

Witness Name: Andrew Jeffreys

Statement No: M9/WG/WT/01

Exhibits: 42

Dated: 4 April 2025

UK COVID-19 INQUIRY

WITNESS STATEMENT OF ANDREW JEFFREYS

I, Andrew Jeffreys, will say as follows: -

1. As Director of the Welsh Treasury during the pandemic, I act as signatory to this statement in response to a request made by the Chair of the UK Covid-19 Public Inquiry (“the Inquiry”) to the Welsh Government under Rule 9 of the Inquiry Rules 2006 dated 2 December 2024 and referenced **M9/R9R/WG**. It has been agreed this Rule 9 will be responded to via four separate statements. This statement, using the agreed reference of **M9/WG/WT/01**, will cover:
 - a) Funding Sources and HM Treasury Fiscal Framework
 - b) Data, Modelling, Advice and Analysis
 - c) Frameworks for public expenditure
2. In preparing this statement, I have relied upon advice and information from Jonathan Price who was the Welsh Government’s Chief Economist during the pandemic, specifically in answering questions regarding data and modelling.

Funding Sources and HM Treasury Fiscal Framework

3. The Welsh Government had, at the time of the pandemic, four principal sources of funding available to it:
 - Funds granted by the UK Government under what is termed as the annual “Block Grant”;
 - Funds raised in Wales by means of taxation and other charges;
 - Borrowing; and
 - EU structural funds.

4. The 'Block Grant' is by far the largest part of the Welsh Government's annual budget, comprising in excess of 80% of its annual financial resource with adjustments to the block grant being determined using the Barnett formula. The formula is used to calculate by how much the block grant will change following increases or decreases in funding for comparable, devolved functions in England. These changes to the block grant are known as 'Barnett consequentials'.
5. Funding uncertainty under the Barnett arrangement was a difficulty that existed prior to the pandemic due to the way the Barnett formula operates. It is often difficult to determine quickly whether a new funding allocation at the UK level gives rise to a Barnett consequential creating uncertainty over how much the Welsh Government will receive following a policy announcement by the UK Government. There is further uncertainty due to the possibility that if, later in the financial year, there were reductions in funding for a UK Department with comparable functions, there would be a negative consequential adjustment to the funds available to the Welsh Government. This leaves the Welsh Government in the position of not having the certainty of knowing whether it would be able to retain the value of funds previously allocated to it earlier in the financial year until the completion of the UK Supplementary Estimates that finalise the level of funding for that year. The UK Supplementary Estimate is normally finalised in February, only a few weeks before the financial year end.
6. This lack of certainty about the level of funding available to support interventions, coupled with limited flexibility under fiscal framework within which the Welsh Government operates, created two principal issues for the Welsh Government in the first few months of the pandemic. First, the timing and funding implications of UK Ministers' decisions could not be safely predicted. As a result, it was not clear when decisions were going to be made and how much funding would be available to the Welsh Government as a result of those decisions. This made decision-making more difficult. Ministers either had to wait to find out whether money would become available or were forced to proceed 'at risk' on the assumption that funding would be made available in due course. Second, this uncertainty meant that Welsh Ministers made decisions to reduce spending in some areas in order to ensure they could be confident that there was money available for other Covid-related interventions. These reductions would probably not have been necessary because eventually the UK Government provided very significant amounts of additional funding in 2020/21.

7. The Welsh European Funding Office also made a decision to deploy some EU funding for the Covid-19 response to help address some of the uncertainty. I exhibit at **WGWT/001-INQ000562079** a paper the Welsh European Funding Office presented to the Star Chamber on its proposals for using EU funding to support the Welsh Government's response to the pandemic. This helped address some of the financial uncertainty we faced and supported the economic interventions needed such as the second wave of the Economic Resilience Fund. However, given the level of additional funding eventually provided to the Welsh Government in 2020/21 as a consequence of additional spending on the Covid-19 response in England, by the UK Government, arguably this reallocation of EU funding was unnecessary, and the funding could have been spent for its originally intended purpose of economic development.
8. To address the consequences of the uncertainties described above, in 2020 Welsh Ministers sought certain "flexibilities" from HM Treasury including:
 - a) Having full access to the Wales Reserve in the current year, if required;
 - b) The ability to carry forward, at the end of the year, more than the overall £350m limit on the Reserve. This particular request was prompted by uncertainty about the impact of the crisis on existing programmes, the costs of new programmes, and the amount of new funding from the UK Government;
 - c) The ability to switch funding from capital to revenue budgets, and the option to deploy revenue borrowing. This was needed, to provide further flexibility and to assist efficient budget management;
 - d) An increase in the annual capital borrowing limit (currently £150m) and the aggregate ceiling (currently £1bn) to enable the Welsh Government to further support its capital programmes, if necessary, and to aid the economic recovery over the longer term.
 - e) More flexible repayment terms for Financial Transactions capital, which is a ringfenced element of capital funding, provided by the UK Government as part of the Welsh Government's block grant. It's sometimes called "net lending" or "policy lending" and includes loans or equity investments by devolved administrations into the private sector. The majority of the Financial Transactions Capital portfolio is managed by the Development Bank for Wales on behalf of the Welsh Government.
9. As outlined above in paragraph 6, the uncertainty over funding decisions made by the UK Government did make decision making more difficult for the Welsh Government. For

