrictions increased to flatten the rate of infection, my focus turned to developing a number of major, unprecedented, economic interventions to support businesses. I asked HM Treasury officials to consider further options to increase and expand BRR in light of the prospect of a lockdown.

752. I received a submission from HM Treasury officials on further options relating to business rates **[RS/488 – INQ000609230]**. This explored various options, including:

- (a) Increasing the Rateable Value cap from £51,000 to £100,000 or £200,000 so that larger businesses who were also likely to be affected by restrictions would be eligible;
- (b) A business rates holiday – officials warned that this would be very expensive if the support could not be targeted towards sectors impacted and that a mechanism was needed to ensure support was targeted;
- (c) Time to Pay (“**TTP**”) business rates – if a business had a TTP from HMRC, they could ask their LA to speed up the process of agreeing a payment plan for business rates;

- (d) Material change of circumstances – officials mooted using the existing mechanism for the VOA to adjust a property’s Rateable Value due to physical changes at the property. The VOA would assess the impact of the change on use and reduce the Rateable Value accordingly.

753. On 17 March 2020, I took the decision to go further by lifting the Rateable Value cap altogether, which meant all eligible RHL properties would be able to claim RHL relief **[RS/489 – INQ000609239]**. This “approach was announced on 17 March 2020 and implemented from 1 April 2020 for eligible properties. At the time of taking this decision, I had also considered a sector-specific business rates holiday but was advised of possible State Aid issues. The “100% Relief with no cap” route did not face this issue, and I was content with it as an alternative to a targeted business rates holiday. On 18 March 2020, I also announced a 100% BRR for 2020/21 for eligible nurseries. This was also implemented from 1 April **[RS/490 – INQ000609176]**.

BRR for 2021/22

754. In the Autumn of 2020, ahead of the Spending Review, HM Treasury started to consider BRR for 2021/22. At that point in time, a key priority for me and the FST (which we conveyed to HM Treasury officials) was fiscal sustainability. In relation to business rates, this meant reviewing and facilitating a substantive move away from the exceptional relief that was, at that time, available to all RHL properties through the BRR scheme. The guiding principles for the new relief package were sustainability (with the relief being temporary, targeted and less generous than the existing package), flexibility (so it could adapt to the uncertainty of Covid-19 and any local restrictions that may be imposed), deliverability (to represent value for money) and coherency with the Government’s pre-Covid-19 commitment to improving the business rates system to reduce the overall burden on businesses.

755. Ahead of the Spending Review, HM Treasury officials prepared a draft paper setting out some broad options for a RHL reliefs package for 2021/22 **[RS/491 – INQ000609464]**. This included the following options:

- (a) Reverting to the pre-Covid-19 baseline of a 50% BRR for retail, pubs, cinemas and music venues below the £51,000 Rateable Value threshold with potentially tapered support for business with a Rateable Value above £51,000;
- (b) A 50% BRR but wider in scope, including hospitality and leisure below the £51,000 threshold; or

- (c) 100% relief for RHL properties where there were local lockdowns. This could be timebound for the duration of the lockdown and relief applied pro-rata. It could also be expanded to other sectors if needed. This would provide immediate and direct economic support where the property use was restricted. Geographical targeting, together with the time-restricted nature of the relief, would help to constrain costs to the Exchequer.

756. During September 2020, HM Treasury officials provided advice and costings on various options for BRR for 2021/22 [RS/492 – INQ000609129]. On 16 September 2020, I met with HM Treasury officials to discuss options for RHL relief, cap options, the Business Rates Nursery Discount, multipliers and transitional relief [RS/493 – INQ000658427].

757. Following advice from officials, I agreed to the following provisional policy parameters for BRR for 2021/22 [RS/492 – INQ000609129]:

- (a) A 66% BRR for RHL properties with a Rateable Value up to £51,000;
- (b) Tapered relief for RHL properties with a Rateable Value over £51,000, ending at 0% for properties with a Rateable Value of £100,000. The intention of this was to reduce the incidence of hard boundary cases where businesses lose relief completely as soon as they pass the £51,000 Rateable Value threshold;
- (c) A £55,000 or £250,000 per business cash cap on relief, depending on future subsidy control rules.

758. These measures aimed to target support at smaller businesses while still supporting the hospitality and leisure sectors which had taken longer to recover pre-Covid output levels. They also sought to achieve more fiscal sustainability and to implement a relief that was more in line with the pre-Covid-19 retail relief.

759. I did not announce changes to the BRR for 2020/21 in the Autumn Spending Review (subsequently published on 25 November 2020). On 3 November 2020, officials recommended making an announcement in the New Year/January 2021, pending further developments in the Pandemic over the Winter [RS/494 – INQ000609759]. The advice did recommend freezing the multiplier and announcing this at the forthcoming Spending Review (the “multiplier” is the tax rate applied to a property’s Rateable Value to arrive at their business rate liability). Announcing a freeze to the multiplier at the Spending Review was important given the prolonged impact of Covid-19, the decision to delay the next revaluation from 2021 to 2023 and to give businesses a degree of

certainty of rates until the confirmation of rates in the New Year **[RS/494 - INQ000609759]**.

Decisions following the second lockdown

760. Following the second national lockdown in November 2020 and the wave of infections that Winter, HM Treasury officials provided further options for offering support through BRR.

761. On 16 December 2020, I received a submission from HM Treasury officials **[RS/495 – INQ000610845]**. The submission recommended that BRR for 2021/22 should have three key aims:

- (a) to reduce the overall cost of the relief compared to 2020/21;
- (b) to avoid a cliff-edge for businesses in receipt of relief (where those businesses merited further support); and
- (c) to provide support to small and large RHL businesses affected by Covid-19.

762. Officials sought a steer from me on whether the proposed aims were acceptable and which aims, if any, should be prioritised **[RS/495 - INQ000610845]**, along with other points around policy design and implementation.

763. The submission recommended an announcement on BRR in early January 2021 to give businesses certainty sooner and to avoid closures and job losses.

764. HM Treasury officials also explained that the advice they had previously given on having a taper of BRR for properties with a Rateable Value between £51,000 and £100,000 (which had been recommended to reduce the incidence of hard boundary cases where businesses would lose the relief completely when they hit the threshold), would “*require a software change that would be very difficult to implement in time for 2021/2022 without causing substantial delays to local authorities rebilling process*”. There was therefore a trade-off between a threshold with a hard boundary or a taper system which would create implementation challenges. Officials recommended that further work be undertaken on (a) options to remove the taper and (b) options to increase / remove the Rateable Value threshold, with a final decision to be taken in the New Year **[RS/495 - INQ000610845]**.

765. The submission included costings for potential RHL relief options with various parameters, which were based on analysis and discussions with MHCLG, the VOA and other teams within HM Treasury **[RS/495 – INQ000610845]**.

766. This submission also marked a key shift in the advice that I was receiving from officials. In contrast to initial recommendations that focussed on small businesses, the recommendation from officials was that there was an economic case for providing relief to larger businesses as well. The submission emphasised that larger businesses had also been impacted by the Pandemic. The advice provided by officials included an analysis of the impact of different levels of relief on different types of businesses. The submission analysed the share of business rates paid by larger businesses and argued that large properties paid a greater proportion of rates and therefore, required additional support in respect of liabilities. The advice also considered the number of employees supported by different sizes of business. This highlighted the wider economic benefit to delivering relief to larger businesses to prevent closures and job losses **[RS/495 - INQ000610845]**. The rationale for confirming this support to larger businesses sooner rather than later was also set out in this submission:

“Many businesses within RHL now have low cash reserves after a difficult trading year. Some have agreed rent reductions, the main fixed cost for a specific store. Many businesses are now considering the viability of individual stores and associated redundancies and are assuming no rates reliefs next year. Some stores and businesses may have been unviable before the impact of COVID. However, we anticipate that there are some who's [sic] short-run viability may have been impacted by COVID, and so there could be a case to provide them with some support next year through the business rates system ...

Following the Christmas trading period in January there are often announcements of retail closures. Some of these may make the link to the lack of BRR next year, deciding to close stores as when rates costs are considered the store is not projected to be profitable. Local Authorities will also issue full rates bills for 2021/22 in February with no relief included (before rebilling later based on any announcements) ...

Early confirmation of a relief that meaningfully supports larger businesses may reduce the numbers of site closures and related job losses but would come at a significant cost” **[RS/495 - INQ000610845]**.

767. There were also some risks when it came to redesigning the scheme to include large businesses – in particular, there was the risk of larger businesses that had continued to trade and remain profitable during the Pandemic benefitting from the expanded BRR relief. Officials provided me with a risk/benefit analysis of targeting any relief to exclude such businesses. Tesco was cited as an example of a business that had remained relatively profitable and was able to pay dividends. Officials advised that there were:

“significant practical and legal difficulties with specifically removing [profitable businesses] from scope. It is challenging to agree a definition for which properties we would exclude; we would need to cover supermarkets, but also large mixed retail and non-supermarket retailer chains such as B&Q, B&M and Pets at Home, who received full relief on their stores but have offered to pay it back. Meanwhile, not all businesses who run supermarkets have had a successful year and offered to pay rates back, for example, John Lewis and Marks and Spencer who occupy mixed use properties. ...

Any policy proposal that put in place arbitrary criteria for excluding certain sizes of business would be at risk of legal challenge (e.g. a judicial review) on rationality grounds and could undermine the State aid grounding of the existing measure. Therefore, excluding 'successful' businesses from relief on the basis of a profit or turnover test would be the most targeted and objectively legally justifiable approach, but we do not think this is practically deliverable for LA's as they do not have the required level of expertise. Businesses would need to provide evidence to LA's, and this approach could exclude successful smaller businesses as well” [RS/495 - INQ000610845].

768. The solution recommended in the advice was using a cash cap, set an appropriate level, to limit relief to businesses rather than specifically excluding supermarkets and other large, profitable businesses, and recommended that options were explored for businesses to refuse BRR [RS/495 - INQ000610845]. The submission set out tentative costings for three possible costs caps (£55,000, £250,000 and £2 million). I considered this to be the better option on balance.

769. On 19 January 2021, I was provided with further advice on BRR for RHL and was asked to make a decision on a set of refined relief options [RS/496 – INQ000658452]. In a meeting that followed on 21 January 2021, I confirmed that I wanted to keep the existing scope of the BRR scheme. I also considered some hard cases and how to deal with them. I also agreed with the advice to use a Written Ministerial Statement to ask LAs to delay issuing bills for business rates until after the Budget (during which I expected to

provide more detail on the 2021/22 BRR) **[RS/496 - INQ000658452]**. The Written Ministerial Statement was made on 3 February 2021.

770. On 29 January 2021, I received a submission from HM Treasury officials with a final set of options and costings for BRR for 2021/22 **[RS/497 – INQ000658453]**. On 2 February 2020, I advised HM Treasury officials that my preference was “*for there not to be any changes to eligibility from the original RHL holiday for 20/21, particularly given the fiscal costs are of a comparatively low magnitude*” and that I was “*not convinced of the need to exclude from a policy perspective, and would prefer a simple scheme which isn’t as targeted*”. I asked officials to work up the “*simplest possible way of excluding large chains that are open (whether that’s a turnover test or other), and come back ... with revised options*”. I confirmed that I continued to be minded towards a “[*Business as Usual*] state of 66%, £2m cap, and no Rateable Value threshold” with a three month BRR holiday. I asked officials to “*analyse how timing affects the delivery/legal avenues*” **[RS/497 - INQ000658453]**.

771. On 17 February 2021, I received a submission from HM Treasury officials on final policy decisions for the 2021/22 BRR scheme ahead of the Spring Budget. This included costings based on the recommended policy design **[RS/498 – INQ000609604]**. Officials recommended extending the holiday period for RHL and nurseries for three months to align with the likelihood of businesses opening in accordance with the Government’s Roadmap to re-open the economy, which was expected to result in increased customer and visitor footfall **[RS/498 - INQ000609604]**. For the remainder of the year (i.e. 1 July 2021 to 31 March 2022), officials recommended:

- (a) A 66% relief capped at £1.5 million for business that had to close due to restrictions;
- (b) A 66% relief capped at £105,000 for businesses that were allowed to open as of 5 January 2021;
- (c) That businesses with both open and closed properties should be able to claim up to the respective cap for each property type, but the total amount of relief received could not exceed £1.5 million;
- (d) Including a voluntary opt-out mechanism with a final date to opt-out postdating the date on which the relief ends, for example, 30 April 2022.

772. HM Treasury officials advised that *“under any length of holiday, the subsidy control and domestic public law risks would be lower if you were to restrict the scope to businesses that have been most directly affected by the NPIs, as this would be an objectively justifiable basis on which to target support. However, you have previously decided against this approach as it would be significantly less generous to open RHL that have suffered from a decline in footfall (who would receive only up to de minimis support).”*
773. HM Treasury officials also repeated earlier advice that targeting more generous support (by increasing the threshold of the cap) at businesses who were forced to close in the most recent restrictions would help target support while reducing legal risk. This would benefit larger non-essential businesses which, officials advised, were *“likely to need a higher level of support as they will be in a difficult financial position after over a year of restrictions and are likely to be the same ones facing other restrictions going forward, such as rule of six and social distancing. Smaller firms below the cap will be treated the same regardless of if they have been forced to close.”*
774. On 18 February 2021, a readout was circulated to HM Treasury officials confirming my final decisions on the policy which aligned with the advice from officials, with a decision to cap BRR for closed businesses at £2 million [**RS/499 – INQ000658455**].

Spring Budget 2021 – three month relief extension and reduction

775. On 3 March 2021, in line with the above decision, as part of the Spring Budget, I announced a three month extension to existing uncapped RHL relief (which was due to finish on 31 March 2021) to 30 June 2021 [**RS/500 – INQ000583757**]. The Budget set out that, from 1 July 2021, RHL BRR would reduce from 100% to 66%, with a cash cap of £2 million per business, for businesses that were required to close as of 5 January 2021, and a cash cap of £105,000 for businesses that were permitted to open [**RS/501 – INQ000624667**]. These measures were aimed at avoiding a cliff edge by providing support (at a reduced level) to businesses in the RHL sector which were still feeling the effect of Covid-19 restrictions because of the decline in customer and visitor footfall and the high fixed cost of occupying high street properties. In all, this meant that 750,000 RHL properties in England would pay no business rates for three months from 1 April 2021, with the vast majority of eligible businesses receiving 75% relief across the year.
776. It is important to note that, in addition to RHL BRR, on 25 March 2021, the Government announced a new Covid-19 Additional Relief Fund (“**CARF**”) of £1.5 billion. CARF was designed to target support to the businesses that were worst affected by Covid-19 but

were not already in receipt of existing support linked to business rates. The funds were distributed to LAs “*based on the distribution of the hardest hit sectors*”, with guidance setting out certain priority groups that LAs should consider for relief, such as businesses in the RHL supply chain. LAs had discretion to determine who to give relief to “*based on their knowledge of local businesses and the local business environment*” with the aim being to ensure that the funds were spent where they were most needed. HM Treasury officials worked at pace with MHCLG on guidance and final allocations for the funding [RS/502 – INQ000658456].

777. On 27 October 2021, in the Autumn Budget, I announced a 50% BRR to eligible RHL properties up to a cash cap limit of £110,000 as part of the package for 2022/23 [RS/503 – INQ000655733].

Effectiveness of the BRR scheme

778. The initial aim of BRR was to provide extra support to the small businesses that were most affected by reductions in footfall and visitor numbers because of Covid-19 restrictions. The Government provided an unprecedented full business rates holiday for eligible RHL properties and nurseries in 2020/21, worth over £10 billion to businesses. BRR was effective in preventing the closure of RHL businesses whose revenues had been significantly and adversely impacted by the decline in customer and visitor footfall because of the Covid-19 restrictions. By temporarily relieving them of their obligation to pay business rates, which is often a significant cost for businesses, a large proportion of businesses were more able to weather the disruption.
779. It is worth noting that the RHL relief provided for 2020/21 in England was broadly in line with Scotland, which had also provided 100% uncapped RHL relief, and more generous than Wales, which had provided 100% relief to RHL properties with Rateable Values less than £500,000.
780. The BRR scheme was also adjusted over time in response to the evolving situation and ensured that there were no gaps in the support provided. The change in approach towards large businesses that I detail above is a good example of this.
781. One drawback was that limitations in the data available to officials meant BRR could not be targeted based on need. The data which informed decisions relating to the design and development of BRR was relatively limited. The VOA holds data about properties and their Rateable Values but neither the VOA nor HMRC can link this to any data held by HMRC about the businesses that occupy these properties. As such, it was not

possible to design a BRR scheme targeted at businesses based on need, for example by looking at the decline in their profit or turnover caused by Covid-19 restrictions. This meant that some large and profitable businesses received BRR which they did not need; however, HM Treasury took steps to address this, for example, by allowing businesses to opt-out of the relief and by designing a process for businesses to return BRR.

782. In 2023, HMRC opened a new consultation for a programme, 'Digitalising Business Rates: connecting business rates and tax data'. The objective of this programme was to match a ratepayer's property data to their tax data to provide central and local government with a more holistic view of businesses. The intention is that this will facilitate more targeted application of, and improved compliance with, BRR schemes. It could also contribute to a better understanding of where economic activity is located. My understanding is that the current timeframe for the delivery of this programme is March 2028.

Part J: Business Support – Changes to the Insolvency Rules

Changes to the UK's insolvency framework

783. On 26 June 2020, the Corporate Insolvency and Governance Act 2020 ("**CIGA**") came into force. It introduced a package of permanent and temporary measures into insolvency law to help companies deal with the economic effects of the Pandemic.

784. BEIS was the Government department responsible for reform to the UK's insolvency framework as part of the Government's response to the Pandemic. BEIS led the policy development, implementation and monitoring of these reforms, which were introduced under CIGA.

785. I was concerned to ensure that viable businesses were able to remain trading or recover quickly once restrictions were lifted. Although I had no substantive role in policy development and implementation of the proposed reforms to the UK's insolvency framework, BEIS asked HM Treasury to sign off some aspects of the proposed reforms and HM Treasury officials sought approval from me or the Economic Secretary to the Treasury ("**EST**") as required. I set out below the limited involvement I had in the proposed reforms to the insolvency rules.

CIGA 2020 – pre-laying policy development

786. On 27 March 2020, an E-BRIG meeting was held to consider a joint paper from BEIS and HM Treasury recommending changes to the insolvency framework **[RS/504 – INQ000475274] [RS/505 – INQ000083294]**. The EST attended the meeting on my behalf and was briefed by HM Treasury officials ahead of the meeting **[RS/506 – INQ000609299] [RS/507 – INQ000609297]**. The joint paper recommended several proposed reforms including (insofar as relevant):

- (a) The creation of new 28-day ‘moratorium’ process (extendable to 56 days). This is a process which prevents creditors or other parties from bringing legal action against a struggling company for a set period of time. During this time the company remains in control of its management and has a short breathing space to explore rescue options without fear of intervention from hostile parties. The process is overseen by an insolvency practitioner;
- (b) Suspension of termination/ipso facto clauses during insolvency. These clauses would otherwise enable suppliers and creditors to terminate agreements when a firm enters into an insolvency process. The termination of such agreements can inhibit recovery or restructuring by removing access to business-critical supplies. The suspension of ipso facto clauses meant that contracted suppliers would have to continue to supply businesses even where there were pre-insolvency arrears, thus ensuring access to resources critical to recovery;
- (c) Introducing a new corporate restructuring procedure for companies in financial difficulty. The procedure is supervised by the court who can bind whole classes of creditors to a proposed restructuring plan, even where they have voted against the plan, if it finds it is fair and equitable and in the interests of the creditors as a whole. This process of forcing through a restructuring plan is known as a ‘cramdown procedure’. A court would only sanction a cramdown if it was satisfied that the creditors would receive no less than they would in the next best scenario, for example, administration or liquidation.
- (d) The temporary suspension of wrongful trading provisions explained further below.

787. I understand that at the meeting, the proposed reforms were agreed by E-BRIG, subject to my approval. Later that day, I received an urgent submission from HM Treasury asking me to review the proposed reforms as the SoS for BEIS intended to publicly announce the reforms the following day **[RS/508 – INQ000609810]**. The advice, including a

summary of the proposed reforms, stated that these were “*supported widely*” and recommended that I agree to BEIS’ proposed additions to the Insolvency Framework [RS/508 - INQ000609810].

788. On 28 March 2020, I approved the proposed reforms on condition that during the process of drafting legislation, HM Treasury, BEIS and the Insolvency Service work together to try and resolve two issues:

- (a) whether the reforms should include an equivalent to the United States’ ‘debtor in possession’ (“**DIP**”) financing provisions that enable any person funding a moratorium or restructuring to hold “super-priority” creditor status. This allows the funder to move to the top of the creditor hierarchy thus receiving priority above pre-existing creditors; and
- (b) whether Government-backed loans should be excluded from the new cramdown procedure. This would mean Government backed loans could not be bound to a restructuring plan they did not agree to [RS/509 – INQ000609304].

789. On 28 March 2020, the reforms to the insolvency framework were publicly announced by the SoS for BEIS. These reforms became part of the Corporate Governance and Insolvency Bill (“**the Bill**”).

790. On 21 April 2020, I received a submission from HM Treasury officials on the two points I had queried on 28 March 2020:

- (a) In relation to DIP financing, the recommendation was not to introduce it now as it could delay the Bill which created the risk that we could miss legislating before the summer recess. Officials instead recommended that we “*agree to a provision [in the Bill] enabling it to be introduced by SI later and ask BEIS to revert with a timetable for consulting on DIP financing.*”
- (b) In relation to the cramdown procedure, HM Treasury officials advised that Government-backed loans should not be excluded from the cramdown procedure as they were protected, and this would likely lead to more firm failure [RS/510 – INQ000609723].

791. On 27 April 2020, I advised HM Treasury officials that I agreed with their advice regarding DIP financing [RS/511 – INQ000609366]. I understand that, between 10 and 13 May 2020, there were a series of discussions between HM Treasury, BEIS and the

Office of Parliamentary Counsel regarding how best to deal with HM Treasury's request for the inclusion of a provision in the Bill enabling DIP financing to be introduced by SI [RS/512 - INQ000609387] [RS/513 – INQ000609388]. Following these discussions, on 13 May 2020, HM Treasury officials concluded that "*it was clear there hadn't been enough policy development done*". As such, a decision had been made to press pause on this. It was agreed that the matter would be revisited after Bill introduction so that policy could be further developed [RS/514 – INQ000609392].

792. On 27 April 2020, I also indicated to officials that I was not persuaded by their recommendation to not exclude Government-backed loans from the cramdown procedure and requested further advice before making a final decision. On 1 May 2020, I received advice by email from HM Treasury officials maintaining their recommendation that Government-backed loans should not be excluded from the cramdown procedure. Officials noted that such an exclusion would be internationally unprecedented, may disincentivise banks from offering new loans, and could delay the legislation. On 5 May 2020, I agreed with this advice [RS/515 – INQ000609378].

793. On 14 May 2020, I agreed to be a bill backer for the Bill, following a request from BEIS officials [RS/516 – INQ000609393]. BEIS managed the Bill's passage through Parliament. It was fast tracked through Parliament to support struggling but viable businesses. On 25 June 2020, the Bill received Royal Assent. Its provisions came into force on 26 June 2020.

Amendment of the wrongful trading rules

794. When a company is solvent, its directors are under a duty to act in the best interests of the company and its shareholders. When insolvent, directors have a duty to act primarily in the interests of the company's creditors. Under the Insolvency Act 1986, directors can be held personally liable for continuing to trade while insolvent. This is known as the offence of wrongful trading. It is aimed at discouraging directors from unnecessarily prolonging trading to the detriment of creditors when formal insolvency is unavoidable.

795. The decision to suspend personal liability for wrongful trading ("**the Wrongful Trading Protection**") was agreed at the E-BRIG meeting on 27 March 2020 which I did not attend (described above at paragraph 786) [RS/507 – INQ000609297] [RS/504 – INQ000475274] [RS/505 – INQ000083294] and a submission was put to me that day asking me to approve the Wrongful Trading Protection. HM Treasury officials explained that BEIS had proposed temporarily suspending wrongful trading provisions on the basis

that it would “*encourage directors to trade through the uncertainty*” and noted that there was international precedent supporting this measure [RS/508 – INQ000609810].

796. On 28 March 2020, I approved E-BRIG’s recommendation on condition that the Wrongful Trading Protection was introduced on a three month basis, with an option to extend later, rather than until August 2020 [RS/509 – INQ000609304].

797. On 26 June 2020, the Wrongful Trading Protection came into force as part of CIGA 2020. It was due to lapse on 30 September 2020.

Extensions of the Wrongful Trading Protection

798. On 24 August 2020, HM Treasury officials received a Write Round Letter (“WR540”) from Lord Callanan (the Minister for Climate Change and Corporate Responsibility, and the BEIS responsible Minister) [RS/517 – INQ000656256]. This letter was addressed to me in my capacity as Chair of the Domestic and Economic Implementation Committee and copied to the PM and the Cabinet Secretary. In this letter, Lord Callanan sought my clearance to use powers under CIGA to extend a number of the temporary changes introduced by CIGA, such as the temporary suspension of statutory demands and restrictions on petitions to wind up companies. The letter also clarified that Lord Callanan was not proposing to extend the suspension of the wrongful trading legislation.

799. On 1 and 2 September 2020, I received a submission from HM Treasury officials advising that we agree to all the proposals set out in WR540, other than the proposal to extend the temporary easement of the moratorium entry criteria due to concerns about the impact of this measure on creditors and wider suppliers [RS/518 – INQ000609712]. I indicated that I was content with the proposed response to WR540.