example, designing and deploying economic interventions, such as the Non-Domestic Rate relief scheme, was inevitably constrained and possibly delayed by uncertainty over funding levels, particularly in the initial phase of the pandemic. As point 2 of the note, exhibited at **WGWT/002-INQ000338525**, of the Star Chamber meeting on 15 April 2020 states: *It was still unclear as to whether WG would receive any additional consequentials from changes to the NDR grants/reliefs in England.* This uncertainty made it difficult to plan the details of any support.

Requests for flexibility in the Fiscal Framework

10. I am asked what, if any, requests were made for flexibility in the Fiscal Framework which led to the 'Barnett Guarantee' (also referred to as the 'Coronavirus Guarantee'). This was a subject that was frequently raised at the Finance Ministerial Quadrilateral meetings. The chronology of those meetings and the items discussed is exhibited at **WGWT/003-INQ000566348**. The Minister for Finance specifically requested flexibilities around borrowing limits, Wales reserve access and the ability to switch capital and revenue funding. Being granted those flexibilities would have allowed the Welsh Government to manage their fiscal response to the pandemic in a more efficient way.
11. As the chronology of meetings exhibited above shows, discussions around budget management were raised in the Ministerial Quadrilateral on 10 March 2020. Consequential funding and funding uncertainty was also raised at the Quadrilateral meetings held in April, May and June 2020. During the meeting on 9 April the Minister for Finance raised again the importance of additional flexibilities as seen in the note exhibited at **WGWT/004 - INQ000352993**. As the note, exhibited at **WGWT/005- INQ000353021**, following the Finance Quadrilateral held on 30 April shows the Minister for Finance again raised the issue of funding flexibilities and said the Welsh Government would work up a proposition.
12. The Minister for Finance then wrote to the Chancellor of the Exchequer on 3 July 2020, as exhibited in **WGWT/006-INQ000066172**, making the case for the flexibilities previously discussed at the Finance Quadrilateral meetings to be granted. In the letter she explained that the need to use these flexibilities would depend on how the recovery progressed, but that their availability would enable the Welsh Government to allocate resources now, where they are needed. She also asked for these additional flexibilities to be available to the Welsh Government as a matter of course without requiring

permission from the UK Government on a case-by-case basis. She said the higher limits for accessing the Reserve, carrying forward via the Reserve, and for capital borrowing should be long term arrangements, to enable the Welsh Government to carry out efficient and effective budget management.

13. During a call on 23 July 2020 between Welsh Treasury officials and HM Treasury, confirmation was given that the Chief Secretary to the Treasury would be announcing later that day a guaranteed level of Barnett funding for the year to the devolved governments, known as the 'Coronavirus Guarantee', see exhibit **WGWT/007-INQ000066173**.
14. The following day, 24 July 2020, at a Ministerial Quadrilateral meeting, the Chief Secretary to the Treasury also confirmed that HM Treasury would provide in-year funding certainty, a note of this meeting is exhibited at **WGWT/008-INQ000066174**.
15. The Guarantee provided advance confirmation, i.e. ahead of formal confirmation of specific allocations to UK Departments and the calculation of Barnett consequentials, of the level of additional funding that devolved governments would receive as a result of funding for Covid-19 response interventions in England. Its effect was that certainty about the level of funding available to the Welsh Government was provided much earlier than would otherwise have been the case. It provided a forward commitment to a minimum level of additional funding in 2020/21, and additional scope to carry forward funding provided very late in the financial year, over and above the guaranteed level, in response to representations by the devolved governments.
16. The Minister for Finance welcomed the certainty that announcement gave as shown in the statement published on 24 July 2020 and exhibited in **WGWT/009-INQ000066175** but she also described it as a "missed opportunity" for the UK Government to provide Wales with greater flexibilities to meet the financial pressures associated with the coronavirus pandemic.
17. The Barnett Guarantee made a very significant positive impact on the Welsh Government's ability to plan and deliver Covid-19 response interventions. With much greater certainty about funding levels available, specific allocations of funding to interventions could be made with more confidence. As a result of this certainty the Minister for Finance and Minister for Health announced in August 2020 an £800m stabilisation package for the NHS in Wales, exhibit **WGWT/010-INQ000493729** refers.

Without the level of certainty provided by the Guarantee, confirming an allocation of this scale for the NHS at this stage of the financial year would have been much more difficult. It is worth noting that the Guarantee was updated twice after July 2020, with further additional funding being allocated at the UK Supplementary Estimate in February 2021. This meant that there were significant increases in the actual level of funding available, which enabled expansion of existing interventions and implementation of new interventions. However, certainty about the level of funding actually available in 2020/21 would ideally have been provided much earlier in the financial year. This would have allowed for more effective planning.

18. The Fiscal Framework within which the Welsh Government operates is extremely restrictive. The key issues can be summarised as follows:
 - a) HM Treasury sets limits for resource and capital expenditure which the Welsh Government cannot exceed;
 - b) the Welsh Government is not allowed to switch between capital and resource limits.
 - c) the Welsh Government can only borrow for capital investment or to cover a shortfall in tax revenue (i.e. where receipts are significantly lower than forecast);
 - d) the Welsh Government has fixed borrowing limits set by HM Treasury (£150m per year for capital investment, with an aggregate limit of £1bn, and £200m per year for shortfalls in tax revenues, with an aggregate limit of £500m and a requirement to repay within four years);
 - e) the amount of money the Welsh Government can carry between financial years (via the 'Wales Reserve') is limited to £350m and the amount the Welsh Government can draw from the Wales reserve in a particular year is also limited to £125m resource and £50m capital.

19. These restrictions mean that the Welsh Government has very limited discretion to vary the amount it spends in a particular year, either upwards or downwards. The amount of funding available is to a large extent determined by decisions made by UK Ministers about the level of spending they judge is appropriate for devolved functions in England, without reference to circumstances in Wales or the preferences of Welsh Ministers. The restrictions also mean that the level of funding available to the Welsh Government can vary in-year as a result of decisions made by UK Ministers, creating uncertainty as described above.

20. The issues that therefore arose for the Welsh Government regarding budgetary flexibilities under the Fiscal Framework were around borrowing limits, Wales reserve access and capital/revenue switching, all of which would enable the Welsh Government to manage things more effectively.
21. As outlined in paragraphs 10-16, representations about these issues were made frequently by Welsh Government Ministers and Welsh Treasury officials at Finance Ministerial Quadrilateral meetings as well as calls with Treasury officials. In addition to the Finance Ministerial Quadrilateral meetings referred to above, the issue of budgetary flexibilities was raised on 20 July 2021 **WGWT/011-INQ000353262** and 24 July 2020 **WGWT/012-INQ000066174**.
22. This Minister for Finance also raised her concerns in two letters to the Chancellor of the Exchequer. The first letter was sent before her Summer Economic Statement to the Senedd on 3 July 2020, as exhibited in paragraph 12 above. The second letter was a joint letter, sent by her and the Finance Ministers of Scotland and Northern Ireland, on 15 January 2021, exhibited at **WGWT/013-INQ000321040**. That letter asked, as a minimum, for the flexibility to carry forward the latest tranche of funding [allocated on 23 December 2020], and any further Resource or Capital funding received between then and the end of the financial year.
23. I, and other officials from the Welsh Treasury, had almost daily calls with Treasury officials. These were largely informal meetings where a range of issues would be discussed including funding flexibilities. These discussions were necessary to share information on the funding pressures we were facing and the interventions that were being developed at UK level in order for us to understand the extent to which these would generate a Barnett consequential. These calls also gave me and others the opportunity to reiterate the Minister for Finance's requests which were made formally in the Finance Ministerial Quadrilaterals. I exhibit at **WGWT/014-INQ000566347** a chronology of officials' level meetings with HM Treasury during the relevant period. No formal meetings of these meetings were produced.
24. I am asked, how, if at all, the issues around budgetary flexibility impacted the ability of the Welsh Government to formulate economic policy in response to the pandemic. Not having the ability to be flexible with the Welsh Government budget by switching capital and revenue funding or increasing borrowing limits meant that any decisions around economic interventions had to be made within the financial envelope set by the UK

Government, with all the uncertainties around that described above. Being given the flexibilities we requested would have expanded the options available to the Welsh Government to respond to the pressures it was facing.