800. The Wrongful Trading Protection expired on 30 September 2020 but was revived between 26 November 2020 and 30 April 2021 by the Corporate Insolvency and Governance Act 2020 (Coronavirus) (Suspension of Liability for Wrongful Trading and Extension of the Relevant Period) Regulations 2020.

801. On 5 March 2021, HM Treasury officials received a Write Round Letter (“WR612”) from Lord Callanan [RS/519 – INQ000609616]. This letter was addressed to me in my capacity as Chair of the Domestic and Economic Implementation Committee. In this letter, Lord Callanan sought approval to use powers under CIGA to make regulations to extend the Wrongful Trading Protection by two months to 30 June 2021. The letter stated that the extension was to “*enable company directors to use their best endeavours to*

keep companies trading that would be viable but for the effects of the Pandemic.” I note that on 10 March 2021, my office liaised with HM Treasury Officials about clearance of this request [RS/520 – INQ000609617]. The Wrongful Trading Protection was extended to 30 June 2021 and thereafter the protection lapsed.

Part J: Business Support – Loans

802. The main macroeconomic objective of the Covid-19 business loan guarantee schemes (the “**loan schemes**”) was to provide necessary financial assistance for businesses during a period of unprecedented uncertainty and volatility. Predictions at an early stage of the crisis forecast a dire effect on business, employment and long-term economic scarring. The economic value of the schemes was to inject liquidity quickly into UK businesses, so that they remained solvent and able to survive disruptions caused by the Pandemic. Evaluations by the BBB have highlighted the value that the loan schemes provided in preventing businesses from permanently closing and in unlocking credit for businesses at scale and speed.
803. The speed at which some of the Covid-19 loan schemes launched is an example of how existing relationships within Government enabled a rapid and efficient response to an unprecedented event. Of note, the CBILS was announced as part of the Spring Budget on 11 March 2020 and launched 12 days later, on 23 March 2020. The BBLs was announced on 27 April 2020, and launched only seven days later, on 4 May 2020. The speed in designing and launching the loan schemes was made possible by the expertise, flexible resourcing, teamwork and collaboration of Government departments, in particular, HM Treasury and BEIS. These departments were greatly assisted by the expertise of the BBB and the blueprint of a pre-existing scheme, namely the Enterprise Finance Guarantee Scheme (“**EFG**”), which the Government was able to draw upon when designing the loan schemes.
804. Throughout the lifetime of the loan schemes, a total of £76.89 billion was deployed across CBILS, the CLBILS and BBLs. These loan schemes resulted in tens of billions of additional Gross Value Added (“**GVA**”) in the UK economy (£15 billion to £36 billion for BBLs, £12 billion to £33 billion for CBILS and £0.4 billion to £8 billion for CLBILS) [RS/521 – INQ000655734].
805. The establishment of a large-scale loan scheme programme was an effective mechanism of providing rapid cashflow support to businesses facing financial distress

during the Pandemic. It is unlikely that the public sector could have delivered a programme of a similar scale or at a similar speed from within its own resources [RS/074 – INQ000096931].

Summary of the various loan schemes

806. CBILS was announced on 11 March 2020 and launched on 23 March 2020. It was designed to provide SMEs with a turnover of less than £45 million access to loans and other types of finance. CBILS closed to new applications on 31 March 2021.
807. CLBILS was announced on 16 April 2020 and launched on 20 April 2020. It was designed to provide medium and large businesses with a turnover of over £45 million access to loans and other types of finance. CLBILS closed to new applications on 31 March 2021.
808. BBLS was announced on 27 April 2020 and launched on 4 May 2020. It was designed to provide SMEs with access to loans of between £2,000 and £50,000 (capped at 25% of turnover). BBLS closed to new applications on 31 March 2021.
809. The Recovery Loan Scheme (“**RLS**”) was announced on 3 March 2021 and launched on 6 April 2021. It was a successor scheme to the EFG and the Covid-19 loan schemes. It was designed to provide businesses with access to loans and other kinds of finance of up to £10 million per business once CBILS, CLBILS and BBLS had closed. The intention of RLS was to support the recovery and growth of businesses following the disruption caused by the Pandemic and the end of the transition period following the UK’s departure from the European Union. RLS helped to ensure that Government-guaranteed loan support was withdrawn carefully, and the marketplace transitioned back to pre-Pandemic commercial lending arrangements. On 1 July 2024, RLS was extended and rebranded into the Growth Guarantee Scheme (“**GGS**”), which remains open to new applications.
810. The Future Fund (“**FF**”) was announced on 20 April 2020 and launched on 20 May 2020. It was designed to support UK-based companies by issuing convertible loans ranging from £125,000 to £5 million, subject to at least equal match funding from private investors. It was designed to support continued growth and innovation in sectors as diverse as technology, life sciences and the creative industries. FF closed to new applications on 31 January 2021.

Design of the loan schemes

Engagement with Government departments

811. HM Treasury led on the policy design of each of the loan schemes, determining their scope, support mechanisms and risk parameters. I would receive submissions from HM Treasury officials on the main design elements of the loan schemes. Designing the loan schemes often involved several iterations of advice (for example, after commissioning more analysis and testing assumptions) and after discussions with officials. Given the context in which we were working, this process was conducted at pace throughout.
812. The depth of expertise within HM Treasury in a range of areas, including labour markets policy, access to finance and financial sector interventions, was bolstered by extensive teamworking with a range of internal and external bodies in the design and development of the loan schemes. One of the most important partners to HM Treasury in determining the initial design of CBILS (and the subsequent loan schemes) was the BBB and, by extension, BEIS. The BBB is a state-owned economic development bank under the control of the DBT. DBT was formerly BEIS until 2023. The BBB and BEIS had extensive expertise in administering loan schemes, including EFG, which was used as the foundation for CBILS.
813. BEIS and the BBB were responsible for the operational delivery and implementation of the loan schemes, including the systems required to deliver the schemes. BEIS was the legal body responsible for operationalising the schemes. The BBB acted as the responsible delivery body. BEIS and the BBB were also responsible for ongoing monitoring of the schemes. Whilst HM Treasury was largely responsible for variations to the loan schemes, feedback from BEIS, the BBB and relevant stakeholders helped HM Treasury to refine them as the Pandemic progressed.
814. Most of the interactions with the SoS for BEIS on the design and development of the loan schemes would have been via officials [RS/522 – INQ000657655]. HM Treasury officials had significant engagement with BEIS officials during the design of the loan schemes. HM Treasury's flexibility enabled policy officials to pivot towards developing the loan schemes at pace, utilising their expertise and experience to help deliver the schemes which met the key objective of supporting businesses during a period of uncertainty and instability. It is normal practice within Government when policies, schemes or measures are being developed across more than one department for

officials from those departments to engage and advise their respective Ministers. This process was also adopted for the development and implementation of the loan schemes with BEIS.

815. In accordance with convention and the normal processes of Government, I, as Chancellor, led on the implementation of fiscal measures and was responsible for decision making relating to the design and development of the loan schemes. Fiscal decision making is typically discussed and agreed between the Chancellor and the PM. I attended Bilats with the PM in order to discuss and make decisions on purely economic matters. For example, on 27 February 2020, the PM and I discussed the development and shape of the Covid-19 support package to be announced in the March 2020 Spring Budget, with discussions covering *“how the government can support viable businesses through any temporary period of stress”* [RS/083 – INQ000236580]. The PM approved all fiscal measures during the Pandemic and was well placed at the centre of Government to hear the views of Ministers across Government departments.

Engagement with external stakeholders

816. HM Treasury also worked in concert with wider economic institutions. The BoE was a key partner, providing vital economic data, modelling and forecasting, as well as participating in HM Treasury discussions with relevant stakeholders.

817. 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 with the OBR to support its' forecasting process.

818. HM Treasury, BEIS and the BBB sought continuous feedback from the business and lender community during the design of the loan schemes; their views were central to the design of, and variations to, the loan schemes. Prior to the announcement and implementation of the loan schemes, HM Treasury consulted with stakeholders on what an ideal scheme would look like, bearing in mind the need to act quickly given the speed at which the Pandemic was developing [RS/523 – INQ000610816]. Feedback was received from senior executives of several lenders such as Lloyds Banking Group, HSBC and Barclays [RS/524 – INQ000609818] [RS/523 – INQ000610816], UK Finance [RS/525 – INQ000609220], CEOs of challenger banks, alternative finance providers with relevant expertise, and non-banks such as Funding Circle [RS/526 – INQ000065332].

Consultation with Devolved Administrations

819. The loan schemes were implemented on a UK wide basis, benefiting businesses across all parts of the UK. HM Treasury considered the impact across the whole of the UK and any regional aspects. As outlined at paragraph 23, engagement was mostly undertaken by the HM Treasury Devolution team. There was also likely to have been direct engagement between policy teams in HM Treasury responsible for the individual UK wide loan schemes and the DAs, particularly leading up to key decision points. Particular devolution considerations would often be factored into the advice I received from officials.

Sources of data, analysis and modelling

820. During the design and implementation of the loan schemes, HM Treasury sought and received advice, data and analysis from various parties, such as the BBB, the FCA and the BoE [RS/527 – INQ000610822], as well as relying on internal analysis. Both were essential to the successful outcome of the loan schemes and allowed HM Treasury to deliver financial support to businesses at pace. For example, when designing CBILS, HM Treasury was able to conduct modelling exercises drawing on previous research undertaken by the BBB exploring the impacts of changing the design of EFG to develop appropriate instruments to be used for each of the loan schemes [RS/074 – INQ000096931]. When designing CBILS, HM Treasury was aided by previous preparatory work exploring the possibility of adjusting the parameters of EFG ahead of the UK's departure from the European Union as EFG had been discussed at a high level as a possible emergency credit support scheme during the contingency planning for a 'No Deal' Brexit. Once CBILS was in operation, lenders provided daily data on CBILS lending to UK Finance, who regularly updated HM Treasury [RS/528 – INQ000609363]. Lenders also provided data directly to HM Treasury in response to specific requests [RS/528 – INQ000609363]. This was very helpful in allowing HM Treasury to understand the support provided to SMEs.

821. From around late April 2020, at my request, lenders provided CBILS, CLBILS and BBLs data metrics to HM Treasury to allow us to monitor the uptake and effectiveness of the loan scheme across industry, and to allow HM Treasury to directly and rapidly understand the picture across the BBLs portfolio [RS/529 – INQ000625782]. I requested this data as this time given the contingent liability of the loan guarantee portfolio that could fall on the Exchequer. Data received from lenders was in a standard format and covered: the number of applications across the different stages (approved, received, processing, declined, withdrawn and drawn), the total value of each of these

stages, the size of facilities approved, the term of the loan, and some metrics on the borrowers (such as turnover and number of employees) [RS/530 – INQ000625785]. In addition, for CBILS and CLBILS, HM Treasury also received information on the interest rate charged and the type of facility provided. The data was used to help HM Treasury better understand the speed of deployment and coverage across businesses, to ensure the schemes were meeting their goals. Each day, a high-level summary was produced, with a more detailed dashboard on a weekly basis. The dashboard looked at trends for CBILS, CLBILS and BILS, such as lender deployment figures, the number of applications approved, the cumulative value of the facilities and total number of each facility deployed [RS/531 – INQ000625757]. This data was shared with BEIS on a daily basis alongside my office, with BEIS also receiving data from BBB as the sponsor department. In addition, it was agreed that a weekly summary containing aggregated headline data for the schemes would be published on gov.uk (which is now maintained by DBT on a quarterly basis). This data (in addition to various other sources of information, as detailed elsewhere in this statement) was used to refine the schemes as the pandemic progressed.

822. In the initial design phase of CLBILS, HM Treasury relied on data, analysis and feedback from major lenders [RS/524 – INQ000609818], as well as analysis by the BoE which was crucial in identifying the 'missing middle' gap which left larger businesses ineligible for CBILS or the CCFF, and in alerting HM Treasury to the need for targeted economic intervention.

Coronavirus Business Interruption Loan Scheme

823. Officials considered what would be needed to ensure that SMEs were adequately supported. The objective was to establish a scheme quickly to facilitate access to finance for viable businesses affected by Covid-19. Maximum flexibility and speed to market were important features when considering scheme design, given the context of a fast-developing situation in which the duration of the scheme and likely uptake was impossible to predict.

Extending the EFG model

824. On 6 March 2020, I met HM Treasury officials to discuss options to facilitate bank lending to SMEs which deployed the sovereign balance sheet, to ensure that these businesses were supported. I was interested in a form of guarantee where the Government helped

facilitate bank lending to a targeted population of businesses, namely SMEs who were under pressure and faced with three to six months of disruption, some of whom would not benefit from other interventions. My expectation was that banks would “*have skin in the game*” [RS/532 – INQ000609217]. I expressed an interest in a new scheme potentially modelled on the Small Firm Loan Guarantee (“SFLG”) which was the precursor to the EFG.

825. On 8 March 2020, I received a submission from HM Treasury officials [RS/533 – INQ000609071] which stated “*we are currently exploring launching a new, considerably more generous variant of EFG to address Covid-19 issues. In light of feedback from UK Finance on what could make the most difference, and their calls for us to use the existing well-understood EFG architecture, we would look to operate the guarantee on something like the terms below (note this is subject to further work):*

- (a) *Eligibility: SMEs impacted by Covid-19 who are close to but fail to meet commercial lending criteria, turnover potentially up to c. £40m.*
- (b) *Headroom: £1bn initial.*
- (c) *Fee: 0% (this enables the product to be used for overdrafts).*
- (d) *Guaranteed amount: 80% (regular EFG: 75%); no or much higher portfolio cap.*
- (e) *Loan size: loans up to £1m, with up to 5 year term.*
- (f) *Availability: open to all lenders, but roll-out focused on those with greatest reach (big 5 plus major regional lenders, e.g. NI banks).”*

826. HM Treasury officials advised that we could move quickest if we built the loan scheme out of the existing EFG rather than creating a new scheme. The EFG had been in place since 2009 to facilitate bank loans for smaller viable businesses that may have been struggling to secure finance. I was interested in how to adapt EFG to make it applicable to the situation of Covid-19. The emphasis was on operationalising the scheme quickly and facilitating access to working capital for businesses in difficulty [RS/532 – INQ000609217] [RS/533 - INQ000609071].

827. The proposed changes to the existing EFG were seen as a viable option in light of the existing delivery template and infrastructure, knowing EFG to be workable, the time pressure [RS/535 – INQ000609218], the need to achieve uninterrupted access to finance for businesses at more generous rates on a temporary basis, and the fact that

approximately 40 lenders were already BBB-accredited and could therefore deliver the new scheme at pace [RS/074 – INQ000096931]. Adapting the EFG model offered a standardised delivery template and did not require the development of bespoke systems.

828. I agreed with advice from HM Treasury officials to build the new loan scheme out of the existing EFG model and asked HM Treasury officials to engage with industry and stakeholders the next day to line up the scheme as I wanted to announce it as part of the Budget announcement on 11 March 2020 [RS/532 – INQ000609217].

829. HM Treasury officials consulted with a variety of stakeholders to design the scheme, both internally and externally [RS/525 – INQ000609220]. Of note, UK Finance called on HM Treasury *“to use the existing well-understood EFG architecture”* to deliver a Covid-19 loan scheme [RS/533 – INQ000609071].

830. To inform my final decision on the design of the new loan scheme, I asked HM Treasury officials to prepare a *“bottom-up analysis of the measures and associated fiscal risk”* and advise on the *“appropriate size of the scheme, associated fiscal risks, and the speed with which the new scheme could be operational”* [RS/532 – INQ000609217]. Officials were asked to continue working with the EST in parallel, who I was drawing on for advice and who was generally supportive of the proposed scheme.

831. On 9 March 2020, I received a submission from HM Treasury officials updating me on the work that had been undertaken to develop the loan scheme [RS/535 – INQ000609218]. This drew on constructive discussions HM Treasury officials had had with Lloyds, UK Finance and the BBB on operationalising the scheme. The advice I received was that the quickest way to move was to build the new guarantee out of the existing EFG scheme which, in practice, meant *“adding a temporary new ‘CV-19’ eligibility criterion to the existing EFG scheme so that EFG loans and overdrafts could be accessed by firms who would otherwise meet bank lending criteria but for lack of collateral, but also by firms facing CV-19 related challenges that just fall outside bank lending criteria as a result of CV-19 impacts.”* The advice recommended leaving the loan type/business type criterion broad (as the BBB had advised that it would add considerable time to limit loan availability to, for example, small businesses or loans/overdrafts under £100,000).

832. The advice incorporated feedback from the BBB that it might take a week or two of discussions with banks to work up a new Covid-19 eligibility criterion. The advice included preliminary analysis on the potential demand for the scheme and the total fiscal

impact, caveated by the fact that these would depend on the amount of lending drawn under the guarantee and the loss rate [RS/535 - INQ000609218].

833. A draft term sheet was annexed to HM Treasury's submission which noted that the loan percentage guaranteed was to be determined and was currently set (for the EFG) at "75% but could be operationally more effective to leave the loan guarantee % the same, while increasing the portfolio cap". The draft term sheet also stated that the portfolio cap (for the EFG) was 33% but for the new scheme was "to be determined following discussions with banks" [RS/535 - INQ000609218].

834. I have been specifically asked by the Inquiry about a COBR(O) meeting on 9 March 2020 during early consideration of business loans and why I requested that business support measures should not be included in the papers prepared for that meeting. Both the minutes of the COBR(O) meeting on 9 March 2020 [RS/034 - INQ000056219], and the advice circulated by the CO ahead of the meeting [RS/033 - INQ000232114] demonstrate that the discussion was focused on NPIs. BEIS prepared a paper which was also circulated by way of briefing ahead of the meeting which provided an economic impacts assessment of the Pandemic and included details of the likely impacts of NPIs [RS/536 - INQ000052391]. This paper would have been produced with input from HM Treasury. Given that this COBR(O) meeting was focussed on NPIs, it was not the forum to discuss early policy formulation in respect of business support measures.

Announcement and launch date

835. As outlined above, CBILS was announced on 11 March 2020. There was widespread support for the Government to provide assistance to SMEs. It was welcomed by external bodies, such as UK Finance who, on 13 March 2020, issued a statement responding to a summit I had held with the BoE to discuss support for SMEs affected by Covid-19 stating "SMEs are the foundations of any successful economy and the banking and finance industry has the commitment and capacity to support viable businesses as they manage the impact of Covid-19. Alongside over £20 billion of funding, banks and finance providers are delivering targeted assistance to firms including repayment holidays, invoice finance extensions and fee-free emergency loans. This is in addition to the government's welcome announcement of the CBILS, which the industry will work with the government to deliver as quickly as possible" [RS/537 - INQ000655735].

836. On 17 March 2020, I attended two meetings with HM Treasury officials to prepare for my delivery of an economic statement to Parliament the next day. In relation to loan

schemes, I told officials that I wanted to be able to announce that the scheme would be live early the next week and that businesses would be able to access loans in a matter of days when it went live. I asked officials to liaise with banks to ensure that this was possible and indicated to officials that I was prepared to be “*generous on guarantees + portfolio cap*” but that I wanted banks to retain some “*skin in the game*” and that I would take advice on this point. The guiding principles were that the loan schemes were “*cheap, fast and broadly available asap*”. That afternoon, I discussed the proposed package with the PM and the Governor of the BoE I also considered international comparisons [RS/355 – INQ000609077].

State aid

837. On 19 March 2020, the European Commission relaxed State Aid rules temporarily to help Member States deal with the Pandemic and ensure that sufficient liquidity remained available to businesses. This included allowing State guarantees for commercial loans provided by banks. The European Commission revisited and extended its temporary State Aid regime during the Pandemic [RS/538 – INQ000609794]. To ensure speed and practicality, CBILS was designed “*to work within the existing State Aid restrictions imposed on the EFG product*” [RS/533 – INQ000609071]. HM Treasury officials informed me of the risks of State Aid as and when my input was required, for example, in relation to increasing the maximum loan threshold from £1.2 million to £5 million. Prior to launching CBILS, I asked officials to notify the European Commission of the scheme and seek clearance [RS/355 – INQ000609077]. Officials and lawyers from HM Treasury, BEIS and the BBS engaged at working level with the EU Commission on the detailed design of CBILS [RS/539 – INQ000656230]. Modifications were made to the mechanics of the scheme and the notification process in response to detailed comments from the European Commission during these discussions.

Business viability test

838. HM Treasury officials recommended that banks apply a ‘business viability’ test to assess the prospects of CBILS applicants to support banks to “*continue offering finance to viable businesses*”. The rationale was that for businesses that were not viable long-term, further credit was likely to worsen rather than improve outcomes [RS/535 – INQ000609218]. Officials received feedback from UK Finance (who had held “*extensive calls with [their] main contact groups, senior executives including... Barclays and CEOs of challenger banks and alternative finance providers with product/EFG experts*”) stating that the underwriting criteria for the loan scheme should be “*business to be viable as at*

11 March 2020 and facilities sufficient to cover cashflow forecast on realistic stress scenario” [RS/525 – INQ000609220]. I accepted advice from officials and CBILS was launched with a requirement for applicants to demonstrate that their business would be viable if it were not for the Pandemic, that the Pandemic had affected their business, and that the loan provided would allow them to trade out of any short/medium term difficulties resulting from the Pandemic. Eligibility checks on turnover fell within the remit of individual lenders.

Guarantees

839. CBILS was initially launched with a requirement that businesses should demonstrate that they could not obtain finance on commercial terms to be eligible for the scheme (in line with requirements for the EFG). However, stakeholders in the lending industry highlighted that the Business Interruption Payment (“BIP”), which was the interest free element of the loan, created perceptions of inequity amongst customers (as stronger businesses would be required to bear the interest costs associated with new lending).
840. On 30 March 2020, I received a submission from HM Treasury officials which included feedback from borrowers who were concerned that CBILS was targeted only at borrowers who could not secure regular commercial financing. As such, HM Treasury officials recommended that CBILS be widened to be available to all. The advice also included feedback from borrowers suggesting that lenders should not be allowed the discretion to seek personal guarantees for loans under £250,000 and that the recovery amount should be capped at 20% of the outstanding loan [RS/540 – INQ000609797]. The loan guarantee was set at 80% to give lenders the confidence to lend but also to ensure that lenders had 20% ‘skin in the game’ under CBILS. This ultimately meant that lenders were still keen on asking applicants for some documentation to demonstrate viability (this could include, for instance, a business plan, details of assets, historic accounts, or management accounts) [RS/541 – INQ000609793].
841. Following advice from HM Treasury officials dated 30 March 2020 [RS/542 – INQ000658390] I announced changes to CBILS on 3 April 2020 so that all viable small businesses affected by Covid-19 would be eligible if the lender believed they would need finance to see them through the unprecedented times. This exceptional support was designed to enable all long-term viable businesses experiencing difficulties because of the Pandemic to access finance, if external finance was the right answer [RS/543 – INQ000625777]. I also announced that the Government was stopping lenders from requesting personal guarantees for loans under £250,000. This change received

widespread support, including from the Shadow Chancellor, as confirmed during a Bilat held on 9 April 2020 [RS/544 – INQ000658399]. These changes allowed more businesses to access Government-backed support during a difficult time and were implemented to help speed up access to smaller loans using CBILS. I also extended the prohibition from taking recovery action over a principal private residence or a primary personal vehicle for sole traders and small partnerships [RS/543 – INQ000625777] [RS/545 – INQ000609355].

Portfolio cap

842. A portfolio cap is a limit on the value of the total portfolio that the Government would provide guaranteed support for. The cap on gross Government liability at the level of the lender's whole CBILS portfolio was increased to 75% of losses (compared to EFG which capped the Government's gross liability at 20% of losses across the lender's whole EFG portfolio) [RS/522 – INQ000657655]. This, combined with the Government guarantee, created an effective portfolio cap of 60% (up from 15% under EFG).
843. In April 2020, I had discussions with lenders and Members of Parliament (“MPs”) on their behalf regarding concerns that lenders were not getting money out of the door quickly enough. Lenders had asserted that changes to CBILS would allow them to take on more risk and therefore speed up their lending. Lenders had collectively identified the portfolio cap as being one of the issues preventing them from offering more loans more quickly [RS/528 – INQ000609363].
844. On 22 April 2020, in the light of the feedback from stakeholders on frictions in the design of CBILS, HM Treasury officials devised a five-point plan, which included removing “*the portfolio cap guarantee cap of 60%, leaving a full 80% guarantee across all CBILS lending*” [RS/547 – INQ000625752]. In return, I wanted to push banks on their capacity to handle high volumes of CBILS applicants and to better understand what changes would increase their capacity to deliver CBILS (and CLBILS).
845. On 23 April 2020, I attended a call with CEOs of eight of the largest banks and UK Finance. HM Treasury officials prepared a briefing for me in preparation for this call [RS/528 - INQ000609363]. During the call, I indicated I was open to taking action to remove the remaining frictions within CBILS that the banks and UK Finance had collectively said were standing between them and more loans going out of the door more quickly, specifically:

- (a) Removal of the portfolio cap, giving the 80% guarantee across all CBILS lending;
- (b) The Prudential Regulatory Authority (“**PRA**”) to produce a statement guaranteeing capital relief for all CBILS lending in light of removal of the portfolio cap;
- (c) Letters to make clear that lenders would be able to rely on the guarantee;
- (d) Changes to CBILS to take out the forward-looking viability test that required an assessment of whether the firm can trade out of the crisis (so the only test that would remain was whether a business was viable pre Covid-19); and
- (e) Clarifying the interpretation of “responsible lending” and what forward -looking assessments banks should carry out. I pointed out that most businesses would find it impossible to provide cashflow given the uncertainty.

846. The five-point plan recommended by HM Treasury officials was warmly welcomed by lenders **[RS/547 - INQ000625752]** and announced on 27 April 2020, including the removal of the portfolio cap. This change removed the requirement for lenders to underwrite and assess the risk to themselves, thus increasing the rate at which loans could be distributed to businesses in need of support.