25. With regard to any recommendations for the Inquiry to consider regarding the Fiscal Framework in the event of a future pandemic, I would refer to the Module 2 statement exhibited at **WGWT/015-INQ000273747** of former First Minister Mark Drakeford. In this statement he outlines the issues that can arise with devolved governments having policy responsibility in areas that are relevant to responding to a pandemic, but not always having the necessary financial levers to execute those policy decisions if they require funding over and above the Barnett consequential funding. His recommendation was that public health emergencies are treated equally, for Treasury purposes, in whichever nation of the United Kingdom they occur. Further detail can be found in paragraph 199 of that statement. Any further recommendations on the Fiscal Framework in the event of a future pandemic would be a matter for the Welsh Government Cabinet.

Data, Modelling, Advice and Analysis

26. I am asked how advice and analysis was provided to the Ministers or Cabinet in relation to: the nature, severity and duration of the pandemic; nature and extent of the economic shock and any consequences to economic welfare and long-term economic outlook; design and options appraisal of potential economic policies; and monitoring and evaluation of policies delivered. Information relating to this will be provided in **M9/WGESNR/01**.
27. Expert information, advice and forecasting was provided to Ministers to assess the economic outlook by the Covid-19 Project Team and the Economic Advice Division (part of the Welsh Treasury) as outlined below.

Covid-19 Project Team

28. The principal economic input into Covid-19 related policy decisions, including the imposition and relaxation of specific non-pharmaceutical interventions, was provided by the Covid-19 Project Team. Two economists from the Economic Advice Division were seconded to the Project Team to assist with the economic aspects of the Project Team's

work, including the assessment of the likely economic impact of proposed non-pharmaceutical interventions or their relaxation.

29. During each review, for example, the team would gather the latest epidemiological evidence from a wide range of sources including the Technical Advisory Cell and its supporting advisory groups; take formal advice from the Chief Medical Officer; assess the wider picture across the UK by working with the other administrations and the Joint Biosecurity Centre; and seek to understand the operational implications of the last set of non-pharmaceutical interventions by engaging with local authorities, social partners and the police.

Economic Advice Division

30. The Economic Advice Division provided analysis and advice on the economic effects of the pandemic. Its assessments were informed by a consideration of the many factors affecting the economy in Wales including the consequences of the UK leaving the European Union. As well as the Monthly Economic Report and the annual Chief Economist's Report, more specific analysis was provided by the Division in response to specific requests from officials working on Covid-19 related policy in the Welsh Government.
31. Advice and analysis was usually sought from the Economic Advice Division on an ad hoc basis. Formal advice was provided for four Ministerial Advice briefings, these briefings are exhibited at **WGWT/016 - INQ000495977**, **WGWT/017 - INQ000227889**, **WGWT/018 - INQ000116625** and **WGWT/019 - INQ000350010**. An example of the informal advice requested can be seen in the emails exhibited at **WGWT/020 - INQ000585238** and **WGWT/021 - INQ000585280**. Verbal advice was also given, for example, the Chief Economist, Jonathan Price, once had a discussion with colleagues in the Business and Regions Directorate in relation to a query they had raised about how the impact of restrictions on the accommodation and food sector that fell short of a full shutdown might be assessed. He concluded that we had no fully objective basis for doing this ex ante. All that was feasible was to make some broad illustrative assumptions about how the varying levels of usage might be affected by restrictions of different kinds (such as allowing only external dining).

32. The Chief Economist provided regular updates on the economy to Cabinet meetings as and when required, a chronology of the updates is exhibited at **WGWT/022 - INQ000565849**. I exhibit by way of example minutes of the Cabinet meetings on 28 September 2020 **WGWT/023-INQ000048928** and 22 February 2021 **WGWT/024-INQ000057892** and a Cabinet paper (dated 4 June 2020) which considered Wales's economic prospects in the wake of Covid-19 **WGWT/025-INQ000129875**.
33. On 13 July 2021, he gave a presentation to ExCovid on the effect of Covid-19 on the labour market in Wales. Membership of ExCovid comprised of Director Generals and other senior officials; Non-Executive Board members attended on a rotational basis. ExCovid provided a forum for strategic oversight, co-ordination and assurance at official level. I exhibit the slideshow for that presentation as **WGWT/026-INQ000350509**.

Technical Advisory Group and Socio-Economic Harms subgroup

34. I have been asked what advice and analysis on the economic response to the pandemic the Technical Advisory Group or its Socio-Economic Harms subgroup provided. The Socio-Economic Harms subgroup was established in the summer of 2020 to provide assessments of the full range of socio-economic effects of the pandemic, other than the health effects, including the effects of the measures put in place to control the disease. The Socio-Economic Harms subgroup met for the first time on 23 July 2020. The group was concerned primarily with the medium and longer-term socio-economic impacts of the pandemic, rather than attempting to assess the more immediate socio-economic impact of specific non-pharmaceutical measures.
35. The subgroup was established by and reported to the Technical Advisory Group, primarily through the Chief Economist as a member of the Technical Advisory Group, and in this way the work of the Socio-Economic Harms subgroup informed the Technical Advisory Group's advice and assessments during the specified period. The subgroup's Terms of Reference are exhibited as **WGWT/027-INQ000239532**, dated 3 September 2020.
36. Advice was given on a wide variety of topics. For example, drawing on evidence from periods of previous disruption to the economy, such as a body of research published in the early stages of the pandemic **WGWT/028-INQ000350798** (dated June 2020) the group provided advice on the likely longer term adverse implications for socio-economic outcomes affecting younger people in education or entering the labour market. These so-called "scaring" effects included less satisfactory employment trajectories, low pay when

measured over whole working lives, and less good health. The advice also noted that such adverse effects were likely to be most pronounced among groups that already suffered labour market disadvantage: the low skilled, the sick and disabled, and members of certain minority groups.

37. The main reports to which the subgroup contributed are as follows:
- a. Five harms arising from COVID-19: Consideration of potential baseline measures, dated 9 July 2021, exhibited as **WGWT/029-INQ000239550**;
 - b. The potential risks and benefits of removing restrictions in a phased approach to mitigate the impact of harms from Covid-19 in Wales, dated 5 March 2021, exhibited as **WGWT/030- INQ000066356**; and
 - c. High level summary of evidence on costs and benefits and potential mitigations for measures to address Covid-19 in Wales, dated 25 November 2020, which I exhibit as **WGWT/031-INQ000066302**.
38. These reports include qualitative estimates of the harms of different measures – it was not always possible to quantify them.
39. In addition to these reports, the Chief Economist prepared a paper for the Socio-Economic Harms subgroup entitled “Covid-19 Recession – Quantification of Socio-Economic Harms”. In this paper, which I exhibit as **WGWT/032-INQ000349969** (dated 2 November 2020) the Chief Economist sought to quantify the potential overall impact of the pandemic on socio-economic outcomes in Wales and included an illustrative example of how some of the impacts of a “firebreak” lockdown might be quantified (though the analysis was never intended to and was not in fact used to inform any decision about any proposed restrictions, including a firebreak lockdown, which had already been implemented at the time the paper was produced). The paper was discussed at a meeting of the subgroup on 4 November 2020, the minutes are exhibited as **WGWT/033-INQ000312592**.

Sources of expert guidance on economic policy

40. I’m asked who from the Welsh Government was providing expert guidance on economic policy as stated in Andrew Goodall’s statement for Module 2B. Advice and guidance on economic policy would have primarily been provided by senior officials within the

Economy, Skills and Natural Resources Group. This would have included the Director of Business and Regions, the Chief Operating Officer for Business and Regions and the Deputy Director for Economic Policy. The Welsh Government's Chief Economist would also have provided guidance as outlined within this statement and also officials from the Welsh Treasury.