Fraud risk

847. The design and implementation of CBILS was closely modelled on an existing successful loan scheme (namely EFG) which reduced the risk of fraud. CBILS was designed to ensure that a business’s loan application would closely resemble the usual commercial process when applying for a traditional bank loan. As part of the application process, lenders undertook full credit, affordability and counter-fraud checks. Businesses had to undergo the normal Know Your Customer (“**KYC**”), Anti-Money Laundering (“**AML**”) and loan checks that they would have to complete if they were applying for a typical bank loan. These standard lender-led processes ensured that the risk of fraud remained low.

848. In addition, BEIS and the BBB worked together to identify and mitigate the risk of fraud. Ongoing monitoring and evaluation of the loan portfolio was conducted, with BEIS publishing quarterly data on the status of CBILS. This also included monitoring of the fraud recovery work, led by BEIS and supported by the BBB, the Public Sector Fraud Authority (“**PSFA**”) and lenders.

849. In the most recent data published by the DBT on the Government's website, lenders have flagged just 0.2% (£0.06 billion) of the £25.83 billion of CBILS drawn value as suspected fraud. To date, £0.02 billion has been paid out to lenders by the Government against loans with a suspected fraud flag. This shows that CBILS did not pose heightened risk of fraud.

Coronavirus Large Business Interruption Loan Scheme

Scheme design

850. Following the launch of CCFF and CBILS, the Government continued to consider policy proposals to support access to finance for businesses that did not qualify for these schemes. HM Treasury wrote to a small number of stakeholders to gather evidence on possible options. A summary of the responses was sent to senior officials in HM Treasury on 2 April 2020 [RS/548 – INQ000610819].

851. On 2 April 2020, I received a submission from HM Treasury officials on setting up a coronavirus business interruption loan for larger businesses [RS/549 – INQ000609791]. The submission explained that the BoE had conducted analysis which showed that approximately 4,830 businesses were ineligible for either CBILS or CCFF because they had a turnover of over £45 million but did not meet the eligibility criteria for CCFF (namely the requirement to have an investment grade rating). This was identified as a gap in the market which required economic intervention. HM Treasury gathered views from the four largest business lenders (RBS, Barclays, HSBC and Lloyds), the CBI and the BoE on how to close the gap between CBILS and CCFF. The advice from officials was that a new version of CBILS for bigger firms with larger loan sizes should be created. This was initially referred to as CBILS+ and subsequently rebranded as CLBILS.

852. The objective of CLBILS was to complement the existing CBILS, ensuring that businesses of all sizes could access support with Government-backed loans, and thus, it was designed on a similar basis to CBILS. The proposal was welcomed by external bodies, for example, the Director General of the CBI, Dame Carolyn Fairbairn, who, as part of the announcement on 3 April 2020, commented *“by providing more support for mid-tier companies, they are backing our most significant and iconic regional employers. These firms number in the thousands and make a huge contribution to the economy, so it’s good to see them getting the support they deserve... Each week brings unprecedented levels of economic support and it’s encouraging to see the Government*

stepping in where urgent help is needed. This will need to continue as the challenges of this health and economic crisis unfold” [RS/550 – INQ000593403].

853. HM Treasury officials worked closely and at pace with the BBB, BEIS, the BoE, the CBI and the seven largest lenders to design CLBILS. Feedback from lenders recommended that CLBILS should be designed to be as operationally close to CBILS as possible to ensure speedy delivery. For lenders, the key challenges were ensuring that they had relevant scheme and legal documentation in place, that their IT systems were ready to process CLBILS facilities (which were to be based on their CBILS models), and that staff were trained on the operation of the new scheme to provide consistent messages to customers [RS/551 – INQ000611606]. The BoE provided analytical capability to support HM Treasury’s assessment and design of CLBILS.
854. I was interested in understanding analysis on international comparisons, to help inform the design of the UK’s interventions [RS/552 – INQ000609339] [RS/553 – INQ000658393].
855. HM Treasury officials also tested the outline scheme design with the CBI who were supportive of the direction of travel.
856. The BBB was chosen to deliver CLBILS on the basis of advice I received from HM Treasury officials that *“the only way to deliver the CLBILS scheme to a reasonable timetable [was to] use the BBB operationalise and administer the scheme. The BBB is already responsible for delivering the main CBILS scheme, and we believe there are no realistic alternatives to BBB delivery if a scheme is to be launched in April”*. BBB’s capacity to deliver these additional schemes was factored into the advice I received. For instance, the advice noted the *“legal and operational work”* required to launch the scheme (and the impact on the launch date for the scheme), as well as the need for BBB to be given additional funding to administer the scheme. As far as I understand, the necessary conversations were taking place between HMT officials, BEIS and the BBB to ensure that the latter had everything it needed to be able to administer the scheme [RS/549 – INQ000609791].
857. I was advised by HM Treasury officials that, given the scale of the support and economic impact of Covid-19, launching CLBILS *“will lead to very significant increases in short-term borrowing, and the Government will face significant financing pressures in the short term. Government will also need to maintain sufficient financing headroom to manage the increasing fiscal risk associated with its growing portfolio of contingent liabilities. This*

emphasises the need to ensure that policy is temporary, timely, and targeted to address genuine market failure, avoids deadweight and is well designed to manage risk exposures. We are reflecting these principles in the design of the scheme including by ensuring that the facilities are time limited, they reflect commercial rates, and ensuring that only viable, creditworthy businesses will be eligible for CLBILS-backed loans” [RS/551 – INQ000611606].

858. I had day to day involvement in the decision making of CLBILS. There was also close working at an official level between HM Treasury and BEIS, rather than between respective SoSs, which is normal practice where fiscal measures are concerned. Conversations with the BBB around fraud risks had also been flagged to me in the context of other schemes and my team was cognisant of these risks (particularly fraud risk) when making decisions on CLBILS.

Business viability test & availability of business loan under normal commercial terms

859. Following advice from HM Treasury officials, a ‘business viability’ test to assess prospective applicants was implemented for CLBILS [RS/549 – INQ000609791].

860. On 2 April 2020, HM Treasury officials advised me that “for the type of businesses that we are talking about in the over £45m turnover category, such a test [namely, that a bank can only offer a loan using the CLBILS guarantee when the bank is not able to offer a business loan under their normal commercial terms] is justified and will help to protect the integrity of the scheme. If a bank is content to lend to the business as normal, then the guarantee is not needed and should not be deployed. The CLBILS guarantee would therefore only come into play if it were needed to make the difference between a bank being able to lend and not being able to provide the facility. It will do so by reducing the loss given default for individual loans and thereby encouraging the bank to lend where it would not otherwise have done so” [RS/549 - INQ000609791].

861. I asked HM Treasury officials to reconsider this point as I was concerned that this could play out badly, particularly towards the smaller end of the companies eligible for CLBILS [RS/551 – INQ000611606]. I asked officials to discuss this element of the scheme design with the CBI.

862. In a submission from HM Treasury officials dated 8 April 2020, I was advised that “the high-level view from the CBI was that, despite the size of businesses in the CLBILS camp, they were still concerned about the issue that ‘good’ businesses would not be eligible for a loan using the CLBILS guarantee so they feared that this was open to

criticism. When we tested the question with the big banks, they were also concerned about the same point” [RS/551 - INQ000611606].

863. In the light of the additional information received, HM Treasury officials changed their advice and recommended that lenders be allowed “*to make loans using the CLBILS guarantee available to any viable business negatively impacted by coronavirus*”. I accepted this advice [RS/549 – INQ000609791] [RS/551 - INQ000611606].

Eligible sectors

864. On 8 April 2020, I received a submission from HM Treasury stating “*the original CBILS scheme was open to a wide variety of businesses but specifically excluded banks, building societies, insurers, and reinsurers. These are specifically excluded due to restrictions within domestic and European legislation on what loan guarantee schemes can be used for, and what public support can be given to banks. Public sector organisations are also excluded under CBILS*” [RS/551 - INQ000611606]. Officials recommended that CLBILS exclude the same organisations as CBILS, which I agreed.

Maximum loan facility

865. In early April 2020, HM Treasury officials tested with lenders the appropriateness of a maximum loan size of £25 million. Feedback from lenders was that £25 million was “*not a large enough loan to make a real difference for some of the larger businesses in this cohort*”. Lenders stated that a maximum loan facility of £50 million would be more appropriate (and that this position would become stronger if the turnover cap was removed). HM Treasury analysis suggested that businesses would typically need between 6 – 10% of their turnover to weather the downturn but that not all firms in the CLBILS cohort would require finance as high as £50 million. Officials therefore suggested introducing a staircasing model for the level of facility available based upon firm turnover, which could also help to minimise the Government’s financial exposure. Officials recommended that firms with a turnover of £45 million to £250 million could receive a maximum facility of £25 million and firms with a turnover of £250 million to £500 million could receive a maximum facility of £50 million [RS/549 – INQ000609791] [RS/551 - INQ000611606]. I accepted advice from HM Treasury officials, and the maximum loan facility was fixed per their recommendation.

Turnover cap

866. Initial advice from HM Treasury officials dated 2 April 2020 was that CLBILS should be available to business that had a turnover of over £45 million and below £500 million **[RS/549 – INQ000609791]**. A £500 million turnover cap was recommended as this would capture approximately 88% of firms. Eligibility checks on turnover would fall within the remit of individual lenders.
867. HM Treasury officials tested with lenders whether the proposal to limit participation in CLBILS to businesses with a turnover of £500 million or less should be retained. Lenders considered their customer base and provided revised feedback that there should be no turnover cap **[RS/551 - INQ000611606]**.
868. Following advice, I decided to remove the £500 million cap for CLBILS **[RS/554 – INQ000609341]**.

Interest

869. Following advice from HM Treasury officials, commercial rates of interest and product feed were to be set by the lenders, and an interest free period would not be offered (in contrast to CBILS in which the Government would cover the first 12 months of interest/fee income through a BIP).

Government guarantee and portfolio cap

870. HM Treasury officials recommended a Government guarantee of 80% on loans for CLBILS, mirroring CBILS. HM Treasury officials advised that 80% guarantee was the *“right level at which to set the guarantee in order to achieve [CLBILS] aims”*. Barclays had suggested that their lending capacity would be approximately double if an 80% guarantee was offered versus a 60% guarantee. HM Treasury officials agreed that this was credible, and it was supported by modelling by the BoE which suggested that in a high credit stress scenario, guarantees of less than 80% would mean lenders could not remain profitable even with considerable increases to their interest margin **[RS/549 – INQ000609791]**. International comparisons were also taken into account when determining the appropriate size of guarantee. HM Treasury officials advised that *“guarantee sizes vary between 70% and 100%. Outside of lender of last resort schemes for larger firms in difficulty, states have only taken 100% of risk on smaller loan sizes. For larger loan sizes, the 80% guarantee offered by CBILS is in line with international comparisons”* **[RS/552 – INQ000609339]**. Based on advice from officials, I approved the Government guarantee of 80% for CLBILS.

871. HM Treasury officials “*did not think a portfolio cap [was] relevant for CLBILS*” because lending for larger businesses was approached by lenders on an individual loan by loan basis and not considered by way of portfolio [RS/549 – INQ000609791]. The decision not to include a portfolio cap for CLBILS was made to increase confidence that lenders would be sufficiently incentivised to lend responsibly, and that businesses would be able to access finance on sufficiently attractive terms. The inclusion of a portfolio cap would have prejudiced the lender’s ability to claim capital relief for the guaranteed portion of each loan, potentially leading to higher interest rates.

872. Further, advice from the BoE was that in order for CLBILS to gain capital relief, there should be no portfolio cap on the proportion of the loan book against which guarantees could be called, and the guarantee for CLBILS needed to apply to any lost fees and/or lost interest owed by the business to the lender (as well as applying to the principal sum borrowed) [RS/551 - INQ000611606].

873. HM Treasury officials recommended that in order to enable lenders to achieve capital relief, in addition to there being no portfolio cap, the 80% CLBILS guarantee should include any lost fees and/or lost interest as well as the principal [RS/551 - INQ000611606].

874. I accepted the advice to have no portfolio cap for CLBILS.

Personal guarantee

875. Following advice from HM Treasury officials on 8 April 2020 [RS/551 - INQ000611606], I agreed to align CLBILS with CBILS by placing the same restrictions on the use of personal guarantee facilities under £250,000, with personal guarantees above £250,000 restricted to 20% of the outstanding debt.

Terms of CLBILS loans

876. HM Treasury officials recommended reducing the term of loans offered under CLBILS from the six years offered under CBILS. This recommendation was based on the fact that the focus of finance under CLBILS was to provide businesses with short-term capital to weather the impacts of Covid-19 and that companies in this category would have the opportunity to agree refinancing in the longer term.

877. On 15 April 2020, I received further advice from HM Treasury officials recommending that the maximum loan term for CLBILS be set at three years. On 16 April 2020, I

attended a meeting with EST and HM Treasury officials, at which I confirmed my agreement with this advice **[RS/552 – INQ000609339]**.

Launch date

878. At the outset of the design of CLBILS, I gave a steer to HM Treasury officials that my preference for the launch date of CLBILS was 20 April 2020 **[RS/524 – INQ000609818]**. HM Treasury officials agreed that the week commencing 20 April 2020 was the earliest realistic date for CLBILS to go live.

879. HM Treasury officials recommended making CLBILS available for an initial six month period (to October 2020) to mirror CBILS to ensure consistent messaging about HM Treasury's view of the economic outlook and to avoid any accusations of unfairness between different sizes of businesses. I approved this at a meeting with EST and HM Treasury officials on 16 April 2020 **[RS/552 – INQ000609339]**.

880. On 16 April 2020, I announced my intention for CLBILS to proceed **[RS/526 – INQ000065332]**. It went live for applications on 20 April 2020, administered by the BBB on behalf of BEIS through a range of accredited lenders. The announcement of CLBILS was endorsed by various independent external bodies. For example, on 16 April 2020:

- (a) The British Chamber of Commerce Director General Adam Marshall commented that *“once again, it is good to see the Chancellor listening to real-world business concerns, and expanding assistance to good companies facing severe cash constraints as a result of the Coronavirus crisis. These changes fill an important gap in government support, and could make a real difference to medium-sized and larger-firms navigating challenging circumstances. It’s now crucial to ensure that this enhanced support reaches companies in difficulty as quickly as possible”* **[RS/526 – INQ000065332]**.
- (b) The Institute of Directors (“IoD”) commented *“The Government deserves credit for showing willingness to continue to adapt its coronavirus response. This development of the loan scheme should help mid-sized firms, which play a vital role in their supply chains and local communities. This crisis justifies exceptional measures and we need to keep the foot on the gas to get the support to the businesses that need it”* **[RS/526 – INQ000065332]**.

Variation of CLBILS

881. On 14 May 2020, HM Treasury officials recommended to me that the maximum CLBILS loan size should be increased as the lockdown persisted, having identified companies ineligible for CCFF that required loans larger than the £50 million limit under CLBILS. I agreed and the size of the loan was increased from £50 million to £200 million. This was subsequently announced on 19 May 2020. As a result of the increase, additional restrictions on loans over £50 million were put in place. Borrowers were restricted from making dividend payments or distributing cash bonuses to senior management during the term of the loan. Share buybacks were also prohibited. The BBB had to be notified when any lender anticipated providing an aggregate loan in excess of £50 million given the Government guarantee.

Fraud risk

882. CLBILS mirrored CBILs, in that it was designed to ensure that a business's application closely resembled the usual commercial process when applying for a traditional bank loan. As part of the application process, lenders undertook traditional affordability and counter fraud checks that ensured that the relevant fraud risks would remain low.

883. Businesses applying for CLBILS had to undergo the normal KYC, AML and loan checks. The standard lender-led processes ensured that the risk of fraud remained low.

884. In addition, the Government required the BBB to complete additional checks on accredited lenders for the provision of CLBILS loans in excess of £50 million, which confirmed that they had an internal risk model approved by the PRA or comparable regulator for lending at this scale. Lenders wishing to offer CLBILS facilities for a business loan of more than £50 million also had to notify the BBB in advance of agreeing the facility.

885. The low fraud risk of CLBILS is reflected in the most recent data published by the DBT on the Government's website about the performance of the loan schemes, which notes that there are currently no CLBILS loans subject to the guarantee that have been flagged as suspected fraud by lenders. Overall losses to date have been minimal, with the guarantee being settled on only 1.81% of loans by volume.

Bounce Back Loan Scheme

886. In April 2020, HM Treasury received feedback from UK Finance and lenders that short-term cashflow pressure was mounting on many SMEs [RS/555 – INQ000625751].

Verbal feedback provided through bilateral calls I held with Trade bodies and banks was that there was a delay in SMEs obtaining funding through CBILS due to the affordability and security checks carried out by lenders that took a number of weeks to complete, as per their standard process in normal times. Lenders used a BBB online portal to track the loan guarantees given for CBILS. This recorded the date of application, facility offer date and the draw down date. This portal could be accessed by the BBB and required to be kept up to date by lenders as loan applications progressed. My understanding of the way the system was designed is that only the BBB had access to the portal (apart from the lenders), and they then provided updates to the HMT team. It was becoming clear that for some of the smallest businesses seeking small loans, the unfamiliarity with bank processes for lending, combined with eligibility and process barriers in the existing CBILS scheme, were hampering volume lending at speed, meaning that CBILS struggled to deliver the required level of financing to meet economic demand at pace and small businesses were facing a liquidity crisis as a result. This feedback enabled HM Treasury to identify a specific cohort of small businesses which required additional targeted support.

887. Pressure from external stakeholders was mounting for the Government to move to a 100% guaranteed loan scheme similar to the German 'schnellkredit' scheme, but the difficulty was that the European Union did not have the same consumer credit protections as the UK. Streamlining the provision of financial support for smaller businesses through CBILS (as opposed to creating a new scheme) would have been challenging because of the combination of the Consumer Credit Act 1974 ("CCA") (which meant that SMEs were treated as consumers for regulatory and legal purposes in the UK) and FCA rules (the FCA had already reminded banks of their obligations around the provision of credit to SMEs) [RS/555 - INQ000625751]. In many cases, this made it very difficult for the banks to lend to small traders in amounts below £25,000 for fear of contravening the rules [RS/556 – INQ000610868].
888. HM Treasury officials advised that removing the CCA protections for SMEs under CBILS could be perceived as a negative step for the 3.5 million sole traders within the scope of the CCA as the CCA protections were there to make sure that businesses did not take out loans that they could not afford to repay and to protect them in the event of default. [RS/556 - INQ000610868].
889. The typical turnaround time for approval through CBILS was five weeks due to the level of checks being undertaken on applicants. This, together with learning from other jurisdictions such as Germany and Switzerland (which had 100% guarantee funds to

facilitate rapid lending), led HM Treasury to conclude that continuing to refine the existing CBILS scheme would not be a sufficient measure to resolve the issue. The learnings from other jurisdictions were summarised in papers provided to me on 14 April [RS/557 – INQ000658477] about the Swiss schemes, 16 April [RS/553 – INQ000658393] which was a comparison of different international loan schemes, and 17 April [RS/558 – INQ000609725] which focussed on the German scheme in particular. In April 2020, a survey by the ICAEW registered that a third of businesses had liquidity concerns. These businesses were concerned that they would not have sufficient cash to survive for more than two weeks in lockdown. Further reports since the Pandemic have confirmed the severity of the situation, particularly for SMEs. One analysis estimated that limited cash balances by SMEs could have caused significant hardship, as around half of SMEs had less than one month's worth of sales as cash in the bank [RS/074 – INQ000096931].

890. On 20 April 2020, HM Treasury received a proposal from UK Finance and lenders to introduce a new scheme that would operate in parallel to (and complement) CBILS and the JRS, *“whose principal terms should be left unchanged as deployment is accelerated as a result of continuous process improvement [which was already underway], greater familiarity [with CBILS] and newly accredited lenders”* [RS/555 – INQ000625751].
891. The BBB was chosen by me as the administrator of BBLs as finding an alternative administrator would have been a lengthy process, which would have undermined the purpose of the scheme [RS/545 – INQ000609355]. I was advised by HMT officials that if the scheme was pursued, there would need to be extensive discussions between HMT officials, the banks and the BBB to ensure that the design was workable and could be operationalised, and in particular, that it would enable them to lend quickly to small SMEs. By the time I announced the scheme, I was comfortable that the relevant stakeholders had been properly consulted
892. The design and development of BBLs faced significant time pressures due to the need to urgently address the emerging challenges highlighted by stakeholders and evident in the economy. The strong relationships and partnerships across Government and with various others, such as banks and regulators, enabled a swift and efficient response to an unprecedented event. These existing relationships enabled BBLs to be delivered rapidly and it went live to businesses on 4 May 2020, just seven days after the announcement of the scheme on 27 April 2020. The BoE's ability to run analysis on behalf of HM Treasury was also central in helping appropriately design the parameters for BBLs ahead of the scheme going live.

Scheme design

893. The proposed design of BBLs was based on similar Swiss and German models **[RS/545 - INQ000609355]** **[RS/558 – INQ000609725]**. BBLs was intended to operate through a simple online form with the use of self-certification by applicants. The design, including self-certification, was intended to respond directly to the need to facilitate the rapid delivery of loans to the UK's smallest businesses. The intention was for lenders to rapidly disburse loans within 24 hours of the application. Under the Swiss model, Government guarantees of 100% for small firms were available on small loans of up to 10% of their turnover.
894. On 21 April 2020, I received a submission from HM Treasury officials recommending a new simple, easy and quick-to-deploy loan scheme could be introduced that better targeted the cohort of small firms seeking small loans, incorporating a 100% guarantee. As I note above, I considered the experiences of a number of different international loan schemes and in particular the German and Swiss schemes. I decided to go with the 100% guarantee with no portfolio cap so that it would a) remove any 'skin in the game' for lenders to encourage them to grant loans more quickly and b) the 100% guarantee could be called against the whole of the portfolio. The fact that it could create a lack of incentive for the lender was something that we considered closely, but ultimately a scheme with a 100% guarantee was seen as the most appropriate option in the circumstances **[RS/545 - INQ000609355]**.
895. The design of BBLs drew upon international comparisons and built on the experience of designing and modifying CBILs, notably by banning personal guarantees at launch (and extending the prohibition from taking recovery action over a principal private residence or a primary personal vehicle for sole traders and small partnerships) **[RS/559 – INQ000609356]** **[RS/545 - INQ000609355]**.
896. HM Treasury officials advised that disapplication of the CCA was necessary to ensure that banks did not need to undertake creditworthiness, or affordability checks before making loans (in other words, to make the self-certification process work). This was something I recall discussing with the Shadow Chancellor at the time at a Bilat on 27 April 2020 to ensure there was understanding on agreement on this point **[RS/560 – INQ000658398]**. Following the Bilat, the Shadow Chancellor wrote to me highlighting the critical importance of considering SMEs as a group of businesses which were being hit particularly hard by the Pandemic and stating "*while it is encouraging to hear that the Government may be moving towards a 100% guarantee of loans up to £25,000, will the*

Government also move to change the lending criteria so that these are not unduly onerous for those small businesses desperately in need of cashflow?" [RS/561 – INQ000658476].

897. On 22 April 2020, I attended a meeting with HM Treasury officials, at which I confirmed that I wanted to pursue BBLs. HM Treasury officials provided preliminary advice by email on AML considerations for the proposed scheme (which, at that point, was referred to as the 'Coronavirus Small Business Interruption Loan Scheme') [RS/562 – INQ000658394].

898. On 23 April 2020, I held a first roundtable with HM Treasury officials and lenders, sharing the draft BBLs term sheet for their review. Lenders largely supported the term sheet but noted that a loan turnover cap of 10% (which had been proposed by HM Treasury officials [RS/545 – INQ000609355]), was too low and supported the 25% alternative which officials had proposed (in line with DE and SW schemes). Banks agreed they could be ready to launch for 4 May 2020.

899. In the light of feedback from lenders, I agreed to set the turnover cap at 25% and the maximum loan size at £50,000 to ensure widespread accessibility for businesses.

900. During the weekend of 25 and 26 April 2020, I had two calls with HM Treasury officials, following which, the eligibility criteria was agreed as follows [RS/563 – INQ000657657]

(a) "Anyone who already has a business bank account;

(b) if you are already trading but without a business bank account, use a tax return to prove you are a business;

(c) if newly trading, with no business bank account, or tax return, then open a business bank account before applying; or alternative loan provider will lend but do their own checks.

(d) It is also possible to get a loan under the scheme from a provider with which you don't have a current account (whether you are a new trader or an established trader). The scheme does not require you to hold a current account with the provider from whom you are seeking the loan."