41. Advice and analysis by the Technical Advisory Group or its Socio-Economic Harms subgroup would have contributed to the formulation of advice in the Star Chamber through the Ministerial Advice process. Welsh Treasury officials would also have consulted the Chief Economist and his teams about proposals going to the Star Chamber with an economic dimension.
42. All Ministerial Advice related to economic interventions and considered by the Star Chamber have been disclosed to the Inquiry.
43. I am asked what consideration was given to setting up specific structures or processes in place or developed for provision of expert and/or scientific advice for decisions on the allocation of funding. This was not something we considered to be necessary. We relied on the existing structures or those which had been set up to support the Covid-19 response more generally such as the Technical Advisory Group and the Socio-Economic Harms subgroup. They worked efficiently and effectively to provide evidence-based analysis and recommendations to Welsh Ministers.
44. I have been asked whether the Welsh Government considers that it would have been useful to incorporate specific structures or processes for the provision of expert advice on the allocation of funding.
45. The short answer is 'no'. In my judgement, the existing structures, bodies, and processes to consider and scrutinise pandemic-related requests for funding (which included the established Ministerial Advice process, Cabinet meetings, the Star Chamber and Core Group meetings), provided reliable and evidence-based advice on the allocation of funding. Evidence, analysis, and science advice provided by the Technical Advisory Cell and Technical Advisory Group fed into this process and were often included in Ministerial Advice and discussion by Cabinet. As the Inquiry has noted before, care should be taken to avoid adding additional administrative arrangements when the existing ones are sufficient and effective.

The use of data and statistics as part of the economic response to the pandemic

46. I am asked what the principal sources of data were used by the Welsh Government to monitor and analyse the effects of shocks to the Welsh economy, the economic outlook and the impact of potential government policy on the economy. Those principal sources were:
- i. The monitoring data produced by the Welsh Government's Knowledge and Analytical Services, in the form of a data monitor - a single document of key information and graphs. Three examples of the data monitor are exhibited, to demonstrate the evolution of the document. These are from 4 June 2020 (**WGWT/034-INQ000129879**), 14 December 2020 (**WGWT/035-INQ000129906**) and 11 January 2021 (**WGWT/036-INQ000057769**).
 - ii. The Labour Market Statistics and Economic Reports which were routinely prepared by Welsh Government economists and statisticians, these have all been provided to the Inquiry via general disclosure.
 - iii. Existing data, research and analysis relating to previous periods of reduced economic activity, referred to above in **paragraph 36**.
47. On 3 April 2020, Statistical Services in the Knowledge and Analytical Services within the Welsh Government produced and circulated its first data monitor following a discussion at the Covid-19 Preparedness Bird Table about the need for a single document of key information and graphs. The frequency of the data monitor changed over the course of the pandemic. It was produced twice a week until 8 June 2020, when it then moved to a weekly update. The monitor was shared widely within the Welsh Government (including with Ministers) to enable monitoring of trends across a range of topics during the pandemic.
48. Amongst the topics was the economy and labour market. This theme summarised the economic circumstances and harms of the pandemic, using traditional official statistics such as GDP and employment, alongside more timely measures based on card spending and business insight surveys from the Office of National Statistics. Data on the use of support schemes for businesses (both Welsh and UK Government schemes) was also included.

49. For example, Knowledge and Analytical Services included information such as the number of awards and the value of grants. The 14 December 2020 data monitor (exhibited above as **WGWT/035 -INQ000129906**) included detail such as:

- Local Authority Covid-19 business rates grants – the number of awards and total value;
- Development Bank for Wales's Covid-19 Wales Business Loan Scheme – the number of businesses to which approved funding was given (and the value);
- Economic Resilience Fund – the number of and value of grant awards (phase 1 and phase 2).

50. The topics covered, and data provided in the economy and labour market section of the data monitor evolved and changed during the pandemic. As an example, the data monitor for 4 June 2020 (exhibited above at **WGWT/034-INQ000129879**) covered:

- Credit and debit card spending, including value of transactions and the percentage difference in transactions in Wales and the UK since the beginning of March.
- Business impact surveys, including trading status (Wales), falls in turnover (Wales), proportion of workforce within businesses continuing to trade (UK), proportion of businesses who thought their cash reserves would last (Wales), proportion of business which had applied for government schemes (Wales), proportion of businesses who were receiving initiatives (Wales), proportion of safety measures businesses intended to implement.
- Support for businesses, including number and value of business rates grants awarded, and Economic Resilience Fund applications.
- Labour market, including employment and unemployment rates (UK and Wales).
- New daily Universal Credit claimants.
- Numbers of online job postings.
- Numbers of calls to Business Wales.