901. I also agreed that the scheme should be open to those who were actively trading by 1 March 2020, in line with the Swiss model (meaning the turnover cap would either be

based on 2019 or an estimate for 2020). That evening, I had a call with the CBI to discuss the scheme [RS/563 - INQ000657657]

902. I have been asked by the Inquiry whether a letter from the BBB dated 26 April 2020 [RS/564 – INQ000563990] (which was sent to Private Office) regarding the risks which the BBB considered required attention was brought to my attention [RS/565 – INQ000658396]. Given the passage of time, I cannot recall whether I was sighted on this letter.
903. On 27 April 2020, I announced BBLs.
904. In late April 2020, HM Treasury officials conducted analysis of possible interest rates for BBLs based on the proposed scheme design [RS/566 – INQ000609365]. HM Treasury also worked with the BoE and, on 28 April 2020, engaged BlackRock to provide loan pricing analysis to inform the BBLs pricing structure [RS/567 – INQ000609369].
905. On 1 May 2020, based on modelling by BoE and BlackRock, and bilateral negotiations with the banks, HM Treasury officials proposed a fixed interest rate for BBLs. Given that the Government was providing a 100% guarantee for BBLs, it was appropriate to fix the interest rate and to price this as low as possible to benefit borrowers whilst continuing to be economic for the lenders. Designing BBLs with a fixed interest rate was novel as the other Covid-19 loan schemes preserved commercial lending checks and pricing. I agreed with advice to implement a fixed interest rate of 2.5% for BBLs on the basis that this would incentivise banks to lend to borrowers with an average market turnover, assuming they borrowed the maximum they could [RS/568 – INQ000609367]. The BoE also announced changes to its *'Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises'* ("TFSME") to support the introduction of BBLs, allowing eligible participants to extend their TFSME funding to align with the six year term of BBLs loans. The TFSME had been launched by the BoE in March 2020 and aimed to incentivise banks to continue lending, especially to SMEs, as part of wider measures to respond to the economic shock from Covid-19.
906. On 1 May 2020, HM Treasury officials provided a submission to me, copied to EST and the CST, bringing into one place the key decisions that had been made about the design and operation of BBLs, together with a table setting out the key design choices and associated risks in full [RS/569 – INQ000655448]. Following advice from HM Treasury officials [RS/566 – INQ000609365], I agreed to introduce a standardised six year term.

Borrowers were entitled to pay the loan off within the six year term without incurring an early repayment fee.

- 907. On 1 May 2020, I gave HM Treasury officials final design approval for BBLs.
- 908. On 4 May 2020 BBLs launched, with seven lenders offering loans.
- 909. Those that had an existing facility under CBILs, CLBILs, or CCFF, were not allowed to apply for a loan under BBLs.

Variation of the scheme

- 910. On 3 August 2020, I received advice from HM Treasury officials on standardised options to support BBLs borrowers through forbearance and maximise recoveries, leading to the launch of Pay as you Grow (“PAYG”) [RS/570 – INQ000658668]. PAYG comprised of an extension of the loan term to ten years (reducing monthly payments by almost half), the introduction of six month interest only periods and a six month payment holiday [RS/571 – INQ000609792]. These changes were announced in September 2020, with some additional changes announced in February 2021. The changes gave borrowers a chance to repay through a more realistic payment schedule for their needs. The use of PAYG did not impact borrowers’ credit scores [RS/572 – INQ000658425].
- 911. While BBLs was in operation, I introduced a ‘code of conduct’ which was designed to protect borrowers by ensuring fair treatment and responsible lending practices. This included guidelines for how lenders should deal with borrowers facing financial difficulties, to promote transparency in lending. It also included provisions for seeking debt advice [RS/540 – INQ000609797]. Guidance was issued by the FCA in January 2021, the purpose of which was to explain to firms how to use and offer PAYG in compliance with Chapter 7 of the Consumer Credit Sourcebook.
- 912. While BBLs was in operation, the BBB introduced relationship managers for participating lenders, which allowed for better handling of challenging conversations regarding BBLs and ensured that the BBB received honest feedback. It also ensured that it was properly notified of any challenges faced by lenders.
- 913. On 10 September 2020, I agreed with a recommendation by officials to ban doorstep visits for BBLs recoveries [RS/540 - INQ000609797].
- 914. In November 2020, options were explored to adjust BBLs to allow borrowers who had taken out less than the full loan amount to top-up to the maximum they were allowed on

the basis of their originally stated turnover. Following confirmation that borrowers were unable to take out a second BBLs facility, on 2 November 2020, I asked the relevant policy teams to enact changes to allow one-off BBLs top-ups to the maximum allowed, this was enacted by the BBB **[RS/573 – INQ000609544]**.

Fraud risk

915. The main limitation identified in relation to BBLs was the obvious trade-off between speed and assurance, especially as eligibility was contingent on a process of self-certification by applicants. BBLs carried a higher risk of fraud compared to CBILs and CLBILs as it dispensed with the usual commercial lending process by allowing applicants to self-certify eligibility. Further, only standard fraud checks had to be completed by lenders. These risks were inherent in the delivery of a scheme that would very rapidly deliver finance to small businesses in an emergency.
916. Concern around the risk of fraud was a key focus across Government and within HM Treasury, both prior to and after the launch of BBLs, with various pieces of advice provided by officials throughout 2020-2022. These risks were identified during the design of BBLs **[RS/574 – INQ000610825]** **[RS/564 – INQ000563990]**. Advice containing concerns regarding potential fraud risk in BBLs was included in the submission from HM Treasury officials to me, EST and CST on 1 May 2020 **[RS/569 – INQ000655448]**. There had been ongoing collective engagement on fraud risks with the SoS for BEIS and the BBB as these were operational matters within their remit. Due to the need to get loans to businesses as quickly as possible, the window for scheme development was necessarily limited.
917. HM Treasury, BEIS and the BBB were all aware of the fraud risk of BBLs before introduction, and it was considered by Ministers as part of the wider decisions taken on the scheme **[RS/569 - INQ000655448]**. Discussions took place between BEIS and HMT officials during this time. I do not have any record of meeting the SoS for BEIS for a bilat to discuss the issue of fraud, but we were both aware of the risk. There was an EBRIG meeting chaired by me on 30 April 2020 where the SoS for BEIS was present, and where the regulation of BBLs was discussed. My speaking notes suggest that I would have asked the SoS to share his views and concerns at this meeting **[RS/575 – INQ000658401]** **[RS/576 – INQ000658406]**. I, alongside the SoS for BEIS made the decision to proceed with BBLs. I then provided the SoS for BEIS with formal consent to launch the scheme. The decision was made to proceed due to the severity of the economic situation caused by the Pandemic and the fact that similar interventions had

been introduced by other jurisdictions facing similar pressures [RS/529 - INQ000625782] [RS/566 – INQ000609365] [RS/577 –INQ000658436]. The risk of fraud was accepted by Ministers in order to ensure the swift implementation of the scheme, with a view to delivering much needed assistance and mitigating competing risks. Without that speed, many businesses would have gone into insolvency.

918. The Permanent Secretary of BEIS, who was responsible for the delivery of BBLs, sought a Ministerial Direction to implement BBLs in light of the high fraud risk. The SoS for BEIS gave the Ministerial Direction, stating that the *“risks are outweighed by the need to get support to small businesses as quickly as possible”*. It is important to note that Ministerial Directions were sought for CBILs and CLBILs, both of which had much lower fraud risks.

Ongoing monitoring

919. During the first few months following the launch of BBLs, HM Treasury received data directly from participating lenders (rather than through the BBB, who also had access to the same data) to allow HM Treasury to directly and rapidly understand the picture across the BBLs portfolio. I specifically requested this (in a prescribed format) given the contingent liability of the loan guarantee portfolio that could fall on the Exchequer and to monitor the effectiveness and uptake of the lending schemes [RS/529 – INQ000625782] [RS/530 – INQ000625785].

920. In addition to HM Treasury’s internal analysis, analysis provided to the BEIS Accounting Officer from PricewaterhouseCoopers (“PWC”) and the BBB all informed the Government’s collective understanding of the risk and scale of likely losses due to fraud in respect of BBLs. I understand that PWC held an initial structured fraud workshop with lenders on 27 April 2020 [RS/578 – INQ000609376] [RS/574 – INQ000610825]. HM Treasury officials shared with me key points arising from the workshop. My understanding from reviewing an email exchange between officials is that the ‘Project April’ report by PWC built on that workshop. I also understand from this email chain that on 1 May 2020 HM Treasury officials received an email from BEIS officials setting out the parameters for BBLs and raising the risk of fraud identified by PWC. This email was discussed with me and HM Treasury officials responded to BEIS that day confirming that I had noted the findings of the PWC report on fraud risk [RS/579 –INQ000658407]. While I was acutely aware of the risks identified in the PwC report, I considered the setting up and operation of the BBLs to be an essential part of the Government’s response. Accordingly, I confirmed that I was comfortable providing budget cover to BEIS for all

losses - although I stressed that it was important to ensure the robust monitoring of the scheme **[RS/579 - INQ000658407]**.

Fraud mitigation measures

921. While the risk of fraud was higher with BBLs than the other loan schemes, there were certain measures against fraud baked into the scheme design, such as the requirement for banks to conduct AML and KYC checks, a minimum set of fraud checks, and further restrictions on loan eligibility. The application form clearly set out the consequences of providing misinformation on the form (including the risk of criminal prosecution and a fine) **[RS/569 – INQ000655448]**. Applications could also be checked against fraud bureaus such as Cifas. Businesses registered after 1 March 2020 were not eligible for finance under BBLs. The fact that BBLs lending was largely provided through existing banking relationships also helped to reduce the risk of fraud. The BBB has estimated that these measures prevented a high number of frauds, in excess of £2 billion **[RS/074 – INQ000096931]**.

922. HM Treasury remained alive to the fraud risks both during the design process and throughout the implementation of BBLs **[RS/580 – INQ000658439]**. At the outset, I was sent advice on the potential risks with the BBLs including concerns raised by the BBB and in the PWC paper **[RS/578 – INQ000609376]**, and I considered this closely before giving my agreement for the scheme to go ahead. I understand that the SoS for BEIS and officials engaged directly with the BBB on those concerns including when the BBB served a “Reservation Notice” on the SoS for BEIS **[RS/581 - INQ000564002] [RS/582 – INQ000625755]**. I also agreed with advice to provide additional funding for the BBB to operationalise BBLs as well as cover for any losses, given that the PWC report had highlighted that these could be high due to fraud **[RS/578 – INQ000609376]**. Following the launch of BBLs, and on an ongoing basis, additional fraud systems were built and operated by the BBB in approximately six weeks which mitigated the ongoing fraud risk. Counter-fraud boards at official level were also established to co-ordinate efforts and monitor fraud. A ministerial level board was also set up, and the Economic Secretary engaged with various proposals and concerns. The window to develop the scheme was necessarily limited given the need to get money to businesses as quickly as possible. Delaying the implementation to add measures was not a realistic option. However, we continued to introduce additional design features with a view to limiting fraud.

923. Additional measures introduced into BBLs to reduce the risk of fraud included:

- (a) On 26 June 2020, a duplicate application database was implemented. This allowed lenders to upload loan applications to check against other lenders' registered applications and duplicates were flagged.
- (b) In July 2020, a change of director flag was introduced as a key flag used to identify potentially fraudulent activity. This identified previously registered companies which were inactive and had been subject to a director change since the launch of BBLs.
- (c) Contractual engagement of the NATIS to investigate high priority cases of suspected fraud.
- (d) Implementation of a Fraud Analytics Programme (drafted by the BBB) to identify suspicious applications, focus on the highest risk cases and investigate them.
- (e) A Covid-19 fraud hotline.
- (f) A Fraud Risk Assessment prepared by the BBB to shape wider counter-fraud work.
- (g) Guidance on recoveries, including a dedicated section advising lenders on what action to take where they suspected that a customer had exploited the BBLs.
- (h) In November 2020, a newly incorporated business flag was introduced which allowed lenders to verify if a business has been incorporated after 1 March 2020 and were therefore ineligible for BBLs.
- (i) In December 2020, turnover figure checks with tax records from HMRC were introduced. This allowed lenders to verify turnover declarations with HMRC using the Mortgage Verification System.
- (j) In March 2021, a bulk dissolution objection process was introduced, preventing companies with a current outstanding Government loan liability from being removed from the Companies House register until lenders were able to investigate the company for any fraud.

924. Some lenders reported implementing their own fraud prevention measures, which was encouraged by the BBB, such as monitoring applicants' bank accounts to assess whether the business was active or in difficulty and running additional checks of the

company (for example, Remote Deposit Capture and Companies House checks). One lender reported introducing a flagging system which detected whether money provided through the scheme was transferred out of the business account immediately and would investigate further if this was the case [RS/074 – INQ000096931]. Officials were open to any proposals that could further reduce the fraud risk without undermining the fundamental principles of BBL [RS/583 – INQ000609491].

925. As BBL developed, thirteen additional counter-fraud measures were introduced which can be split into three broad categories:

- (a) **Prevention** – including providing markers of changes in directors, the HMRC Bounce Back Loan Verification Scheme (used to check the turnover of businesses), and a bulk objection process to prevent companies closing to avoid repayment of loans.
- (b) **Detection** – including a range of activities to assess the level of fraud risk associated with the portfolio, the introduction of a Covid-19 fraud hotline, and the involvement of the Government Counter Fraud Function analytical team and NATIS to identify, investigate, and disrupt fraudulent activity.
- (c) **Enforcement / Recovery** – covering the collaborative statement of agreed principles in relation to collections and recoveries under BBL.

While I am not aware of precisely when each of these measures was introduced, my understanding is that these measures were in place by October 2020.

926. BEIS and the BBB worked with NATIS to combat the recovery of fraudulent loans issued under BBL, and with the Insolvency Service regarding enforcement action on directors or companies that had taken out fraudulent loans. As at November 2020, BEIS and HM Treasury officials, together with the BBB and CO colleagues, were speaking to NATIS and lenders on a weekly basis to consider fraud mitigation measures [RS/584 – INQ000658429] [RS/585 – INQ000658433]. BEIS assumed overall responsibility and the BBB collected data on overall scheme performance, which it provided to BEIS and to HM Treasury, across the loan schemes. BEIS was responsible for reporting on scheme performance, as covered in its Annual Reports and Accounts. The BBB produced a formal evaluation of the loan schemes' performance in a multi-year piece of analysis conducted by London Economics and Ipsos [RS/074 – INQ000096931].

927. In advance of the 2021 Spring Budget, HM Treasury officials worked closely with other departments to develop a package to enhance and bolster the Government's counter fraud measures across the various Covid-19 support schemes **[RS/586 – INQ000609591] [RS/250 – INQ000609595] [RS/587 – INQ000658449]**. For BLS, I received advice **[RS/588 – INQ000625787]** and approved funding for law enforcement agencies to identify and investigate fraudulent BLS facilities, powers for the Insolvency Service to investigate and disqualify directors of dissolved companies with a BLS facility (to prevent company directors from taking out a BLS loan and then folding the company to escape liability), as well as a "blanket objection" for any company with a BLS facility to be struck off the Companies House register **[RS/589 – INQ000658669]**. HMRC led on the design and implementation of measures to pursue fraudulent claims, feeding directly into advice to me with support from HM Treasury officials **[RS/585 – INQ000658433] [RS/590 – INQ000658441] [RS/342 – INQ000609585]**.
928. On 3 March 2021, as part of the Spring Budget, I announced a counter-fraud package which was intended to – among other things – target BLS fraud with additional funding for enforcement activities and interventions to prevent company directors from taking out a BLS loan and then folding the company to escape liability **[RS/591 – INQ000609613]**. This was a cross-Government effort, drawing, in particular, on expertise in CO. Measures announced included Government investment of over £100 million in a Taxpayer Protection Taskforce of 1,265 HMRC staff to combat fraud within Covid-19 support packages, raising awareness of enforcement action to deter fraud and significantly strengthening law enforcement for BLS.
929. On 22 March 2021 a joint HM Treasury/HMRC note was sent to No. 10 covering the departments shared understanding of the volume, trajectory and impact of fraud against the four Covid-19 schemes delivered by HMRC **[RS/249 – INQ000609773]**. In parallel with this work, CO were providing a more strategic assessment of public sector fraud more broadly, and Home Office was reviewing the broader fraud landscape. The briefing highlighted measures already taken to mitigate the risk of fraud in BLS, such as the BBB building a mandatory system to detect multiple applications by the same business across lenders and a mechanism whereby the highest-risk applications were sent to HMRC to verify the self-declared turnover on the business's application form. The briefing noted that the Government was holding weekly forums with lenders to carefully consider how BLS was operating and fraud risks. These measures had helped to reduce the fraud risk whilst ensuring money still reached those who needed it most as quickly as possible. The briefing noted that, in terms of fraud prevented, as of 20

February, 29 accredited lenders had prevented 48,000 fraudulent loans worth £1.8 billion. Furthermore, BEIS counter fraud investigation capabilities like NATIS were working to recover money in serious cases of fraud linked to organised crime, supported by law enforcement where necessary [RS/249 - INQ000609773].

930. The briefing considered further measures to reduce the risk of fraud, including:

- (a) The Insolvency Service and Companies House preventing rogue company directors escaping liability for their loans. As approximately 75% of BBLs borrowers were companies, preventing these companies striking off without assessing whether they were trying to illegally escape liability for their debt was vital.
- (b) Granting the Insolvency Service powers to investigate and disqualify rogue company directors, as well as providing for greater scrutiny of pre-pack administrations.
- (c) Investing in NATIS to boost their capacity to investigate cases of serious fraud against the scheme and continuing to fund CO fraud analytics programme.

931. The formalisation of the Government's counter fraud strategy involving CO provided clarity regarding the scale and the nature of counter-fraud work required for BBLs. This mechanism increased confidence that tackling fraud was a priority for the Government. The counter-fraud strategy resulted in a renewed mechanism for the identification of possible fraudulent claims through the utilisation of Government data sources and by sharing relevant information with lenders to ensure proper verification of suspected fraud claims. Efforts were made to improve data analytics which has underpinned the Government's counter-fraud recovery efforts, and to delineate different typologies of fraud and understand how best to treat those different cohorts. BBLs was also able to draw in wider private sector expertise, including lawyers and others critical to the management of public money, fraud risk mitigation and counter-fraud efforts. Audits of lenders to ensure BBLs (and the other loan schemes) were being properly administered were announced. These measures were reflected in the fraud package announced at Spring Statement in March 2022, where HM Treasury provided £48.8 million of funding over three years to assist with the BBB's counter-fraud work, amongst other things.

932. In recent data published by the Government, lenders of loans already settled, 3.4% of loan value (£1.56 billion) has been paid out to lenders against loans with a suspected fraud flag.

933. The initial advice detailing the expected cost of the scheme [RS/545 – INQ000609355] estimated approximately a 30% take up - however this was a very rough estimate as the scheme was being designed at pace. The demand for the loan schemes far exceeded expectations, with the BBB estimating that nearly half (45%) of SMEs applied for external finance in 2020, compared to 13% in 2019. At the same time, gross bank lending (excluding overdrafts) to smaller businesses rose to £104 billion in 2020, 82% higher than in 2019, driven by use of the government loan guarantee schemes [RS/592 – INQ000609927]. BBLs issued 270,000 loans in the first week, and close to 800,000 in the first month. Had BBLs been designed with increased checks, it is unclear whether the financial sector could have kept up with the demand for loans at the pace required (setting aside the fact that increased checks would have resulted in slower approval rates, resulting in an extensive backlog of businesses waiting for loan approval, during which period the survival of the business may have been at risk). The overall reduction in approval times achieved by BBLs must also be considered in the context of avoiding an extensive backlog of CBILS applications at a time where business survival was at risk [RS/074 – INQ000096931].
934. In November 2020, the FSB concluded that *“it is almost certain that without the Government’s clear action to instigate Bounce Back Loans the consequences for the Covid Pandemic upon small business would have been devastating. This cannot be underestimated”* [RS/593 – INQ000655737].

Extending CBILS, CLBILS and BBLs

935. In June 2020, I requested advice from officials on options for aligning the closing dates of CBILS, CLBILS and BBLs, including bringing some of the closing dates forward and international comparisons [RS/593a] – INQ000658420]. Initial advice from HM Treasury officials in August 2020 was to wait until I had *“more clarity on the likely economic trajectory before making a decision on when to close the loan schemes for new lending”* [RS/570] [INQ000658668].
936. On 8 September 2020, I received a submission from HM Treasury officials setting out key considerations on whether to extend CBILS, CLBILS and BBLs [RS/594 – INQ000658424]. The advice noted that whilst demand under the loan schemes had started to plateau, in light of the economic uncertainty in the market and the expectation of a difficult economic environment in the autumn, characterised by subdued economic

confidence and low global demand, lenders had called for CBILS to extend beyond 30 September. On 24 September 2020, following advice from HM Treasury officials, I announced an extension of CBILS, CLBILS and BBLs to, initially, 30 November 2020, as well as the intention to introduce a successor scheme, namely RLS **[RS/572 – INQ000658425]**. The extension brought the UK into line with other countries including France, Germany and the US whose frameworks allowed for loan offers until the end of December 2020 **[RS/595 – INQ000658480]**.

937. On 2 November 2020, HM Treasury officials consulted with seven banks who gave feedback that the closing dates of CBILS, CLBILS and BBLs should be extended to the end of January 2021 as banks believed there would be *“a surge in applications in the run up to an end of the December deadline which would lead to big operational problems for both businesses and lenders”*. Presentationally, this would also align with the new deadline for the end of mortgage payment holidays **[RS/596 – INQ000609531]**. On 9 November 2020, BEIS wrote to HM Treasury officials seeking my approval to extend the CBILS, CLBILS and BBLs until 31 January 2021, to which I agreed **[RS/584 – INQ000658429]**.

938. On 27 November 2020, I requested advice from HM Treasury officials on extending the CBILS, CLBILS and BBLs to the end of March 2021 **[RS/597 – INQ000658437]**. I asked officials to include international comparisons in the advice, as well as an update on market conditions and demand for the schemes, to assist me with deciding whether to extend them. On 8 December 2020, HM Treasury officials recommended that I agree to extend the existing schemes to the end of March **[RS/598 – INQ000658438]**. HM Treasury officials’ advice was also sent to EST whose officials responded the same day stating *“EST sees no political downside to extending the schemes particularly given the analysis of the market and the expectation that businesses of all sizes will require support until March. Extending all schemes keeps things simple and makes clear that we are committed to supporting businesses of all sizes into spring. The cost of extending is likely to be relatively low given current levels of demand but this extension would avoid the political downside of smaller businesses being locked out of the successor scheme due to the minimum loan amount”* **[RS/597 – INQ000658437]**. On this basis, I agreed to a further extension of the loan schemes until the end of March 2021. This was announced on 17 December 2020.

939. As at the end of March 2021, a total of 100,245 loans had been approved through CBILS, 728 loans had been approved through CLBILS, and 1,540,767 through BBLs **[RS/540 – INQ000609797]**.

Recovery Loan Scheme

940. On 26 October 2020, HM Treasury officials prepared advice for me and the EST on a successor loan scheme to align with the closure of CBILS, CLBILS and BBLs **[RS/597 - INQ000658437]**. The successor scheme, which would become RLS, was an important part of the Government's exit strategy following the extraordinary support measures implemented in the Pandemic. CBILS, CLBILS and BBLs were temporary loan schemes designed to help businesses get through the Pandemic, with an emphasis on facilitating urgent liquidity needs. Having provided unprecedented economic support to businesses, ensuring that this support was withdrawn carefully, and that the marketplace transitioned back towards a more commercial lending scheme, was very important.
941. RLS was designed to be a successor scheme to EGF (which closed in 2020) rather than another Covid-19 loan scheme. The key objectives of RLS were to incentivise growth and investment, providing SMEs with access to finance which could be used for any legitimate business purpose, including working capital or investment. RLS provided Government-backed finance, whilst also transitioning back to more commercial lending, with an emphasis on corporate solvency rather than urgent liquidity needs **[RS/541 – INQ000609793]**.
942. As part of their work on designing RLS, HM Treasury consulted the BoE on their view of the likely market conditions for early 2021. During the design of RLS, HM Treasury officials consulted with the BBB, BEIS, lenders and various industry associations to develop HM Treasury's evidence base. UK Finance, Innovate Finance, and the Finance Leasing Association all shared proposals for the new loan scheme. They proposed a scheme with an 80% guarantee that could be provided by a wide range of lenders and a term sheet broadly similar to CBILS, all of which were incorporated into RLS. Officials were also able to utilise feedback garnered from various stakeholders and lenders involved in the operation of CBILS. HM Treasury officials also relied on advice from stakeholders such as relevant lenders, including evidence relating to the uptake of previous the earlier Covid-19 loan schemes and the impact these had had on efforts to support businesses throughout the Pandemic. This helped HM Treasury to effectively target economic support to those businesses most in need.
943. On 12 November 2020, I received advice from HM Treasury officials on the design of RLS **[RS/541 – INQ000609793]**. Officials recommended retaining 80% guarantee, with

a minimum loan size of £25,000 (£1,000 for invoice and asset finance), a maximum loan size across all products of £10 million, and applying the lightest possible viability assessment while shifting back to more usual commercial lending checks, in particular, by not fixing an interest rate and allowing lenders to price loans relative to their risk judgements and their cost of funding. RLS was intended to operate UK-wide, providing an 80% guarantee to lenders for term loans, overdrafts and invoice and asset finance. The design of RLS was informed by looking at similar schemes in other countries **[RS/599 – INQ000609796]**.

944. On 27 November 2020, I attended a call with HM Treasury officials to discuss their advice, following which I agreed with their proposed scheme design for the RLS **[RS/597 - INQ000658437]**. I received further advice from HM Treasury officials on 8 December 2020 with a mock up brief for the RLS which ran through the public arguments for introducing a more targeted form of support relative to the existing schemes and included international comparisons **[RS/598 – INQ000658438]** I note that the EST agreed with all recommendations from HM Treasury officials on the design of the RLS **[RS/597 - INQ000658437]**.

945. RLS was announced in the 2021 Spring Budget and launched on 6 April 2021, following the closure of CBILS, CLBILS and BBLs applications on 31 March 2021 **[RS/600 – INQ000609635]**. RLS was anticipated to run until 31 December 2021, subject to review and extension, if appropriate.

946. RLS was administered by the BBB via a network of accredited commercial lenders **[RS/601 – INQ000609795]**.

947. Following the implementation of RLS, HM Treasury continued to consult with stakeholders to assess the impact of RLS and the need for extension beyond the initial end date of 31 December 2021.

948. RLS operated in three phases. The first phase ran from 6 April to 31 December 2021. The second phase ran from 1 January to 30 June 2022. The third phase ran from 1 July 2022 to 30 June 2024 **[RS/602 – INQ000609798]** **[RS/603 – INQ000609799]**. On 1 July 2024, RLS became the GGS as it was no longer intended for the 'recovery' of businesses. Whilst GGS still aims to support finance to SMEs, the intention is to provide support for investment and growth.

Fraud risks

949. The fraud mitigation measures implemented for RLS mirrors those for CBILS and CLBILS, in that lenders conducted business-as-usual checks. RLS was designed to minimise the risk of fraud, for example, by tackling duplicate loan checking through Cifas.

Future Fund

950. The period following 23 March saw a significant drop in investment value and volumes. In April 2020, early-stage companies were reporting access to finance problems in light of the Covid-19 restrictions, particularly at the riskier end of the market, due to investors focusing on their existing portfolio due to concerns about a drying up of institutional capital later in the year **[RS/604 – INQ000658411]**. These companies were not eligible for the other loan schemes because they did not satisfy the usual business viability tests. FF was created to address a slowdown in UK SME equity markets following the initial response to Covid-19, driven by market uncertainty and investors' reluctance to conduct deals remotely **[RS/605 – INQ000658421]**. FF was a new direct co-investment product to support the scale up of the most innovative, research and development intensive businesses. The BBB took equity in funding rounds of over £20 million led by private investors to ensure these companies can access the capital they need to grow and bring prosperity to communities across the UK. Whilst I was involved in the design of FF **[RS/606 – INQ000658400] [RS/607 – INQ000658496]**, decisions on which businesses received funding were not made by me or other Ministers. The FF was administered entirely by the BBB, and decisions on funding were made by the BBB. FF launched on 20 May 2020.

951. On 18 August 2020, I received a submission from HM Treasury officials recommending closing FF to new applications on 30 September 2020, with the BBB resolving all extant applications by 30 November 2020 **[RS/605 – INQ000658421]**. In September 2020, the PM, the SoS for BEIS and I agreed to push back the deadline for new FF applications to 30 November 2020 “to align the closing date of the Future Fund with other interventions and to maintain for a further period the Government's support for fast-growing, innovative firms that rely on equity finance” **[RS/608 – INQ000658426]**.

952. On 2 November 2020, the PM announced an extension of FF to 31 January 2021, to align with the closing date of CBILS, CLBILS and BBLs and to enable more businesses access additional support. FF closed for applications on 31 January 2021.

Reflections

953. The BBB collected data on overall scheme performance, which it provided to BEIS and to HM Treasury. BEIS was responsible for reporting on scheme performance, as covered in its Annual Reports and Accounts. In March 2021, the BBB commissioned London Economics and Ipsos to undertake a multi-year evaluation of CBILS, CLBILS and BBLs. This evaluation aimed to assess whether the objectives of the schemes were satisfied. In June 2022, the BBB published a report presenting the findings from the process evaluation and early impact of the schemes [RS/074 – INQ000096931]. The report found that the schemes met their primary objectives of unlocking credit for businesses at scale and speed and resulted in £78 billion in guaranteed loan facilities, reaching just over a quarter of SMEs in the UK. The report concluded that the funds may have been critical in directly securing the survival of up to a third of businesses receiving loans through the Covid-19 Loan Guarantee Schemes (around 500,000 businesses).
954. The report estimated that in the absence of the schemes, an additional 10% to 34% of BBLs borrowers (i.e., 146,000 to 505,000 businesses) and an additional 7% to 28% of CBILS/CLBILS borrowers (i.e., 5,000 to 21,000 businesses) could have permanently ceased trading in 2020. It is also estimated that 0.5 million to 2.9 million jobs could have been lost in the absence of the loan schemes.
955. With regards to BBLs, the report also stated that it was unclear how lenders could have realistically handled the volumes of loan applications in a timely fashion without removing many Business-as-Usual checks. BBLs issued 270,000 loans in the first week, and close to 800,000 in the first month. Lenders conducting Business as Usual checks on such a volume of applications would have created an extensive backlog with businesses waiting significantly longer for a loan during which period the survival of the business may have been at risk. The report concluded that the strength of the economic need to achieve the extent of acceleration under BBLs, which led to the decision to drop many Business-as-Usual checks on lending decisions, was uncertain, though an acceleration from approval times under CBILS was necessary to prevent business failures. The overall reduction in approval times achieved also needs to be considered in the context of avoiding an extensive backlog of applications at a time where business survival was at risk.

Part K: Alleviating Hardship

956. During the Pandemic, the Government increased welfare support to alleviate the economic impact on the most vulnerable people. It was recognised from the beginning of the Pandemic response that many people would need to be absent from work, and that the payment of sick pay and absence of staff had the potential to place a significant burden on SMEs.
957. In recognition of these concerns, in the Spring Budget 2020, I announced changes to SSP, which included making it available from the first day of sickness and broadening eligibility, and introduced a rebate scheme for SMEs. The CBI noted in response to this announcement that *"it is vital that sick pay rules don't encourage people to ignore public health guidance"*, and that *"making Statutory Sick Pay available from day one is an important first step"* [RS/609 – INQ000655738]. The success of subsequent larger interventions such as the CJRS meant that uptake of the SSP Rebate Scheme was ultimately lower than expected, with a lifetime cost estimated at £123 million.
958. Throughout March 2020, work on welfare support continued as the Government brought in measures aimed at the wider societal safety net in place to support people who lost their jobs or had reduced earnings due to the Pandemic. Key amongst these was the introduction of a temporary increase of £20 per week to the Universal Standard Allowance. The total number of people on UC increased from 2.5 million people in March 2020 to 5.2 million in May 2020, and continued to increase to 5.8 million by November 2020. By May 2021, 5.9 million people were claiming UC. The IFS noted that *"[t]he boost to incomes will be particularly large for those on the lowest incomes: for a single childless adult aged over 25 who has no income will see an increase in their basic benefit from £63.34 per week to £92.57 per week. This really is substantial"* [RS/610 – INQ000655739].
959. Throughout the Pandemic, HM Treasury assessed the impact of policies on different vulnerable groups, including those covered by the Public Sector Equality Duty, see paragraphs 1155 to 1167. I received analysis compiled from various sources, including qualitative and quantitative evidence, from both inside Government and from external organisations.
960. During the Pandemic, several HM Treasury assessments were published showing that Government interventions supported the poorest working households the most (as a

proportion of pre-Pandemic net household income) (July 2020 [RS/611 – INQ000609890] and March 2021 [RS/591 – INQ000609613] [RS/612 – INQ000609609]). Analysis published in Autumn 2021 [RS/613 – INQ000609674] similarly showed that estimated gross spending on Covid support schemes and the temporary uplift to welfare from March 2020 to September 2021 provided the most support to the poorest working-age households. The official ‘Households Below Average Income’ data release published by DWP showed that the proportion of UK individuals living in relative poverty after housing costs fell from 22% in 2019/20 to 20% in 2020/21 [RS/614 – INQ000655740].

Statutory Sick Pay and the Statutory Sick Pay Rebate Scheme

Decision-making

961. The SoS for DWP has overall responsibility for welfare, including UC and SSP, while I had overall responsibility for economic and fiscal policy. As set out in paragraphs 70 to 72, the two departments have a close working relationship. HM Treasury provides funding approval for any additional spending as a result of changes to welfare policy, and these changes are often announced by the Chancellor at Budgets or other fiscal events. HM Treasury and DWP therefore work closely together on the economic and spending implications when developing welfare policies.
962. Decision-making on SSP was, and remained, the responsibility of the SoS for DWP. During the Pandemic response, DWP led on the policy advice concerning changes to SSP including relevant changes to legislation and worked closely with HM Treasury ministers given the economic and spending implications. In the lead up to my budget announcement of 11 March 2020, policy on SSP was developed in coordination with HM Treasury and DWP, with input from DHSC, MHCLG and the CO. HM Treasury worked with DWP and HMRC on the development of SSP regulations. This involved regular working level and senior meetings and sharing of evidence and analysis.
963. HMRC were the delivery body for the Statutory Sick Pay Rebate Scheme (“SSPRS”) and worked closely with DWP and HM Treasury from the initial design stage to ensure that delivery risks and timescales were understood. There were regular meetings between the three departments on the joint development, design and delivery of the SSPRS.

964. I was involved in this day-to-day policy development and have set out key advice received and the decisions I made, along with the policy rationale, below. As Chancellor, I had the responsibility for the economic and fiscal impacts of policies under consideration.

Initial design

965. On 26 February 2020, I received urgent advice from HM Treasury officials on the potential economic impacts of Covid-19, which I had requested to feed into wider overall Budget preparation and decision-making. On 27 February 2020, I made a follow-up request for a Budget package on Covid-19, which included advice on SSP **[RS/615 – INQ000585908]**. HM Treasury officials sent their advice on 28 February 2020 with an initial list of options depending on the severity of the situation **[RS/616 – INQ000609068]**. In relation to SSP, the options explored included:

- (a) extending SSP to people told to self-isolate and relaxing the requirement for a GP note (and extending these two changes to jobseekers on benefits);
- (b) Providing SMEs with a rebate for SSP;
- (c) Paying SSP to self-employed people;
- (d) Extending SSP to parents whose children had been told to self-isolate; and
- (e) Temporarily changing the whole SSP system by enabling people to get paid from Day 1, increasing the rate of SSP, and removing the earnings threshold.

966. On 1 March 2020, I received further advice on SSP interventions **[RS/615 - INQ000585908] [RS/617 – INQ000585907]**, including funding SSP for SMEs and sick pay for self-employed people. HM Treasury officials advised that DWP's main package of measures being worked up to make SSP fit for responding to Coronavirus included (a) temporarily extending SSP to people self-isolating who were currently not eligible; (b) temporarily replacing the GP fit note system and (c) extending both these measures to benefit claimants. Official recommendations were to:

- (a) Proceed with DWP's main package of measures. HM Treasury officials referred to the risk of fraud and identified potential mitigations;
- (b) Confirm that HM Treasury officials request information from HMRC and DWP to understand the feasibility of Government intervention to fund SSP for SMEs;

- (c) Confirm that HM Treasury officials request information from DWP to understand the operational and legislative requirements of the options that they and HM Treasury wanted to progress.

967. On 3 March 2020, I received more detailed advice in advance of a call with the PM to discuss the Government's economic response to the Pandemic and changes to primary legislation [RS/618 – INQ000611609]. This advice included a detailed update on operational and legislative developments and sought my agreement to new powers in primary legislation which were proposed by DWP. The key decisions I was asked to make were:

- (a) whether to proceed with a primary power for DWP to implement a rebate scheme to fund SSP for SMEs;
- (b) whether to proceed with an amendment to primary legislation which would allow SSP to be paid from the first day (rather than the fourth day) in circumstances set out in regulations. This was the favoured option of SoS for DWP and MHCLG and was considerably more generous than the existing situation.

968. The advice also stated that HM Treasury officials did not recommend adopting other changes to SSP which were being called for by employee groups and in the media, such as increasing payments from £94.25 per week and removing the £118 per week lower earnings limit. This was due to the "*considerable impacts on business*" and the fact that "*many of those ineligible for SSP due to low earnings will be eligible for direct support from the state through Universal Credit*" or other benefits.

969. On 4 March 2020, I had an internal meeting with HM Treasury officials. An email of the same date records that I agreed that:

- (a) SSP should start from the first day rather than the fourth day for those self-isolating due to Covid-19;
- (b) A two-week (10 working day) limit for employers claiming the SSP rebate was defensible and tallied with medical advice;
- (c) There was a risk of abuse, but inaction was the greater risk. HM Treasury officials were therefore to assume the maximalist cost when preparing analysis.

970. I also requested further information to inform decision-making, including "*a simple grid of the population (pop. who get SSP, pop. who get occupational sick pay), employment*

status (employee, self-employed) thresholds, who does and doesn't get it, when it kicks in and at how much, how the numbers and fiscal costs differ at defining a SME at 250 people vs 50 people" [RS/619 – INQ000609203].

971. On the same day, the PM announced that the Government would be bringing forward emergency legislation to allow SSP to be paid from the first day of sickness for those self-isolating due to Covid-19.

972. HM Treasury officials provided further and more detailed advice on specific options on the Covid-19 SSP package on 4 March 2020 [RS/620 – INQ000609070]. By this date, DWP had issued drafting instructions to the Office of Parliamentary Counsel to include powers to enable the Government to give a rebate to SMEs and make SSP payable from the first day in relation to Covid-19 cases. The HM Treasury advice included detail from discussions with HMRC on the operational changes needed to implement the rebate, with four options to consider, including the creation by HMRC of a new, standalone online form that employers could fill in online creating a credit. HRMC's estimate was that it would take three to four months to operationalise. This option was the initial recommendation of HM Treasury officials. The advice included a table of the costs of providing SSP to SMEs for 2 weeks only, modelled at 100% of employees claiming, for SMEs with less than 50 employees, less than 250 employees and more than 250 employees.

973. This submission also contained advice that I had requested on those not covered by SSP (including people below the SSP earnings threshold, 'gig economy' workers and the self-employed) and DWP's proposed changes to New-Style Employment Support Allowance ("ESA") and UC to make them more accessible to the self-employed. It concluded:

"The majority of people not covered by SSP are the self-employed. Of the c.5m self-employed population, we estimate that c.50% will be eligible for New-Style ESA and c.55% would be eligible for some UC support. Ineligibility for New Style ESA is due to not having sufficient NICs credits, whereas UC ineligibility is driven by excess savings (see Annex B). There will be some people not covered by either benefit. We don't know how large this group is, though their ineligibility suggests that they had alternative sources of assets or income."

974. Following my call with the PM on the same day (5 March 2020), Private Office provided a readout summarising the call and my position at that point. It also noted that the PM was supportive of the package **[RS/621 – INQ000609207]**.
975. On 8 March 2020, HM Treasury officials sent me a submission seeking final decisions on the SSP package ahead of the Spring Budget **[RS/622 – INQ000583617]**. The key operational decision in respect of delivering the SSPRS was *“between delivering a system as soon as possible, acknowledging fraud risks this entails, versus delivering a system to a longer timeframe which manages some of these risks.”* By this time, HMRC had confirmed that they could deliver the scheme within three to four months using a standalone online form that employers could fill in to claim back SSP. This system would not be linked with HMRC’s taxpayer data in the Real Time Information (“RTI”) system, so would have very limited ability to target the refund to SMEs (as it could not verify the number of employees working at the firm) or prevent fraud. The submission noted that HMRC was urgently exploring if any steps could be taken to increase the upfront verification process to minimise the fraud risk, while maintaining the three to four month delivery window. It concluded *“[g]iven the significant potential for fraud and therefore fiscal risk, we are urgently working on mitigants. Without additional security measures, we would not recommend this option.”*
976. The other option was creating a new system for reporting SSP that was linked into HMRC’s RTI system. HMRC advised that this could be delivered by October 2020 and would be *“able to better target SMEs and would reduce, but not eliminate, the risk of fraud.”* The submission noted that there was a risk that the refund would be seen as being *“too late”* and that there *“may be substantial pressure for an interim solution that would need to look like the first option.”* At this stage, HMRC was not sure whether the system could be automated, which would have *“substantial knock-on effects on other provision of customer service and may lead to delays in other areas.”*
977. This section of the submission concluded by noting that DWP’s Accounting Officer would need to sign off committing expenditure under the policy for both options, which would involve a judgement in line with his responsibilities under MPM *“where the level of fraud risk may be relevant.”* He was due to get this advice the next day. HM Treasury officials asked me to *“consider the trade-off between timeliness and fraud risk across the two delivery options”* before choosing between them.
978. In the same submission, I was asked to make a number of policy decisions on issues that DWP had raised concerning the design of the SSP package. These included:

- (a) The definition of SME – The options were employers with fewer than 50 employees (which would reduce costs, target the neediest, and reduce fraud exposure) or fewer than 250 employees (which would support a wider range of businesses). I was advised that adopting the less than 50 employee definition would cost £1.4 billion if 100% of employees were sick for 2 weeks, with a further £800 million if the definition was extended to the less than 250 employee option;
- (b) The duration of the rebate – I was asked to confirm that my final decision was that the rebate should be limited to two weeks (or ten working days) per employee, to limit the potential fraud risk and the Government’s financial exposure;
- (c) Whether to extend the eligibility of SSP to (i) parents whose children’s school or nursery was closed down on public health advice and (ii) carers (for example, to disabled or elderly relatives). This was a significant extension which risked significant costs to employers and the state, and the cohorts would be difficult to define.

979. The readout from the same day (8 March 2020) confirms that I wanted to proceed with delivering a system as soon as possible, noting the fraud risks set out in the submission **[RS/532 – INQ000609217]**. The readout also set out my decisions on the policy issues raised by DWP, including a decision to define a SME as less than 250 employees, and that the duration of the rebate should be limited to two weeks, in line with the period of self-isolation recommended by the health experts. I agreed with the SoS for DWP that support should not extend to parents of children whose schools had shut and noted that this could be reconsidered in due course.

980. Following this HM Treasury officials sent further advice on the operational design of the SSPRS on 9 March 2020 **[RS/623 – INQ000585065]**. HMRC had now completed their work on additional security measures, and this advice set out the safeguards that they stated could be built in to mitigate (but not eliminate) the risk while delivering the scheme for June / July 2020. I was advised that *“HMRC’s Accounting Officer will need to confirm that they are content with the delivery mechanism, taking in to account the risks in delivering the policy. We are urgently seeking that confirmation.”*

981. I had a meeting with HMRC’s Accounting Officer the next day, 10 March 2020. An email of the same day **[RS/624 – INQ000609227]** records that he advised me that he had

concluded the risks of fraud and error associated with delivering the SSPRS by June 2020 were acceptable given *“the urgency of the situation, and the fact that supporting small businesses with their CV-19 related SSP costs is a major Government priority”* and that I had acknowledged these risks. It was also noted that *“[w]e have only one option for delivering support so soon”*, and that HMRC’s IT department were confident they could implement a number of upfront protections to mitigate and reduce the risks of fraud and error. These included:

- (a) Taking a static snapshot of RTI data at the end of February and only issuing automatic repayments in respect of PAYE schemes that had a reference number at that date. Other claims would go to HMRC officers for clerical review before payment was authorised or refused;
- (b) Preventing automatic repayment to a list of known, existing PAYE schemes that HMRC’s Fraud Investigation Service suspected were linked to criminal behaviour;
- (c) Cumulating multiple claims by the same PAYE scheme to keep the two week per employee overall limit.

982. On 9 March 2020, I also received further advice that I had requested on the distributional analysis of people under the £118 per week Lower Earning Limit (“LEL”) who were not entitled to SSP [RS/625 – INQ000609362]. The reasons for not removing the LEL were:

(a) the potentially negative impacts on smaller business; (b) perverse incentives from paying employees more in sick pay than through work and (c) the possibility that many of those employed could be made redundant. The advice stated that data on this cohort was imperfect, but a large proportion of those earning under the LEL would have alternative sources of income and/or some savings to cushion the impact of lost earnings. It also confirmed that *“it would constitute a major change to the existing system and would be difficult to implement rapidly given the need to make payroll changes etc. As previously discussed, a sudden change to the system, especially given the Covid-19 context, could lead to significant numbers of workers below the LEL losing their jobs.”*

983. At the Spring Budget on 11 March 2020 [RS/626 – INQ000236874], I announced changes to welfare provision. This included:

- (a) Confirmation that SSP would be available from the first day of sickness for Covid-19 cases;

- (b) The extension of SSP to those advised to self-isolate and caring for others who had been advised to self-isolate;
- (c) Relaxation of the requirement for a GP note, with employees instead notifying NHS 111;
- (d) Introduction of the SSPRS for SMEs with fewer than 250 employees, capped at two weeks (or 10 working days) per employee.

984. On 19 March 2020, I asked HM Treasury officials to include removing the LEL and extending SSP to the lowest paid on a grid which they were creating for me and the CST to consider ahead of the announcement of a further welfare package. This package included various temporary measures to provide additional financial support for those on low incomes who lost their jobs or suffered a reduction in earnings. The grid set out officials' current thoughts on a core package, and other measures to go further which were potentially viable but carried more risk. In their analysis of this option, officials noted that it was possible to remove the LEL but that it was complicated, would take more time to implement and carried significant risk if employers chose to lay off lower paid employees [RS/627 – INQ000585998]. On 20 March 2020, I confirmed that I was happy with the core package of measures [RS/628 – INQ000585915]. Removal of the LEL was not included in the final package announced on 20 March 2020.

985. The SSPRS went live on 26 May 2020.

Extension / cessation of the scheme

986. On 21 August 2020, I received advice from HM Treasury officials on a request from the SoS for DWP to consider extending the SSPRS by opening it to employers with more than 250 employees, removing the restrictions that employers could only claim up to two weeks per employee [RS/629 – INQ000609462]. In light of this request, the advice also sought direction on the future of the scheme.

987. I was advised that:

- (a) The scheme at that time was underutilised, with only £31 million disbursed so far and 215,330 employees claimed for. Only 3,005 employers had claimed their full entitlement, which represented an estimated 0.2% of all employers eligible;

- (b) HM Treasury officials thought that a large driver for the low uptake was that many of those eligible employees were furloughed under the CJRS instead;
- (c) Given the limited take-up of the scheme at the time, there were few risks to the scheme continuing for the coming months, and it would remain a useful source of support for small and medium employers once CJRS ended;
- (d) Officials did not advise extending or changing the parameters of the scheme as it could increase fiscal exposure considerably (the costs of extending the SSPRS to employers with more than 250 employees had previously been modelled in March, see [RS/620 – INQ000609070]). Large employers were able to access other forms of support, such as the CJRS and loan schemes, and extending the rebate to these group would make the scheme less targeted and increase fiscal risk.

988. An email of 24 August 2020 records that both the CST and I agreed with all the recommendations in this advice [RS/630 – INQ000658423].

989. On 10 November 2020, officials provided further advice on the wider strategy for SSP going into the Winter, in the context of the second wave and potential changes to the self-isolation policy [RS/631 – INQ000232105]. This included a recommendation to keep the SSPRS open until at least the end of the financial year, with a review at the end of January 2021. Officials considered there was a strong case to extend SSPRS as:

- (a) Only 0.5% of employers had claimed that maximum, meaning many could still benefit from the scheme;
- (b) It was low cost. I was advised that SSPR spend was likely to peak at around £50 – 60 million by the end of March and that “[e]ven if the claim rate were to increase significantly, e.g. to 40%, total AME spend would total £190 – 250 million”;
- (c) There was significant presentational risk to closing the scheme in the middle of the second wave.

990. On 16 November 2020, an email from Private Office confirmed that I agreed with this recommendation [RS/632 – INQ000609550].

991. On 3 February 2021, I received advice recommending a further extension until the end of September 2021, with a review in the summer of 2021 [RS/633 – INQ000609803].

HM Treasury officials advised that their preferred option was “[...] to unwind the scheme quietly at the end of September when we expect incidence to be relatively low. This would mean that the scheme continues to be in place for the current wave, but does not become a permanent feature of the landscape. However, there is still considerable uncertainty about the landscape from the Summer onwards, and we do not recommend closing down any options at this stage. Rather, we recommend remaining silent on when the scheme will end at Budget and revisiting the decision to close it in the Summer as part of the wider exit strategy.”

992. I agreed to the recommended timing for the SSPRS to close **[RS/634 – INQ000609597]**.
993. I subsequently received advice from HM Treasury officials for a decision on options for closing or extending the SSPRS in August 2021 **[RS/635 – INQ000609659]**, **[RS/636 – INQ000656249]**. Officials recommended closing the scheme at the end of September 2021, in parallel with CJRS and SEISS, with a three month period until December 2021 for employers to make backdated claims. Take up had continued to be low, and DWP’s modelling suggested the scheme would not see significant use if extended beyond that date, meaning the impact of closure was likely to be limited. I was also provided with an annex showing DHSC’s estimated volumes of individuals asked to isolate based on limited, cautious and rapid social mixing scenarios in England **[RS/636 – INQ000656249]**. The submission set out that the SoS for DWP’s steer was that the scheme should close at the end of September. After I had received clarification on the rationale for the period for making backdated claims **[RS/637 – INQ000609660] [RS/638 – INQ000609661]**, I confirmed that I was content to proceed with this recommendation **[RS/639 – INQ000609170]**.
994. Although the CJRS meant that less people had claimed SSP than initially assumed, there were policy reasons to operate both of the schemes. The CJRS was aimed at supporting individuals at risk of losing employment, while the SSPRS was aimed at supporting businesses with the cost of Covid-19 related absence. The interaction between SSP and the CJRS was considered at various points when policy decisions were taken with implications across both schemes – for example, when shielding was introduced, Government considered the position of those whose employers would not furlough and extended SSP to cover that cohort **[RS/640 – INQ000609319] [RS/641 – INQ000609317]**.

Reintroduction in response to Omicron

995. The SSPRS closed as planned at the end of September; however, it was subsequently briefly reintroduced in response to the emergence of Omicron in December 2021. On 17 December 2021 [RS/642 – INQ000609688] [RS/643 – INQ000585099], HM Treasury Officials advised me that:

“Re-introducing the Statutory Sick Pay Rebate Scheme (SSPRS) would provide financial support for businesses to help support them with higher levels of staff absences due to the Omicron outbreak. Although the scheme has historically had a relatively low impact, its reintroduction could mitigate the need for fiscally more costly business support interventions. In previous lockdowns/restrictions, CJRS was in place, which will have provided more support for businesses and individuals with regard to self-isolation. In the absence of CJRS, there is a stronger case for self-isolation support for businesses and individuals.”

996. A number of options were proposed. Reintroducing the SSPRS in its original form was the simplest option and could be done within two weeks. In line with this advice, I confirmed on 19 December 2021 that I would be announcing the reintroduction of the SSPRS the next day [RS/239 – INQ000609692].

997. On 11 February 2022, I was provided with advice which recommended letting the legislation enabling the temporary changes to SSP lapse, and closing the SSPRS on 17 March 2022, with a one week period for employers to put in their last claims [RS/645 – INQ000585102]. The advice from HM Treasury officials was that self-isolation requirements were expected to end by 24 March 2022, and low levels of Covid-related SSP usage were expected in light of this. While DWP was considering whether there was scope for letting the changes lapse earlier, this would require legislation and it was noted that *“there will still be some instances, including [...] in the Devolved Administrations (DAs), with differing self-isolation approaches.”* There were also significant transition risks, as employers would have limited notice of the scheme’s closure. The benefits of closing the scheme at the end of February 2022 were limited, and closing the scheme in March 2022 would *“leave an adjustment period for employees and employers to familiarise themselves with self-isolation requirements ending.”*

998. A readout on 15 February 2022 from my Private Office confirmed that I had reviewed the advice and was content with the recommendations to allow the Covid 19 changes to SSP and SSPRS to lapse on 24 March 2022, along with allowing the lead in time for employer claims [RS/646 – INQ000585103].

Managing risks of fraud and error

999. In addition to the measures set out at paragraph 981 above, HMRC put in place a number of mitigations against fraud and error in the delivery of the SSPRS. These included:

- (a) The use of the existing Government Gateway system;
- (b) An automatic screening against PAYE records pushing claims which failed this screening into a manual process;
- (c) The requirement to keep records for three years after receipt of payment;
- (d) Time limited availability of the scheme;
- (e) The requirement to have an existing payroll account with HMRC;
- (f) The requirement for employees claiming SSP to notify NHS 111 **[RS/622 – INQ000583617]** (and later on to register with the NHS app);
- (g) A potential penalty of up to £3,000 for providing false or misleading information in an SSPRS claim.

Uplift to Universal Credit and Working Tax Credit

Decision-making

1000. DWP was the policy owner for UC. UC policy changes during the Pandemic were developed by DWP and HM Treasury officials, following ministerial decisions by the PM, Chancellor and SoS for DWP. DWP officials led on policy development and delivery on the UC uplift, working closely with HM Treasury on economic and spending implications.

1001. HM Treasury was the policy owner for WTC and held ministerial responsibility for this scheme. The scheme is administered by HMRC, which implemented the WTC uplift. As the departments responsible for implementing and delivering the specific schemes, DWP and HMRC led on engagement with the DAs, see paragraph 1109.

1002. I was involved in day-to-day policy development in relation to changes made to these schemes during the Pandemic. I have set out key advice received and the decisions I made below. As Chancellor, I had the responsibility of ensuring that the economic and fiscal impacts of policies under consideration were explained, and that they were created within HM Treasury's remit.

Scheme design

1003. The initial focus of advice from HM Treasury officials for the Budget package on Covid-19 was on economic support for working individuals who were likely to be absent from work due to infection or self-isolation. As the situation developed and the scale of the potential social and economic impacts became increasingly clear, as set out in paragraphs 142 to 144, HM Treasury officials continued to explore options for responding to the economic crisis. Focus broadened to the wider societal safety net in place to support people who lost their jobs or had reduced earnings due to the Pandemic.

1004. I received advice on 19 March 2020 about a further welfare package including temporary measures for those who would lose their jobs or face a reduction in hours [RS/627 – INQ000585998]. This included a measure to stop applying the UC Minimum Income Floor to all new and existing self-employed claimants generally affected by the broader economic impacts of the pandemic. This was an extension of the suspension of the Minimum Income Floor (“**the Suspension**”) to claimants directly impacted by Covid-19 or self-isolating, which had been one of the measures announced in the Covid-19 Budget [RS/647 – INQ000585911] [RS/353 – INQ000585067]. Many of these people would not have had any previous interaction with the welfare system. The Pandemic might also lead to people being out of work on benefits for a longer period if businesses were not taking on new workers. The advice noted that DWP and HMRC were facing significant operational delivery pressures, there was a four-fold increase in UC claims and DWP staff absences were elevated due to direct Covid absences. Therefore, it was paramount that any additional support was straightforward to deliver, as well as able to be rapidly implemented/operationalised by a Government department.

1005. As recorded in the readout of the same day [RS/649 – INQ000609247] [RS/650 – INQ000593385], the priorities for this package were therefore “*simplicity, operational delivery, things that are clearly for current situation - rather than long term change to the system/rates.*” As existing and familiar financial support payments in the UK, an increase to UC and WTC was able to be implemented quickly and have an immediate effect. Increases to other welfare and benefit payments provided by the government were

considered by DWP and HM Treasury officials. However, the Government's objective was to support those most financially exposed or disadvantaged as a direct result of the Pandemic. It was determined that this was best achieved through the two benefits which were both means-tested benefits and available where an individual suffered a reduction to their income as a result of reduced hours or unemployment which created or further exacerbated low income.

1006. There are several different components to UC, any of which might have been increased. The Standard Allowance is provided to all UC claimants whether they are employed or unemployed, so the uplift was applied to this element of the benefit because it was able to support both those losing their jobs and those seeing a reduction in income from fewer hours worked.

1007. HM Treasury Officials considered whether to increase just UC or to also increase WTC. Only increasing UC would have been operationally simpler and potentially more flexible to future changes (given the relative modernity and responsiveness of the UC system). Claimants already on WTC could have applied for UC so as not to miss out on the relative uplift in benefits. However, it was felt that this would exacerbate UC volume handling pressures, so officials recommended an increase to both.

1008. The options in the grid set out in the advice of 19 March 2020 **[RS/627 – INQ000585998]** included an increase to the UC Standard Allowance, and to the Basic Rate in WTC. The Standard Allowance is provided to all UC claimants. The uplift was applied to this element of UC because it would support both those who had lost their jobs, and those who had a reduced income as a result of the Pandemic. As existing systems of support, these were able to be implemented quickly through secondary legislation during the upcoming annual uprating cycle. They also included extending the Suspension to cover all self-employed claimants, not just those directly impacted by Covid-19. The Minimum Income Floor is a rule which assumes a self-employed claimant will, after the first 12 months of their claim, earn at least a certain level of income. If they earn below this assumed amount, their UC award is not increased to reflect this. Suspending the floor would mean that claimants would have their monthly earnings based on their actual income (as opposed to their assumed income). I agreed to keep engaging with DWP on this point **[RS/651 – INQ000609246]** and asked HM Treasury officials to continue exploring deliverability with DWP **[RS/650 – INQ000593385]**.

1009. I also agreed to **[RS/651 – INQ000609246]**:

(a) A temporary increase of £20 per week to the UC Standard Allowance;

(b) A temporary increase of £20 per week to WTC.

An increase of £20 meant that self-employed people could access UC at a rate equivalent to SSP for employees [RS/649 – INQ000609247] [RS/652 – INQ000655250].

1010. I publicly announced both the temporary increase to UC, WTC and the extension of Minimum Income Floor suspension on 20 March 2020, as part of a wider package of measures to protect jobs and incomes [RS/653 – INQ000593134]. The increases came into effect on 6 April 2020 and lasted for 12 months, ending in April 2021.

Legacy Benefits

1011. There were also other DWP legacy benefits being provided to existing claimants who might experience a drop in incomes or unemployment. Primarily, income-based Jobseeker's Allowance and Employment and Support Allowance. As with tax credits, these are being replaced with the UC system and so were closed to new claimants (who would apply for UC). It was the case that people who the policy was intended to target may have been in receipt of these benefits instead of UC. However, changes to rates for these benefits could not have been operationalised as quickly as for UC and WTC (not by 6 April), compromising the aim to provide support at speed. As with WTC claimants, those on these legacy benefits could make a claim to UC instead to benefit from the higher payment. The numbers of affected claimants were lower than those on WTC, with around 5 million households receiving UC and WTC in April 2020 and 1.6 million people receiving income-related Employment and Support Allowance and Jobseekers Allowance, and so where they might move into UC to benefit from the uplift this had lower risks to UC volume handling. It was therefore decided not to apply increases to these benefits but instead point these claimants to making a claim to UC instead.

1012. HM Treasury officials had considered the equalities impact of the introduction of the initial UC and WTC uplift in March 2020 [RS/654 – INQ000609182] and concluded that neither had significant equalities impact. I was provided with, and noted, an extensive equalities impact assessment as part of my consideration of the extension of the uplifts in February 2021 [RS/655 – INQ000609180] [RS/656 – INQ000609154] (see further detail at paragraphs 1013 to 1017 below), which included analysis of whether not extending similar additional support to legacy benefit claimants might impact

disproportionately on people with different protected characteristics. It went on to explain that the majority of Employment Support Allowance claimants were not required to carry out any work-related activities, and it was highly unlikely they had seen a drop in income; further, it was not possible at that time to make an uplift to legacy benefits or deliver a one-off payment without serious risk to the delivery of other policies and the stability of the benefit system. The advice also referred to a further mitigation in that “*the gateway which prevented Severe Disability Claimants from moving to UC was removed on the 27th of January 2021.*”

Uplift extension

1013. Throughout December 2020, HM Treasury officials investigated whether the increase to UC and WTC should be extended. In early January 2021, I received a submission setting out HM Treasury’s analysis in advance of a trilateral meeting with the PM and SoS for DWP on 15 January 2021 to discuss poverty strategy [RS/657 – INQ000609580] [RS/658 – INQ000658443]. As part of this meeting, the future approach to UC and WTC was considered in light of the ongoing pandemic. DWP officials provided papers setting out various options for extending support [RS/659 – INQ000658445] [RS/660 – INQ000658446] [RS/661 – INQ000611615] [RS/662 – INQ000658447] [RS/663- INQ000658493] [RS/664 – INQ000658494]. The submission also contained papers provided by DWP officials setting out 10 options actionable by DWP or HMRC to support low-income households for consideration. [RS/665 – INQ000609578].

1014. On 22 January 2021, I met with HM Treasury officials to consider a detailed table of options [RS/666 – INQ000609772]. Following this meeting, I provided a steer that I was minded to approve the option of a six month temporary extension to the UC uplift and a one-off equivalent payment of £500 to WTC recipients [RS/667 – INQ000658451]. This would provide short-term additional support to cover the period while the most disruptive NPIs were still in place and the vaccine was rolled out and aligned with the Government’s wider approach to moving away from Covid support. As WTC is an annualised benefit, it was not possible to increase it for a duration of six months. The one-off payment of £500 represented a similar benefit amount as the six-month UC uplift.

1015. On 18 February 2021, I had a Bilat with the PM [RS/668 – INQ000236598]. As recorded in a briefing note [RS/669 – INQ000609149] prepared for that meeting, the policy rationale for this option remained to provide “*extra support to those on low incomes who have seen their incomes fall as a result of Covid.*” This option provided short-term additional support while the most disruptive NPIs were still in place, while providing the

clearest exit strategy. A one-off payment to WTC claimants would also prevent claimants facing a future cliff-edge “*at a point by which we are likely to be significantly beyond the crisis period*” and the £20 uplift would feel “*less like crisis support and more like business-as-usual.*”

1016. On 17 February 2021, I agreed to proceed with the extension of the UC uplift of £20 per week and WTC one-off payment of £500 [RS/656 – INQ000609154], which was confirmed as the final decision following the Bilat with the PM. A briefing was created as a final decision record which reiterated that the policy rationale for this was to ensure the most vulnerable were supported in the recovery phase by continuing to provide additional support to low income working households most affected by the economic shock [RS/670 – INQ000609178] while Government’s focus shifted to helping people into work to increase their earnings on the basis that the best strategy to combat poverty was a jobs strategy.

1017. On 3 March 2021, I publicly announced the six month UC uplift extension and £500 payment to recipients of WTC in the 2021 Spring Budget [RS/500 – INQ000583757].

Reintroduction of the Minimum Income Floor

1018. One of the measures introduced in March 2020 was the suspension of the Minimum Income Floor (“**the Suspension**”). As set out above (paragraphs 1004 to 1010), it would mean claimants would have their monthly earnings based on their actual income, as opposed to their assumed income. Individuals earning under the Minimum Income Floor would receive higher payments of UC, recognising that this might be a result of a drop in earnings due to the impact of Covid-19 and not as likely to be a sign that their self-employment would not be a route to financial self-sufficiency post-Pandemic. The Suspension also helped to ease administrative pressures on DWP in managing the UC system. DWP were dealing with a significant and unprecedented increase in UC claimants in a short period of time. Having to process the Minimum Income Floor as well would have increased delivery pressures on DWP.

1019. In October 2020, I considered and agreed to advice recommending an extension to the Suspension for self-employed claimants until November 2020 [RS/671 – INQ000609746] and agreed to a subsequent extension to April 2021 the following November [RS/672 – INQ000609535] [RS/673 – INQ000609534]. DWP had originally planned to begin reintroducing the floor from 1 October 2020 but agreed to extend the

Suspension to the end of April 2021 following concerns raised by the PM about the risks of ending the Suspension while extending the SEISS [RS/674 – INQ000609157].

1020. On 12 February 2021, I was sent advice by HM Treasury officials on reintroducing the Minimum Income Floor from May 2021 [RS/675 – INQ000609599]. The note flagged that a decision was needed by 15 February 2021 so that there was time to engage with DWP on the detail of the plans. A readout on 15 February 2021 recorded that I was content to agree with the SoS for DWP’s proposal to reintroduce the Minimum Income Floor and engage further to understand the engagement and presentational plans, which would be led by DWP [RS/676 – INQ000609153].

1021. I received further advice on 24 February 2021 following engagement with DWP on their operational plan [RS/674 - INQ000609157]. HM Treasury officials considered that there were “*significant presentational risks from reintroducing the MIF [Minimum Income Floor] at the same time as extending NPIs and other support schemes*”, although it was judged that these could be “*largely mitigated by DWP’s reintroduction plan and a strong narrative.*” They also noted the possibility that the PM might want to continue with a suspension. As a consequence of the matters raised in this advice, the PM and I decided to continue the Suspension for three months until August 2021 [RS/677 – INQ000658454].

1022. On 18 May 2021, I received a letter from SoS for DWP, noting that DWP had previously been asked to extend the Minimum Income Floor to the end of July 2021 and confirming the department’s intention to reintroduce it from 1 August 2021 [RS/678 – INQ000609630].

1023. On 2 June 2021, I was provided with advice by HM Treasury officials in relation to the logistics of the DWP’s plans [RS/679 – INQ000609634]. On 7 June 2021, the CST and I agreed with the recommendations in this advice [RS/680 – INQ000609633] [RS/681 – INQ000609648], which were to:

- (a) Approve additional Annually Managed Expenditure cover of £27 million for DWP’s reintroduction plan on the condition that DWP engage closely at an official level on handling the planning ahead of reintroduction;
- (b) Agree to the DWP’s proposal to extending the reintroduction period from nine months to 12 months.

End of the uplift

1024. The uplift to UC ended, as planned, on 5 October 2021. This was the default legislative position, and HM Treasury had been clear throughout that the uplift was a temporary measure designed to support those on low incomes impacted by the Pandemic.
1025. In Autumn 2021, one of the Government's priorities was to promote recovery from the Pandemic, as set out in paragraphs 1028 to 1029. This meant pursuing policies and intervention which would support recovery in the labour market with the aim of improving both living standards and economic performance.
1026. For operational reasons, the only way to extend the £20 uplift beyond 5 October 2021 without interruption was to make it permanent **[RS/670 – INQ000609178]**. This was because the temporary extension would have required primary legislation to ensure that the uplift would be able to be disregarded for the purpose of setting UC rates for 2022/23. This is done by SoS for DWP every year in a statutory review; for that financial year, the review had to be completed by the end of November 2021. Using primary legislation for the uplift would cut across its purpose as a temporary measure during an acute crisis and was inconsistent with the Government's assessment that the effects of the Pandemic were easing. I was advised on 21 July on alternative approaches to ending the uplift **[RS/682 – INQ000609183]**; however, tapering the uplift faced the same legislative barriers as a temporary extension, and any options that would significantly mitigate the impact of ending the uplift would incur a cost similar to the £6bn cost of making the uplift permanent. As a result, these were ultimately not followed.
1027. There was careful analysis by HM Treasury officials over summer 2021 of the consequences of not extending the uplift further **[RS/683 – INQ000609177]** **[RS/684 – INQ000609179]**, and the anticipated risks and economic outlook **[RS/685 – INQ000609164]** **[RS/686 – INQ000658458]**. This included consideration of analysis shared by DWP on the potential outcomes for households with the lowest income **[RS/687 – INQ000609167]** and the impact on child poverty **[RS/688 – INQ000609181]**. The main driver of the decision to end the uplift was evidence suggesting that the effects of the Pandemic were easing, and thus economic activity would recover and continue, negating the need to continue the uplift as claimants could return to work.
1028. In Autumn 2021, a priority aim for the Government was to support recovery from the Pandemic and the return of economic activity that had previously been limited by the NPIs. This meant the Government chose to pursue policies that would support recovery in the labour market, with the aim to both improve economic performance and benefit people's living standards. Temporary financial support which had helped mitigate the

effects of unemployment or a fall in hours worked but risked incentivising lower economic activity, such as the CJRS, ended and interventions instead focussed on supporting people into work.

1029. With respect to UC, this shift in objectives was reflected in the withdrawal of the £20 uplift as planned and also two new policies announced at Autumn Budget 2021:

- (a) A reduction of the UC taper rate (the amount of a household's UC that is withdrawn as they increase their incomes through earnings) from 63p to 55p per £1. This allowed working UC claimants to keep more of what they earned, strengthening incentives to move into and progress in work;
- (b) An increase to UC work allowances (the amounts some UC claimants can earn and keep in full before the taper rate is applied to their UC) of £500 a year. Again, this increased the incentive to get a job.

1030. DWP estimated that 1.9 million households on UC would benefit from these changes by an average of £1,000 a year; this was a similar effect to the £20 uplift but now it was targeted towards those in work in line with the Government's policy priorities.

Kickstart, Restart and the Job Entry Targeted Support ("JETS")

1031. On 8 July 2020, I announced 'A Plan for Jobs', which was a package of measures designed to help people back into work and support economic recovery. HM Treasury officials were concerned about the impact of a potential second wave of infections on the labour market, and the risk that being unemployed for a longer or second time would make people more likely to be long term unemployed [RS/689 – INQ000585046] [RS/690 – INQ000609457]. The CJRS was a temporary measure designed to help employers affected by Covid retain their employees. Kickstart, Restart and JETS were designed to help young people at risk of long-term unemployment and medium and long-term unemployed people into work. While the schemes therefore targeted different populations, Kickstart, Restart and JETS were intended to provide broader labour market support once support specifically tailored to address the labour market effects of NPIs had ended.

1032. HM Treasury worked with DWP on developing the policy behind this package and sent me weekly Plan for Jobs updates on implementation throughout Autumn 2020 [RS/691 - INQ000658479]. The Kickstart, Restart and JETS Scheme were the responsibility of

DWP with input, at the design stage, from HM Treasury. I was involved in decision making on policy design alongside SoS for DWP. HM Treasury were particularly involved in the design of Kickstart.

Kickstart Scheme

1033. The Government introduced a £2 billion fund to create high-quality six-month work placements aimed at those aged 16 to 24 on UC and deemed to be at risk of long-term unemployment. This scheme, which was open to applicants between November 2020 and March 2022, provided these young people with fully subsidised jobs to give them experience and skills. The scheme directly paid employers to create new jobs with a minimum of 25 hours per week paid at least the National Minimum Wage for any 16- to 24-year-old at risk of long-term unemployment. Funding was conditional on employers proving these jobs were additional and providing young people on the scheme with training and support to find a permanent job, and the grant paid to employers covered start-up costs, employability support, and the cost of wages and overheads for six months.

1034. DWP published a process evaluation of Kickstart in 2021 **[RS/692 – INQ000656079]**. This found that 70% of young people were satisfied with their Kickstart job seven months on from starting and two-thirds were still in employment, education or training. This figure rose to three-quarters of young people being in employment, education or training after 10 months.

1035. DWP published a further quantitative impact assessment in October 2024 looking at labour market outcomes for individuals who participated in Kickstart from March 2021 to January 2022 **[RS/693 – INQ000650395]**:

- (a) For every 100 people who participated in Kickstart, an additional 11 of those were in unsubsidised employment at two years compared to a similar group of people who did not participate in Kickstart;
- (b) An additional three people were not on UC at the two year point compared to a similar group of non-participants;
- (c) Kickstart had a positive impact on all subgroups examined in this report and appeared to have a greater impact for those who have less success in the wider labour market, creating a levelling up effect.

1036. This impact was consistent from eight months after the intervention started and persisted up to two years. There was no evidence to suggest that this impact diminished beyond this point.

Scheme design

1037. The Kickstart Scheme was intended to prevent long term economic scarring; young people are usually amongst the worst hit by financial crises, and unemployment can have longstanding implications for their future jobs and wages. Given the extremely difficult job market that Covid-19 created for young people leaving education, Kickstart was intended to address these issues. It was announced in the Plan for Jobs speech in July 2020 and opened to employer applications on 2 September 2020.

1038. I received initial advice from HM Treasury officials on 1 July 2020 [**RS/694 – INQ000658501**] proposing a scheme that built on what had been learnt in similar previous interventions. I had requested advice on this at a meeting with HMT officials on the 29 June 2020 [**RS/695 – INQ000658418**]. This included the Future Jobs Fund (“FJF”) which formed part of the ‘Young Person’s Guarantee’ (2008), as well as ‘Get Britain Working’ (2011) and the ‘Youth Obligation’ (2015). While the FJF had a high unit cost for a labour market intervention (at around £6,850), an evaluation published after its closure suggested that it had positive impacts which provided a good evidence base for Kickstart. FJF had a net cost to the Government of £3,100 per participant, but participants received a benefit of £4,000, and wider society £7,750 per person. Over the 18 months following placements, participants were on average 10% more likely to be in unsubsidised employment than a comparable group of non-participants, and 7% less likely to be in receipt of benefits.

1039. The package proposed for Kickstart built on what HM Treasury had learnt from FJF while diverging in a number of ways including:

- (a) Trying to increase private sector engagement by amending some of the FJF messaging;
- (b) Making placements available to more people (both through scale and increased flexibility of eligibility criteria);
- (c) Increasing end-to-end support for participants through UC.

1040. The initial advice proposed funding of £2 billion for Kickstart, which I agreed to. With the proposed subsidy rate, this would fund around 265,000 to 360,000 placements,

depending on the ages of eventual participants. The proposed funding envelope acted as a de-facto cap on the number of placements under the scheme.

1041. On 31 July 2020, I received a further submission from HM Treasury officials [**RS/696 – INQ000658499**] contained proposed eligibility criteria. This also addressed concerns about proving the additionality of jobs and recommended that I agreed to DWP's proposal to assess additionality using a list of questions about the role and recent hiring/firing.

1042. The potential for future national and regional lockdowns was considered when designing the coverage of the Kickstart scheme, and at various points throughout the delivery of the scheme. On 10 August 2020 [**RS/697 – INQ000658475**], I received advice from HM Treasury officials ahead of a meeting with the SoS for DWP the next day. This mentioned that DWP were creating a strategy to ensure that Kickstart could adapt to unpredictable local and national economic situations, including lockdowns.

1043. The Kickstart Scheme opened to employers on 2 September 2020, and then to young people in November 2020.

1044. In the initial advice of July 2020 [**RS/694 – INQ000658501**], HM Treasury officials had warned me that young people were more likely to lose their job as a result of the Pandemic (as they were 2.5 times more likely to work in affected sectors) and would subsequently lack the experience that many employers look for when hiring new people. Officials advised that young people who were out of work for six months were more likely to be 'not in employment, education or training' long-term, causing economic scarring.

1045. Due to the time urgency, DWP implemented Kickstart as a 'minimum viable product' to ensure that jobs were ready to start by November 2020. I was advised by HM Treasury officials in August 2020 that while DWP currently assumed they would be able to deliver the Kickstart Scheme on schedule, they had created a contingency plan to ensure they would be able to create a smaller number of placements by November if necessary [**RS/697 – INQ000658475**]. By 26 October 2020, HM Treasury officials were advised that DWP had already started to introduce young people to Kickstart employers and would be able to place young people in roles immediately upon HM Treasury approval of the full business case [**RS/698 – INQ000658482**]. In order to ensure that as many vacancies as possible were available before the scheme opened to young people in November 2020, grant assessment staff worked over the weekend and DWP temporarily increased the frequency of their bid assessment boards to daily [**RS/699 – INQ000658428**]. In my

view, the agility of this 'test and learn' approach was needed; the timescale was driven by the need to safeguard jobs as NPIs were lifted, and this outweighed the risk of potential external criticism.

1046. Once opened, bottlenecks emerged in the scheme at various points **[RS/700 – INQ000658502]** **[RS/701 – INQ000658461]**. These were addressed, with DWP dedicating extra resource to ensure improvements were made to address the causes. In September 2020, DWP made improvements to the front-end application portal to improve the user experience. In October to December 2020, there were delays in sending out grant agreements, which were tackled with digital solutions and extra resource which reduced the time taken to issue grant agreements from 84 days to eight days

1047. Following the extension of CJRS to March 2021, HM Treasury officials flagged potential interactions between Kickstart and CJRS in a December 2020 submission **[RS/700 – INQ000658502]**. As very few Kickstart participants were in post prior to 31 October 2020, the majority of Kickstart participants were not eligible for furlough. HM Treasury officials continued to monitor for potential interactions with CJRS, and explored options to ensure a young person would not be left without a placement for an extended period of time. In June 2021, HM Treasury officials noted DWP forecasts that the end of furlough may lead to a second peak of UC claims from 16 – 24 year olds **[RS/701 – INQ000658461]**.

1048. In June 2021, I requested advice **[RS/701 – INQ000658461]** on the pathway to hitting 250,000 starts on Kickstart starts. At the time, there had been 31,000 starts, although 138,000 jobs had been uploaded to the work coach referral platform. DWP held a target of 250,000 starts by the end of 2021, and HM Treasury estimated that, on trends in June 2021, they were likely to hit around 110,000 – 120,000 starts. Following the announcement of the Roadmap out of lockdown in March 2021, DWP had revised their trajectory for reaching this target **[RS/702 – INQ000658464]**. Advice from HM Treasury officials in June 2021 suggested that these figures may improve as the economy re-opened but noted that some evidence suggested employers were slowing or reducing their Kickstart hiring plans, and that there may have been some level of mismatch between employers and young people. The advice noted options to increase starts and suggested further exploration of these options with DWP.

1049. Further advice in July 2021 **[RS/703 – INQ000658500]** also proposed measures to address these issues, including encouraging DWP to trial improved targeting and reduce employer discretion in filling roles.

1050. In early September 2021, a decision was taken to extend Kickstart from the assumed end date of 31 December 2021 to 31 March 2022, as part of a broader packed of Plan for Jobs announcements [RS/704 – INQ000658488]. Officials also advised announcing a closing date for employer applications to ensure clarity to employers. I received further advice on closing the scheme to new applications on 28 September, with HM Treasury officials recommending closing the scheme to new applications on 17 December 2021 [RS/705 – INQ000658471]. The advice set out that SoS DWP had concerns around leaving roles unfilled at the end of the scheme and therefore had a preference to close the scheme to new applications at the end of October 2021. HM Treasury officials advised that closing the scheme five months early would likely constraint the volume of starts, and that Kickstart may instead prematurely run out of roles in areas with fewer approved vacancies. DWP's forecasting set out that closing the scheme at the end of October would result in 10,000 fewer starts by the end of March 2022 than if applications closed at the end of the year. HM Treasury officials therefore recommended closing the scheme to new application from 17 December 2021. I agreed with this recommendation [RS/706 – INQ000658467].

1051. My Private Office notified SoS DWP's Private Office of the decision on 3 October [RS/707 – INQ000658468]. A meeting was then held on 11 October 2021 where the SoS DWP and I reached agreement on the extension of employer applications to December 2021 [RS/708 – INQ000658469].

1052. The Kickstart Scheme closed in March 2022, with 163,000 placements started.

Restart Scheme

1053. The Restart Scheme was a £2.9 billion fund launched in the summer of 2021 to provide intensive and tailored support to over 1 million long-term unemployed people in England and Wales to help them find work. It was announced in the November 2020 Spending Review, following the announcement for large-scale support or long-term unemployed people in the July 2020 Plan for Jobs. It helped those specifically at risk from long-term unemployment having spent over 12 months on UC Intensive Work Search. It went live on 28 June 2021, with the first referrals to providers from 12 July 2021 [RS/709 – INQ000658465].

1054. DWP were funded £391 million in the 2021/22 financial year to deliver the Restart programme [RS/710 – INQ000658483]. HMT approved DWP's outline business case in

December 2020 with conditions [RS/711 – INQ000658486], and the full business case in April 2021 with conditions [RS/711 – INQ000658486].

Job Entry Targeted Support Scheme

1055. The JETS provided over £200 million to expand the scope of the Work and Health Programme in Great Britain to introduce additional voluntary support for those unemployed for over three months. The scheme offered six months of employment support services to claimants who were judged to be capable of moving relatively quickly into work. JETS was part of the July 2020 Plan for Jobs, and was launched in October 2020 in England and Wales, and January 2021 in Scotland; by June 2021, it had already helped support over 138,000 people.

Part L: Data and Modelling

1056. There was an extraordinarily high degree of uncertainty in all economic analysis conducted during the Pandemic – whether by HM Treasury, elsewhere in Government, or externally. There was limited historical precedent to draw on to assess the economic impacts of NPIs. The impacts of the NPIs changed over time and were dependent on the path of Covid-19, and how individuals and businesses adapted to the NPIs. In this respect, and due to the unique nature of the virus at hand, there was never going to be a perfect data infrastructure upon which to begin basing decisions relating to the Government's economic response to the Pandemic.

1057. Given this high level of uncertainty, HM Treasury did however step up and utilise a wide range of analytical techniques and data sources to try to understand the economic impact of the virus and support the development and calibration of health restrictions. This included making the best use of existing data from both internal and external sources, as well as working to develop new or improved sources of data.

1058. Throughout the Pandemic, HM Treasury monitored and considered the public health picture and advice, and how these interacted with decisions over the economy. The department did this in a range of ways, including building capability to model interrelated epidemiological and economic impacts (known as epi-macro modelling), and exploring the health implications in advice to ministers. To support its understanding of the economic impact of the Pandemic and restrictions, the department consulted experts to incorporate the latest research and methodologies; for instance, building on the OBR

scenario analysis to gain an understanding of how different restrictions might affect headline macroeconomic variables and the fiscal position.

1059. Monitoring official statistics is typically the best way to understand the economy as they provide quality assured data of a high standard. HM Treasury relies on a wide range of data sources for the purposes of monitoring and analysing the outlook for the UK economy. The data used by HM Treasury is largely derived from the ONS and BoE but is complemented by other sources of survey data where necessary. HM Treasury has long been an important user of ONS statistics and has maintained a close stakeholder relationship with them.

1060. Given the speed of change during the Pandemic, the Government response, and the attendant often significant economic impacts of both, official statistics could not always be produced in the time required to inform decisions. This necessitated departments across Whitehall, including HM Treasury, to seek new sources of higher frequency data (for example, card spending data) and to widen the scope of existing data observed from both internal and external sources. For example, HM Treasury utilised data that had not previously been used to consider economic impacts, such as DfT transport data to understand levels of mobility, and DfE education data to ascertain levels of school attendance. HM Treasury also used public source data, such as mobility data from Google on transport usage.

1061. HM Treasury officials are experts in their field and use their professional judgement to assess incoming data to best communicate their implications. As part of this, officials analyse the impact that these trends could have and their interactions with policy decisions. Even outside of the Pandemic, this often involves analysing a significant amount of data, while operating under high levels of uncertainty. The department's collective analytical understanding was then brought together in regular conjunctural assessments for myself, as Chancellor, and the EMB on the state of the economy. These assessments elaborate on data releases by including HM Treasury analysis and interpretation of the data. Similar assessments are provided to the PM, but less frequently [RS/712 - INQ000236530].

1062. 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 10 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.
- (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 (for example, via the CO 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 RTI was pivotal to the government's ability to operationalise CJRS. Similarly, information from DWP on applications for UC was an important indicator.

Limitations and challenges of data and economic modelling available

1063. 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 risks of fraud and abuse (for example., by allowing self-certification by businesses or individuals which could not be verified against data already held on Government systems).

1064. Under normal circumstances, and as discussed above, 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.

1065. The usefulness of the UK's data infrastructure increased over time. For example, once we had entered into the first lockdown, we were able to record and analyse the impact of the relevant measures taken and therefore begin to more accurately forecast for future scenarios. Up until that point, impacts had not been modelled with any real precision so it was difficult to be as accurate as we would have liked about possible impacts. As time passed and our data source broadened and became more reliable, so too did our modelling capabilities.

1066. 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 **[RS/713 - INQ000184619] [RS/714 - INQ000184624] [RS/715 - INQ000184627] [RS/716 - 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.

1067. To address data gaps during the Pandemic, HM Treasury collaborated with the ONS and BoE to develop new data sources and faster indicators **[RS/717 - 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.

Reflections

1068. HM Treasury had considerable resource in terms of its modelling capacity and ability to adapt this to real-time decision-making processes.

1069. To understand the near-term outlook for economic growth HM Treasury officials routinely used its 'Nowcasting' framework – similar to the BoE's methodology **[RS/718 – 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.
1070. 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 **[RS/719 - INQ000184562]**. This body of analysis supported briefing products and was incorporated into speaking notes for ministers **[RS/040 - INQ000184563]**.
1071. HM Treasury'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.
1072. 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 National Institute Global Economic Model ("NiGEM") **[RS/720 – INQ000609883]**. This was used to study voluntary social distancing. The modelling showed health and economic outcomes' sensitivity to factors like social distancing and NPI compliance, guiding policy focus.

External economic expertise

1073. HM Treasury collaborated extensively with other departments to share, better understand and utilise Government expertise and data. 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 [RS/721 - 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 HM Treasury.

1074. HM Treasury officials did use the information shared at scientific committees and cross-Government analytical groups to inform briefings or advice for myself 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, I received a briefing from HM Treasury officials which included an assessment of the latest SAGE advice and briefing on prior SAGE modelling and the latest data [RS/722 - INQ000088057] [RS/723 - INQ000088056].

1075. Throughout the Pandemic, I also had regular contact with key economic experts within the public sector, especially the Governor of the BoE (Andrew Bailey) and the Chair of the OBR (Robert Chote and later Richard Hughes) as well as Finance ministers from around the world. I also spoke to a range of external economists from academic and financial market institutions as the need arose and HM Treasury officials engaged with a range of external economists with diverse expertise throughout the Pandemic.

1076. 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 a more structured approach to external engagement could have been advantageous.

1077. While economic interventions during the Pandemic were developed at pace, understanding the views of recipients or the views of key stakeholders involved in delivery (for example, 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. In relation to its economic interventions, HM Treasury engaged with business representative bodies such as the CBI and FSB, as well as with the TUC, and even directly with businesses. In some cases, engagement constituted checking guidance in draft before publication.

The Permanent Secretary and other members of EMB also held regular breakfasts with a rotating set of business leaders to hear their priorities and concerns directly.

1078. In developing analysis, HM Treasury also engaged with work undertaken by think tanks and academics including the Resolution Foundation and IFS, for example holding discussions with the IFS on the inequality impacts of Covid, in relation to age, income and ethnic disparities **[RS/005 - INQ000236568] [RS/006 - INQ000236571]**.

1079. 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. 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. Whilst the readouts would not have been shared directly with me, seniors, including the Chief Economic Adviser, would have been sighted and this would have helped in their development of policy analysis.

The role of the Chancellor

1080. As is the approach generally across Government, decisions on what information and analysis was shared outside the department were based on steers from ministers, including myself as Chancellor. However, given the unprecedented circumstances, and the demands on the department, HM Treasury officials increased the sharing of analysis and were central in helping other departments understand the economic outlook and the economic impact of Government policies. For instance, the department routinely shared an economic monitor with all Government departments each week and contributed heavily to a number of cross-Government reviews.

1081. The level of engagement outside the department during the Pandemic was certainly above that which HM Treasury had typically undertaken prior to this period.

1082. From the onset of the Pandemic, HM Treasury fed analysis directly into meetings set up through the CO's COBR structure. HM Treasury also provided the economic analysis underpinning, and included in, the May 2020 and February 2021 Roadmaps **[RS/724 - INQ000181691] [RS/114 - INQ000089798]**, the November 2020 Covid-19 Winter Plan **[RS/726 - INQ000114433]**, and the Autumn and Winter Plan 2021 **[RS/727 - INQ000137065]**. By early June 2020, the Taskforce had been established, having grown out of the initial CO co-ordination function, which allowed for more formalised sharing of analysis. 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.

1083. 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.

Working with other departments

1084. HM Treasury regularly and openly shared economic analysis and data with the CO, for example:

- (a) Papers circulated prior to a COBR meeting on 12 March 2020 include a section on 'Economic Impacts', which the CO directly commissioned HM Treasury to provide **[RS/041 – INQ000056209]**;
- (b) In papers circulated ahead of a PM strategy meeting on 15 March 2020, HM Treasury's analysis of compensation covers in relation to insurance claims following the banning of mass gatherings is explained **[RS/728 – INQ000106212]**;
- (c) HM Treasury analysis on the economic impacts of NPIs was provided to the CO and incorporated into a slide summary deck circulated ahead of the ministerial Social Distancing Review meeting on 15 April 2020 **[RS/102 – INQ000232115]**.

1085. HM Treasury analysis was also shared with the CO and the PM throughout the Pandemic to inform decision-making and support policy formulation, for example:

- (a) HM Treasury shared weekly monitoring products, such as the Macroeconomic Monitor Report, which assessed and synthesised available economic forecasts **[RS/729 – INQ000236535]**;
- (b) HM Treasury and the CO jointly ran the PM's regular economy update meetings, which included collaborating on dashboards, providing a clear picture of the impact of the virus and the measures being used on the economy to manage it **[RS/730 – INQ000184635]**;

- (c) On 14 February 2020, HM Treasury shared advice on the likely economic and financial impacts of the Pandemic, which noted a high degree of uncertainty over the spread of Covid-19, making economic predictions extremely uncertain **[RS/731 – INQ000088044]**;
- (d) In March 2020 HM Treasury fed into a paper shared with the CO on the potential societal impact of NPIs, which was used for decision-making ahead of the first lockdown. The paper notes the potential business, and workforce impacts of key NPIs, including the closure of schools, the banning of large events, and differing approaches to self-isolation **[RS/096 – INQ000088046]**;
- (e) After the 10 May 2020 announcement of a phased plan for lifting lockdown restrictions, HM Treasury officials contributed to CO advice for the PM on the reopening of non-essential retail, which focused on how and when to open retail outlets, as part of Step 2 in the phased reopening of non-essential retail **[RS/732 – INQ000184571]**.

Publishing analysis

1086. 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. The department did step up the sharing of analysis and was central in developing economic understanding with other departments and more widely.
1087. HM Treasury published analysis during the Pandemic, for example, as part of the May 2020 and February 2021 Roadmaps **[RS/724 - INQ000181691] [RS/114 - INQ000089798]**, the November 2020 Covid-19 Winter Plan, **[RS/726 - INQ000114433]** and the Autumn and Winter Plan 2021 **[RS/727 - INQ000137065]**. In addition, it contributed to the publicly available Social Distancing Review **[RS/733 - INQ000182182]** and other reviews on Global Travel, Covid-Status Certification and Mass Events, as referenced above.
1088. As per usual practice, all fiscal decisions taken by HM Treasury were also 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 Spending Review 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.

1089. Moreover, HM Treasury published distributional analysis [RS/734 – INQ000658492] 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 [RS/611 – INQ000609890] summarising the impact to date of Government support packages against the impact of earnings and job losses.

1090. It is worth noting that the sensitivities around HM Treasury data and projections limit the extent to which they can be freely shared. Publishing downside risks to the economy could, for example, have been self-fulfilling by creating instability in financial markets and having the effect of reducing jobs and investment. Whilst HM Treasury analysis on the economic and social impacts of NPIs was published in several major Government publications during the Pandemic, HM Treasury did not publish minutes of active discussions in the same way as SAGE due to the potential risk of creating market instability. The unique market sensitivity of HM Treasury's role therefore factored into the extent to which it could publish information in real-time and created limits not otherwise felt by the likes of SAGE.

1091. There is of course a legitimate debate to be had about ways in which more detailed and timely underpinning analysis could be shared in a way that does not jeopardise economic stability 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 would provide a more granular account of the analysis produced.

Part M: Devolved Administrations

How central government funding for DAs works

1092. The UK Government provides most of the DAs' funding but generally has no role in deciding how funding is allocated nor in assessing or assuring value for money of DA spending.

1093. The quantum of funding provided to the DAs from UK Government (above funding generated by each DA in its own area) is mostly formula-based. Specifically, changes in funding provided to the DAs are largely determined through 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/or Northern Ireland are added to existing DA funding. For example, additional spending on health in England automatically leads to additional funding for the DAs through the Barnett formula. Barnett-based funding is adjusted for tax/welfare devolution (through agreed formulae) and there are a small number of non-Barnett uplifts (the main one being replacement EU funding for farmers). Alongside this, the DAs have their own agreed tax and borrowing powers.

1094. During the Pandemic, funding for the DAs was ultimately determined through the Barnett formula. However, as discussed in more detail below, the Government decided to provide an unprecedented upfront funding guarantee in July 2020 for the fiscal year 2020/21. This is one example of a decision that was made in direct response to DA concerns and provided a means of expediting their ability to make effective decisions during the Pandemic, when speed was essential.

HM Treasury's role

1095. HM Treasury's main engagement with the DAs was in relation to funding and led by the CST through the Finance Ministers' Quadrilateral meetings as well as Bilats between other 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.

1096. 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.

1097. 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.

1098. The 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. As this was the remit of the CST, as Chancellor, I would not normally engage with these meetings. I would however have oversight of decisions made in relation to DA funding through regular ministerial engagement with the CST and other HM Treasury ministers.

1099. 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.

1100. All decisions taken in my role as Chancellor which are subject to advice from HM Treasury officials will have taken into consideration the implications or relevance of issues for DAs where there were any, and these issues were regularly factored into the department's decision-making processes. In this respect there was close collaboration between myself and the CST on DA issues, for example, in the lead up to significant announcements relating to Covid support and the Budget.

Effectiveness of intergovernmental working

1101. Engagement by HM Treasury was mostly undertaken by the HM Treasury Devolution team. Engagement with the devolved governments also occurred at more senior levels in particular led by the Director of Public Services, and the Director General of Public Spending. 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 myself and other ministers fully understood the concerns of the devolved governments and the implications for their funding arrangements. It also 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 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.

1102. 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.

1103. 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.

1104. 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 consequential 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.

1105. As detailed above, funding for the DAs was determined during the Pandemic through the Barnett formula. However, the DAs had requested additional flexibility to manage the lack of Barnett certainty which they argued constrained their Covid response. DAs had to wait for UK Government to announce Covid-19 interventions (and decide how much was new funding) before receiving Barnett allocations. The DAs argued that this restricted their ability to respond quickly and meant they were making decisions without knowing how much Barnett-based funding will ultimately materialise. However, the DAs had requested additional flexibility to manage the lack of Barnett certainty which they argued constrained their Covid response. DAs had to wait for UK Government to announce Covid-19 interventions (and decide how much was new funding) before receiving Barnett allocations. The DAs argued that this restricted their ability to respond quickly and meant they were making decisions without knowing how much Barnett-based funding will ultimately materialise.

1106. In response, the Government decided to provide an unprecedented upfront funding guarantee in July 2020 for the fiscal year 2020/21. *"The guarantee provides the devolved administrations with increased funding certainty, enabling them to decide how and when to provide support, rather than loans or receiving Barnett consequential in the*

traditional way. It allows the Devolved Administrations to spend additional funding without having to wait for it to be spent in England first” [RS/735 - INQ000236870].

1107. The Barnett guarantee sets out how much additional funding the UK Government will provide to each of the devolved administrations to address the pressures of the Pandemic in 2020/21. The UK Government initially announced a guarantee of an additional £12.7 billion in funding for the DAs on 24 July 2020, and this guarantee was subsequently uplifted three times, to the following:

- (a) £14 billion on 9 October 2020;
- (b) £16 billion on 5 November 2020;
- (c) £16.8 billion on 24 December 2020.

1108. This meant that the DAs received the following additional upfront spending, as at 8 January 2021 [RS/735 - INQ000236870]:

- (a) £8.6 billion for Scotland;
- (b) £5.2 billion for Wales;
- (c) £3 billion for Northern Ireland.

1109. Additional instances of positive collaboration include the introduction of a temporary zero rate on PPE which involved consultation with the devolved governments, as 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.

1110. Further collaboration resulted in the exemption of Covid Test and Trace Support payments from NICs. 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.

Notice given

1111. The devolved governments were provided with advanced estimates of Barnett consequential 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 WTC uplift.

1112. Given the sensitivity of information pertaining to the implementation of financial support schemes and the speed at which they had to be introduced, it is my recollection that the DAs received as sufficient notice as was possible at the time and this was always a priority for HM Treasury.

Personal involvement with DAs

1113. The then-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.

1114. I can recall engagement between Government and the DAs that occurred during the initial stages of the Pandemic response (and at other points throughout) in the context of CO and COBR meetings at which I was present, together with senior ministers, advisors and representatives from the DAs. For example:

- (a) Representatives from the DAs attended a COBR meeting on 5 February 2020 at which the DAs were asked to finalise policy inputs into the proposed legislative instrument and were invited to an upcoming ministerial exercise **[RS/018 - INQ000056215]**;
- (b) The First Ministers, Health Ministers and CMOs for the DAs (plus the Deputy First Minister for Northern Ireland) attended a COBR meeting on 2 March 2020 where they were thanked for their work drafting the response plans, and at which the DAs said they were content with the engagement with their Local Resilience Forum equivalents **[RS/025 - INQ000056217]**;

- (c) The First Ministers, Health Ministers and CMOs for the DAs (plus the Deputy First Minister for Northern Ireland) attended COBR meeting on 16 March 2020 at which DHSC and DoE were asked to explore work with the DAs on “what measures could be taken in educational settings short of closure to reassure and align with wider measures” [RS/051 – INQ000056210]. The Covid-19 ‘Comms Hub’ were also asked to share the content of the advertising campaign with the DAs;
- (d) The CMOs and other officials from the DAs attended the COBR meeting on 18 March 2020, at which the PM “welcomed attendees and the DAs and reiterated the importance of working together, across the Four Nations, to agree an approach to potential school closures” [RS/054 - INQ000056211]. At this meeting, DfE was tasked with working with the DAs to consider arrangements and communications for schools and universities;
- (e) The First Ministers for Wales and Scotland and the Deputy First Minister for Northern Ireland attended a COBR meeting of 16 April 2020 at which the FSS set out that “there would continue to be a Four Nations approach to the social distancing measures” until the SAGE review later in the month. He went on to say that a “shared position needed to be reached on the use of face coverings outside of care settings” [RS/736 - INQ000083827];
- (f) The First Ministers for the DAs (plus the Deputy First Minister for Northern Ireland) attended a COBR meeting on 22 September 2020 where the package of national restrictions was discussed. During this meeting the First Ministers’ each provided their reflections on the measures [RS/737 - INQ000083849];
- (g) The First Ministers for the DAs (plus the Deputy First Minister for Northern Ireland) all attended the COBR meeting on 12 October 2020 where the tiering system of local alert levels was discussed and inputted into discussions ahead of significant announcements [RS/738 - INQ000083851].

Covid Directors Forum

1115. I was not a participant in the Covid Directors Forum and have no insight to provide the inquiry in relation to its constitution or operation.

Information sharing with DAs

1116. Transparency and maintaining good relationships were critical to how HM Treasury worked with the devolved governments. The department had 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).

1117. 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 sought to engage with devolved governments where feasible. The day after announcement of the EOTHO scheme, HM Treasury officials held discussions with the devolved governments on 9 July 2020 to inform them about the scheme, and no significant concerns were raised [RS/739 – INQ00088086] [RS/740 – INQ000658419]. The devolved governments did not request that the scheme be withheld from businesses in Scotland, Wales, or Northern Ireland. Indeed, the DAs noted that EOTHO “*had been welcomed by their Ministers and stakeholders*” [RS/740 - INQ000658419]. No concerns were raised about the EOTHO 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.

1118. As outlined above HM Treasury officials met with the devolved governments periodically to discuss and update their counterparts on other schemes such as CJRS and SEISS [RS/740 - INQ000658419].

1119. 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 to 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.

Requests for Barnett Guarantee to continue in 2021/22 financial year

1120. As explained above at paragraphs 1103 to 1106, 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 consequential 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.

1121. In 2020/21, the devolved governments were provided with an in-year funding guarantee, meaning that they 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 Spending Review settlements with the Barnett formula applied for devolved governments and so, as explained below at paragraph 1122, a further funding guarantee was not required **[RS/741 – INQ000610861] [RS/742 – INQ000609643] [RS/743 – INQ000609777]**.

1122. Before the decision was made to introduce the guarantee, a range of options were sent in advice to CST, 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, CST 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 **[RS/744 – INQ000609431]**.

1123. 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 **[RS/745 – INQ000609868]**.

1124. The Barnett guarantee was deemed no longer necessary in 2021/22. Covid funding had been factored into departmental settlements at Spending Review 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 consequentialia for the devolved governments. CST wrote to the DA's explaining the decision and noting it would be kept under review on 16 June 2021 [RS/746 – INQ000658487]. The letter to Scotland noted the settlement for 2021/22 provided £129 per person for every £100 spent in England. The CST later continued the discussions with the DA's at the October 2021 Finance Ministers Quadrilateral meeting and was able to explain the decisions behind not extending the Barnett Guarantee [RS/743]- INQ000609777].

1125. It is my opinion that our approach was proportionate in 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.

JSS Timing

1126. During the autumn of 2020, there was engagement between HM Treasury and the devolved governments at ministerial level [RS/747 - INQ000609738] [RS/748 – INQ000614188], with several letters exchanged between Mr Drakeford and myself on the subject of the Wales-wide “circuit-breaker”, as well as channels of communication at official level [RS/749 - INQ000216553] [RS/750 - INQ000216554] [RS/218 - 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. I was not in attendance at these meetings, nor would it be expected that as Chancellor I would be sent readouts. 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.

1127. Despite official and ministerial level interactions between HM Treasury and the Welsh Government, 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.

1128. I responded to concerns held by the Minister for Finance in Northern Ireland, Conor Murphy, which had been communicated to me in a letter dated 18 October 2020. In my letter of response, I explained that extending the CJRS cut-off date beyond 20 March to those recently employed in businesses would significantly increase the risk of abuse because claims could not be confidently verified against the risk of fraud using the data after this point, when the scheme became public.

1129. I reiterated that CJRS was just one element of a comprehensive package of support for businesses, including those impacted by current regulations coming into force, which Mr Murphy expressed concern for. We were unable to bring the claims date for the expansion to the Jobs Support Scheme forward from 1 November to 16 October as was suggested in Mr Murphy's letter due to the limitations in HMRC delivery timelines **[RS/751 – INQ000658481]**.

1130. It is worth noting that the decision to close the scheme when we did, did not result in heightened levels of unemployment, as suggested might be the case – indeed the unemployment rate remained low, and I recall actually fell in early 2022.

CJRS and Omicron

1131. I have set out the advice I received from HM Treasury officials concerning whether to reintroduce CJRS in response to the Omicron variant of Covid-19 at paragraphs 381 to 384. Whilst recognising that uncertainty remained high given the response to the Omicron Covid-19 variant, it was determined that the DAs 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.

1132. 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 Spending Review 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 [RS/752 – 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 [RS/743 – INQ000609777].
1133. The emergence of Omicron 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. Because the variant did not seriously restrict most people's ability to work, an extension of the CJRS was not considered necessary.
1134. However, HM Treasury recognised the risk of significant economic disruption due to falling consumer demand, such as in the hospitality sector, alongside increased workforce absences due to rising case numbers. To mitigate these risks, I announced a targeted £1 billion package on 21 December 2021 to provide financial support to businesses most affected by Omicron [RS/754 – INQ000658670]. This included business grants, the reintroduction of the SSPRS for small and medium-sized employers, and additional funding for local authorities ("LAs") to provide discretionary support.
1135. 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.

1136. 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. For example, even as GDP fell during this period, unemployment did not rise. The concerns levied by the devolved administrations, whilst understandable, had to be balanced and HM Treasury took into consideration the likely impact of winding down support measures on unemployment rates as well as on potential economic scarring. Overall, there was no meaningful impact on unemployment as a result of the decision to bring CJRS to a close when it was.

DA influence on decision-making

1137. As discussed above, the CST, as minister responsible for public spending and the devolved governments is HM Treasury's traditional lead on engagement with the devolved governments.

1138. Across the Pandemic period there was however continued communication between the DAs and HM Treasury ministers in the form of correspondence. For example, in October 2020, I responded to a letter from 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 £6.5 billion to £7.2 billion **[RS/755 – INQ000609757]**. On 9 October 2020 I also held a call with Kate Forbes, Michelle O'Neill, Arlene Foster, Mark Drakeford ahead of further announcements on Covid support **[RS/756 – INQ000656267]**.

1139. HM Treasury engaged extensively 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. 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*."

1140. As discussed above, during the autumn of 2020, I exchanged several letters with Mr Drakeford in relation to a Wales-wide "circuit-breaker" and discussions were held at ministerial level to consider the concerns of the Welsh Government. Whilst these concerns were taken into account, it was not possible on this occasion to meet the Welsh Government's requests for operational reasons.

1141. HM Treasury officials often engaged with the devolved administrations to ascertain their views on operation constraints in relation to financial support measures. Communications with the Welsh Treasury (as discussed above) around the topic of JSS also included a ministerial meeting on the day of the scheme's announcement.

1142. Additionally, I would receive advice from HM Treasury officials ahead of Union Summits and meetings with the CDL where DA issues would be discussed, for example in January 2021 [RS/757 – INQ000658448]. I also commissioned a brief ahead of attending the Union Summit on 03 June 2021 in which the PM, CDL and DA First Ministers were in attendance [RS/758 – INQ000658459]. Following the results of DA legislature elections, the Prime Minister invited DA First Ministers to this summit on Covid-19 recovery, and I presented an update on the state of the economy and public finances.

Part N: Local Government

1143. The Inquiry has asked me to address a number of questions about funding for LAs during the Pandemic. The extent of HM Treasury's involvement was primarily liaising with Government departments (mainly MHCLG) on funding issues for LAs as well as on England wide economic interventions that were delivered through LAs . I am only able to give the Inquiry very limited assistance on this as these matters were not the primary responsibility of the Chancellor or HM Treasury and I do not recall having significant direct engagement with individual LAs.

1144. Negotiations regarding local lockdowns and tiering were led by the CO Covid Taskforce, while Government departments conducted their own engagement on policies they owned as necessary with LAs. For example, MHCLG on shielding support, and DHSC on the Contain Outbreak Management Fund ("COMF"). HM Treasury's role was not to design and deliver these interventions, but to agree whether and to what extent they could be funded in light of proposals, evidence and financial rules.

1145. Engagement between Government departments in the context of providing support for LAs can also be shown with reference to the minutes of a COBR meeting of 16 March 2020, where the SoS for MHCLG *"said they had liaised with 300 local councils in England on plans to only deliver core services (social care, services to support the vulnerable, and delivering budget measures for the local level, including operating the hardship fund for those in need). That the NHS was a key aspect of every Local*

Resilience Forum and the Ministry for Housing, Communities and Local Government were working with local councils to ensure a coherent chain of command. The Ministry for Housing, Communities and Local Government had also been working with the Department for Media, Culture and Sport and the Department for the Environment, Food and Rural Affairs on food supply issues, especially for the vulnerable and were encouraging all local councils to set up a local hub to provide basic care in a specific set of circumstances. That rough sleepers were a key issue: 65 per cent have respiratory issues. Public Health England had issued guidance on how to handle the situation. Plans would be released the next day giving councils additional funding to put the most vulnerable into suitable accommodation" [RS/051 - INQ000056210].

1146. As the Pandemic developed, greater powers were vested with LAs to enable them to impose measures to control the spread of the virus. I attended a Covid(O) meeting 29 June 2020 to discuss the outbreak in Leicester. As far as I am aware, engagement in terms of formulating a response to this outbreak was led by DHSC, the Covid Taskforce and MHCLG. At this meeting the SoS DHSC said that there "*needed to be a published process for local action on outbreaks*" and noted that "*there were already powers set out in primary legislation that had allowed the government to put in place the national lockdown [and that] The best way to secure the changes in regulations for Leicester legally was using the upcoming Statutory Instrument.*" He went on to say that "*Further legislation would be prepared to ensure that local lockdowns could be implemented legally more swiftly in future*" [RS/759 - INQ000088880].

1147. On 14 July 2020 at a Covid(O) meeting, the CST signed off DHSC's CONTAIN framework for local decision-making on Covid-19 outbreaks. This framework set out how NHS Test and Trace and the JBC would work with LAs and PHE to take action at a local level to contain and manage outbreaks. On 17 July 2020, the PM announced additional powers for LAs from the following day, meaning "*they will be able to close specific premises, shut public outdoor spaces, and cancel events. These powers will enable local authorities to act more quickly in response to outbreaks, where speed is paramount*" [RS/760 - INQ000088032].

1148. On 3 August 2020, I received a submission which explained that "*in response to ongoing requests from No.10 to find ways of supporting local areas that may need to reintroduce a subset of NPIs, we think there is case for looking at how we provide financial support for those impacted by local restrictions*" [RS/392 - INQ000088098]. Based on this advice, I recommended that "*MHCLG and DHSC should look at options for operationalising a model, linked to JBC governance processes, that would allow [local authorities] to*

provide limited, targeted financial support to businesses that are legally required to close by local restrictions and individuals who are required to self isolate but may not be financially able to". I instructed HM Treasury officials to prepare a note to the PM regarding the same, which was sent to No. 10 on 5 August 2020 [RS/393 - INQ000232097]. No.10 responded by email on 17 August 2020 to confirm that "*PM wishes to roll out a programme of financial support, along the other lines outlined in your note.*" [RS/763 – INQ000232143].

1149. When I announced the 'Plan for Jobs' on 22 October 2020, I explained that additional support would be provided to businesses through LAs, stating "*We will fund local authorities to provide businesses in their area with direct cash grants*" [RS/764 - INQ000181688].

1150. When the Government introduced a local restrictions and tiered systems the level of support increased accordingly to reflect the additional greater financial burden on LAs. All negotiations on the agreed totals were completed by DHSC and MHCLG and approved by HM Treasury Ministers, which were then used as a baseline for further funding discussions.

1151. I received a letter signed by the mayors of North of Tyne, Sheffield City Region, London and the West Midlands dated 9 October 2020, seeking clarification of the of the package of support that would be made available to areas facing local restrictions [RS/765 - INQ000116265]. I received a further letter from the mayors of Greater Manchester, Liverpool City Region, Sheffield City Region, and North of Tyne Combined Authority dated 19 November 2020 raising concerns about economic support for individuals and businesses [RS/766 - INQ000232109], to which I responded to highlight the Government support package available to individuals and businesses [RS/767 - INQ000104851].

How central government funding for local government works

1152. It is hoped that the following summary of how central Government funding for local government works will be of general assistance to the Inquiry. HM Treasury works closely with Government departments to set budgets through the Spending Review process. This includes working with the Department for Levelling Up, Housing and Communities ("DLUHC"), formerly MHCLG, to agree the Local Government Departmental Expenditure Limits budget, which is the main source of Government grant funding for LAs in England.

1153. The detail of local government funding allocations is then set out by DLUHC through the annual Local Government Finance Settlement, which is approved by Parliament. LAs are responsible for their own finances within centrally set parameters and budgets. Some funding will be ringfenced for particular activities. 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, including through Council Tax, retained business rates and sales, fees and charges. HM Treasury does not control overall local Government spending because LAs are democratically accountable to their local communities.

1154. In addition to this 'core' system of local Government funding, Government departments grant money to LAs to perform specific functions (for example, deliver nationally-agreed local regeneration projects, or in the case of Covid-19, to provide short-term public health, welfare and business support measures). This can be achieved through a variety of legal powers, most commonly section 31 of the Local Government Act 2003, and it is the responsibility of the funding department to work with the LAs in receipt of these grants to ensure their effective delivery.

Timeline of support provided to Local Authorities in England

1155. I have set out below a short summary, drawn from information published by DHSC **[RS/768 - INQ000236910]**, of financial support provided for test, trace and contain activity:

- (a) May 2020: LAs provided with £300 million for local outbreak plans;
- (b) July to October 2020: Funding provided on a case-by-case basis to areas under local restrictions – this amounted to £33 million, for example, for Leicester, the North West and the North East;
- (c) October 2020: Tiering began and led to a fixed formula being agreed for providing LAs with public health funding. LAs received a one-off payment of £3 per head in Tier 2, rising to £8 per head in Tier 3;
- (d) November 2020: National restrictions imposed and all LAs which had not previously received this became eligible for a one-off payment of £8 per head (totalling £450 million nationally);
- (e) 23 November 2020: Announcement that the COMF would be extended to the end of the financial year. Upper-tier LAs in Tier 3 would receive £4 per head

per 28 days, and those in Tier 2 would receive £2 per head per 28 days while under these restrictions (£4 per head was also the level for Tier 4 when this new tier was created in December 2020);

- (f) Prior to 5 November: LAs which moved to Tier 3 prior to this date (for example, Liverpool) also received a top-up payment from the COMF, based on £4 per head pro-rata for the additional length of time they were at Tier 3 prior to national restrictions;
- (g) January 2021: National lockdown recommenced, and every LA was effectively treated as being in Tier 3/Tier 4 (£4/head/28 days) until the end of the financial year;
- (h) April 2021: A final £400 million was distributed across all LAs in England.

Amount of support provided to Local Authorities in England

1156. The National Audit Office (“**NAO**”) publishes a "Covid-19 costs tracker", providing details (where the information is available to the NAO) on how much the Government spent on measures announced in response to the Pandemic. The costs tracker published on 23 June 2022 includes details of funding for LAs. Not all items below would have been cleared by me personally and many would have been dealt with by the CST. And some of the funding lines are for businesses which were administered by LAs.

Table: Covid-19 Costs Tracker [RS/769 – INQ000049294].

Title	Description	Amount (£m)
Delay of the Police Crime Commissioner elections	Costs incurred as a result of the delayed Police Crime Commissioner elections due to Covid-19.	3.4
Support for May 2021 Local Elections	Funding to support LAs with delivering local elections, owing to increased costs from Covid -19.	15
Grants to boost recovery of small businesses	Small and medium-sized businesses in England will be able to access grants of between £1,000 and £5,000 for new equipment and technology and specialist advice.	Not available
Support to local business partnerships	Business improvement districts across England received support to help cover their day-to-day costs.	5.8
Reimbursing	Where relevant losses are more than 5% of a LA's	1751.87

LAs for lost income	planned income from sales, fees and charges, the Government will cover them for 75p in every £1 lost. This includes the Sales Fees and Charges Income Compensation Scheme.	
Spreading LA tax deficits	LAs can spread the repayment of their local council tax and business rates deficits over three years instead of repaying them in one year.	0
Kick-starting Tourism Package	Funding to boost tourism in England for renewal and recovery.	Not available
Support to faith organisations	Support to faith organisations through a direct grant to Faith Action. Part of the charities support package announced in April 2020.	0.13
Accommodation for victims of domestic abuse	Support for domestic abuse safe accommodation charities. Part of the charities support package announced in April 2020.	9
Homelessness	Financial assistance to local homelessness organisations. Part of the charities support package announced in April 2020.	6
Keeping rough sleepers safe in winter	A package of support to protect rough sleepers during winter. Funding for LAs includes the Cold Weather Fund payment and funding for the Protect Programme to help areas that need additional support most during the restrictions and throughout winter. There is also funding for faith and community groups.	22.96
Enforcement by LAs	Funding for LAs to increase their compliance work and enforcement checks on businesses, including an environmental health officer register to help councils source environmental health officers.	30.08
Community Champions	Grant funding to LAs and voluntary and community sector partners as part of the wider-Government response to support communities that have been disproportionately impacted by Covid-19. Work supported by the funding includes giving Covid-19 advice and supporting take-up among those communities.	46
Emergency Rough Sleepers Fund	Targeted funding to minimise the risk to those unable to self-isolate.	2.92
Council tax relief (Hardship Fund)	Additional funding for the Hardship Fund, which enabled LAs in England to reduce the 2020/21 council tax bills of working- age people receiving Local Council Tax Support. The fund could also be used to provide further discretionary support.	500
Non-ring-fenced funding to support pressure on social care and other services in local	Funding for LAs and other local services to help them respond to pressures on services because of Covid-19. This included the adult social care workforce, public health services and services helping the most vulnerable, such as homeless people, clinically	6155

Government	vulnerable people and clinically extremely vulnerable people.	
Support to pubs, cafes and restaurants	A reduction in application fees for pavement and street cafe licences (up to £100) and a reduction in the consultation period for licence applications. The announcement also provided measures to help outdoor markets, car-boot sales and summer fairs.	0
Funding for rough sleepers and the Next Steps Accommodation Strategy	In response to Covid-19, the Government announced a range of measures to accommodate rough sleepers to help them self-isolate and prevent the spread of Covid-19. This includes the Next Steps Accommodation Programme, launched on 18 July 2020. This programme makes available the financial resources needed to support LAs and their partners to prevent rough sleepers from returning to the streets. These announcements form part of a wider package of interventions seeking to end rough sleeping in this Parliament and prevent and reduce wider homelessness.	194.96
Welcome Back Fund and Reopening High Streets Safely Fund	The Welcome Back Fund is to help LAs prepare for the safe return of shoppers and tourists, including employing extra staff to keep festivals and events Covid-19 secure. The fund will help LAs boost tourism, improve green spaces and provide more outdoor seating areas, markets and food stall pop-ups, giving people safer options to reunite with friends and relatives. Re-opening High Streets Safely is a fund to help English LAs prepare for the safe reopening of high streets and other retail spaces. It supports practical measures so that businesses can reopen quickly when they are allowed to do so. Staff can get back to work and customers can be confident that it is safe to return to shops.	53.8
Kent hotels for hauliers and families	Hotel accommodation and ancillary costs for hauliers and families stuck in Kent over Christmas 2020 when the border was closed to those with Covid-19 positive tests and required to self-isolate, until 10 January 2021.	0.27
Protect Plus	Extra support to help protect rough sleepers and renters from the effects of Covid-19.	6.79
Local Council Tax Support Grant	This grant was provided to LAs in recognition of the extra expenditure incurred by them in 2021/22 as a result of a likely growth in local council tax support caseloads.	670
The Department of Levelling Up, Housing & Communities'	This covered department's additional operating staff costs, including basic salaries, temporary responsibility allowances and other allowances for permanent staff. Also included overtime pay, shift	22.01

additional operating staff costs	work, secondments, agency staff, management consultancy, and special bonuses. Any continuing costs are now classed as business as usual and not captured separately.	
The Department of Levelling Up, Housing & Communities' additional operating non-staff costs	The department's additional operating non-staff costs including software licences; IT-service contracts; furniture and fittings; homeworking IT equipment; office machinery; office supplies; property consultancy; removals and portage; and other miscellaneous costs.	1.54
Support for clinically extremely vulnerable individuals	Funding to LAs to support clinically extremely vulnerable individuals to access the services they require during periods where shielding advice is in place either nationally or locally.	176.11
Homelessness Prevention Grant Top-up	Exceptional one-off top-up to the homelessness prevention grant.	65
Protect and Vaccinate	Funding for emergency accommodation and to increase vaccinations for rough sleepers.	28.1
The Small Business Grant Fund; and the Retail, Hospitality and leisure Grant Fund	Two grant funding schemes were set up to support small businesses, and businesses in the retail, hospitality and leisure sectors. Eligible small businesses could receive £10,000, while retail, hospitality and leisure businesses could receive grants of £25,000. The cost of administering the scheme was subject to a new burdens assessment (£70 million was provisionally allocated by HM Treasury).	11085
Local Authority Discretionary Grant Fund	This fund was aimed at small businesses with ongoing fixed property- related costs that were not eligible for the Small Business Grant Fund or the Retail, Hospitality and Leisure Grant Fund. LAs could spend the equivalent of up to 5% of their expenditure on these two schemes (capped at £617 million in total) through the Discretionary Grant Fund.	573
Local Restrictions Support Grants for businesses	A number of Local Restrictions Support Grant schemes were available to support businesses who were required to close or who were severely impacted by restrictions when open. The schemes were the Local Restrictions Support Grant, Local Restrictions Support Grant Addendum, Local Restrictions Support Grant and the Christmas Support Payment Grants for wet-led pubs (those that relied on the sale of drinks rather than food). These grants were active on 9 September 2020. However, those who were in effective tier restrictions since 1 August 2020 also received Local Restrictions Support Grant funding.	3771

	The grants were available to support businesses throughout the period of national restrictions and during periods of local restrictions.	
Additional Restrictions Grant	The Additional Restrictions Grant was provided to all LAs because of the national lockdown period and some LAs moving into tier 3 restrictions prior to this. On 5 January 2021, the Government announced a £500 million top-up to the Additional Restrictions Grant, bringing the total funding to £1,631 million. In Budget 2021, this was topped up by £425 million. LAs can only access the £425 million top-up once they have spent their initial funding allocations and have until the end of June 2021 to do so. In the Supplementary Estimate 2021-22, a further £102 million was added to support LAs facing further difficulties resulting from Omicron.	2131
Green Homes Grant Local Authority Delivery scheme	The Local Authority Delivery scheme aims to raise the energy efficiency of low income and low energy performance homes	482.95

Part O: Inequalities and Vulnerable Groups

1157. I understand that in the exercise of their functions, Ministers and officials must comply with the obligations under the Public Sector Equality Duty (“**PSED**”), as set out in the Equality Act 2010 (“**the Equality Act**”). The PSED requires decision makers (i.e. Ministers) to show ‘due regard’ to the potential effects of a policy, service or decision on those who shared one or more protected characteristics under the Equality Act. The appropriate assessment and flagging of impacts to Ministers in the course of advice was a departmental requirement.

1158. HM Treasury maintained in-house guidance to support the organisation in fulfilling its responsibilities under the PSED. This greatly encouraged consideration of equalities impacts from the beginning of and throughout policy development. It stipulated that Ministers must be informed on a timely basis in order to ensure they ‘pay due regard’ during early deliberations on the likely direction of a particular policy proposal, deliberations on its detail and, also, at the actual point of a final decision to proceed. Usually, Ministers would be informed via submissions on the policy, including in the final piece of advice provided. The guidance noted that the level of detail required would vary depending on the relevance and scale of impacts. The guidance also stipulated that records must be kept demonstrating compliance.

1159. To ensure continued 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 **[RS/770 - INQ000609441]**. These adjustments were made to ensure HM Treasury's guidance materials reflected updated central guidance.

1160. 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' **[RS/770 - 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 **[RS/771 – INQ000609442]**: 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 **[RS/772 – INQ000609443]**: a collection of assessment templates that can be selected from as appropriate;
- (d) Protected Characteristics Resources Spreadsheet **[RS/773 – 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.

1161. These tools informed the equality impact assessments which were routinely provided to me in submissions and advices provided by officials which I duly considered in my decision making **[RS/774 – INQ000583414] [RS/310 – INQ000609833]**.

1162. 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 and those with social or economic vulnerabilities. This related both to the impact of the NPIs, including the economic shock caused by Covid restrictions, and in consideration of policy objectives for economic support introduced for businesses and households. HM Treasury engaged with organisations such as the Resolution Foundation and the IFS, sharing analysis on impacts affected by age, income, and ethnic disparities.

1163. HM Treasury regularly conducted and published assessments on the impact of policies, for example, on household incomes (July 2020 [RS/611 – INQ000609890], Budget 2021 [RS/591 – INQ000609613] [RS/612 – INQ000609609]). Analysis published in the autumn of 2021 [RS/613 – INQ000609674] 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).
1164. This analysis informed the potential for proposed interventions to either mitigate or exacerbate the impact of the economic shock on particular groups that had been identified as vulnerable or disadvantaged. There were various points when I specifically asked for analysis of impacts on the hospitality sector which particularly focused on issues of equalities. For example, data showed that the hospitality industry was more likely to employ women, and more likely to employ lower paid workers, a consideration relevant to the formulation of EOTHO. Whilst the equalities assessment considered that the scheme may be disproportionately under-used by certain groups, it noted 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 [RS/776 – INQ00088079].
1165. For the majority of key interventions, HM Treasury officials produced specific impact assessments, drawing where appropriate on internal modelling as well as externally produced analysis. Examples include 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). I was presented with a range of potential options by officials in order to achieve support for this group [RS/777 – INQ000610826] [RS/778 – INQ000609716] [RS/779 – INQ000610830].
1166. Equality impacts were undertaken both in the consideration of policy objectives and further monitored once those objectives had been implemented in the form of specific interventions. 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. UC policy changes were also developed by DWP and HM Treasury officials, following No.10, HM Treasury and DWP ministerial decisions on approach and objectives. HM Treasury considered the potential outcomes and risks for the poorest in society by the removal of the uplift which was predicted to have a

disproportionate effect on those households with the lowest incomes [RS/687 – INQ000609167], alongside seeing an increase in child poverty [RS/688 – INQ000609181].

1167. HM Treasury’s monitoring frequently focused on sectors which were known to employ disproportionate numbers of people from vulnerable groups. For example, 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 [RS/108 – INQ000088055].

1168. As described above, I was presented with equality impact assessments in relation to HM Treasury policies, for example in relation to EOTHO [RS/776 - INQ000088079].

1169. HM Treasury acknowledged from an early stage that less well-off households were “*particularly vulnerable to the economic shock*” [RS/780 - INQ000088051] and that under 25 year olds, women, people from ethnic minorities and people with disabilities would all be more greatly impacted by restrictions [RS/076 - INQ000088053]. In addition, sectors such as hospitality, manufacturing, construction and tourism would all be greatly affected. Consideration was given to ‘at risk’ and other vulnerable groups within economic decision making.

Part P: Long Covid

1170. 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. As Chancellor, myself and HM Treasury ministers were clear from the outset that Covid was a health crisis in which medical advice and guidance would be key [RS/780] - INQ000088105]. Throughout the Pandemic, the department relied on the advice of health experts for information on the path of the virus and its impacts, including long-term sequelae.

1171. Accordingly, from the outset, it was a priority 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 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.

1172. By October 2020, HM Treasury was conscious of emerging evidence of the prevalence of Long Covid **[RS/781 – INQ000609516]** and considered resource implications for the NHS as part of its Spending Review analysis **[RS/782 - 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.

1173. At that juncture, it was assessed that the risks of Long Covid included increased pressure on acute and general hospital beds and 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 £3 billion fund. **[RS/783 – INQ000610847]**. Beyond this, HM Treasury continued to assess the resource implications for the NHS of providing temporary care for individuals suffering from Long Covid **[RS/784 – INQ000610839]** **[RS/785 – INQ000610844]**.

1174. From November 2020, HM Treasury officials identified the need for data and evidence on the economic consequences of Long Covid **[RS/786 – INQ000610840]**. In February and March 2021, the department 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) **[RS/787 – INQ000609601]** and early analysis by the CO 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.

1175. 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.

1176. 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 [RS/788 – 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*” [RS/789 – INQ000610853].

1177. The rise in inactivity due to long-term sickness has been largest amongst those reporting a mental health condition [RS/790 – INQ000609922]. More recent ONS analysis suggested that Long Covid represents only a marginal contributor to the rise in the whole economy inactivity rate, estimating 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 [RS/791 – INQ000609924].

Consideration of economic impact of Long Covid

1178. Across the relevant period, HM Treasury provided over £89 billion 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 £39 billion for the Test and Trace programme, £15 billion for PPE and £8 billion for the procurement, manufacture, and delivery of vaccines. All these investments would also protect individuals against Long Covid.

1179. 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.

1180. 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.

1181. 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.
1182. 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.
1183. There is also support available within the welfare system for sufferers of Long Covid.
1184. 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 ESA if Long Covid affects how much they can work.
1185. 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 two full tax years before the year that you are claiming it.
1186. 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 £1,518.40 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.
1187. 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.

Consideration of scarring

1188. 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, although I was not personally involved with this [RS/792 – INQ000067093] [RS/793 - INQ000067094] [RS/794 –
–
INQ000067095]. Considerations for funding health provisions on Long Covid would have been done through the DHSC.

Statement of Truth

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

Signed: Personal Data

Date: 28 October 2025