51. The economy and labour market section of the 14 December 2020 monitor additionally included GDP, GVA and short-term output indicators; and more data in relation to credit and debit card spending including the value of card-present transactions by merchant category, and growth in spending by local authority area. It further included a section on levels of employment support provided by the Coronavirus Job Retention Scheme

(furlough) and the Second Self-Employment Income Support Scheme; and more data on Universal Credit including the number of persons and households in receipt of the benefit.

52. A range of new or improved sources of data was used or developed in response to the pandemic. This included a series of analyses to support planning and decision making around non-pharmaceutical interventions, the data monitor (referred to above) which enabled monitoring of trends across a range of topics during the pandemic and the Covid-19 in Wales interactive dashboard, a public facing document which brought together monitoring data on direct Covid-19 harms, indirect harms, and social and economic impacts.
53. As well as developing its own new or improved sources of data, the Welsh Government also drew on new data sources developed at UK level by the Office of National Statistics, some of which provided Welsh data. The Business Insights and Conditions Survey is an example of such data, which was used widely to enable rapid response, and inform policy decisions, about issues impacting UK businesses and the economy. For example, **WGWT/037-INQ000562145** is an email from Knowledge and Analytical Services to the Minister for the Economy highlighting the key points of the *Business insights and impact on the UK economy* publication from 20 May 2021.
54. Existing structures, both formal and informal, have always included the widespread consideration and discussion of data. This includes Cabinet meetings and ExCo, which is chaired by the Permanent Secretary and attended by all Director Generals. Such structures and processes were already in place prior to the pandemic and this continued, with the consideration of data intensifying during the relevant period. I was a member of ExCo during the pandemic and would regularly provide updates on financial matters. As outlined in paragraph 32 Jonathan Price attended Cabinet to update on economic matters when needed as did the Chief Statistician.
55. In addition, as referred to in paragraph 36, the Socio-Economic Harms subgroup was a main vehicle that was used for the consideration and discussion of data, and the provision of advice based upon the available data.
56. The main challenges that existed with regards to the availability, quality, suitability or use of data and statistics are set out below. Fundamentally, the issues were around access to data, the need for more detailed, and up-to-date, data and uncertainty about the socio-

economic consequences of both the pandemic and the measures that were put in place due to the lack of relevant precedents from which to draw evidence.

57. A specific difficulty was around access to data from the Department for Work and Pensions. The functions of the Department for Work and Pensions are not devolved to Wales. In April 2020, the Welsh Government requested timely information from the Department for Work and Pensions including on Universal Credit and other unemployment benefits, by different characteristics and regions of Wales. This was to help understand the real-time economic impact of the pandemic, and to estimate additional pressure on support services. Although some data was provided very early, the regular supply and detail of that data feed was not consistent. This issue was raised in the early weeks of the pandemic both at Inter-Ministerial groups and the Inter-Administration Committee for statistics but several interventions were required from Ministers and the Chief Statistician to make sure that a routine flow of information was provided to devolved governments. This was despite UK Ministers' agreement for data to be provided, and data being available to the UK Government Civil Contingencies Secretariat. It was not resolved until June 2020.
58. More detailed, and up-to-date, data could obviously have contributed to a better understanding of the socio-economic context. Examples might include the ethnic composition of the labour force by detailed industry at local level and the revenue spending in the hospital sector by type of activity. However, the primary constraint on the assessments made by the Socio-economic Harms subgroup was the fundamental uncertainty about the socio-economic consequences of both the pandemic and the measures that were put in place in response.
59. The uncertainty was caused by many factors which included the lack of relevant precedents from which to draw evidence; the changing nature of the economy over time, particularly the increasing scope for remote activity which reduced the economic impact of the pandemic compared to what would otherwise have been expected; the unknown extent to which people would in any case have restricted their activity in the absence of restrictions (making the additional effect of restrictions difficult to determine); the complications resulting from the (also uncertain) impact of other factors affecting the economy at the time, including Brexit; and inter-temporal dependencies, whereby changes in behaviour (including as a result of restrictions) that had a negative economic effect in one period might nevertheless result in better economic outcomes over the longer-term, as a result of slowing the progress of the disease.

60. In terms of significant data gaps, as the Chief Economist said in his Module 2B statement (Reference: M2B/TAG/JP/01), in some areas and in some respects data was limited. For example, better and more timely data might have improved estimates of the impact of the reduction in business activity on GDP and the labour market. However, the Chief Economist noted that improved data would not have given a clear or reliable estimate of the difference (if any) made by specific restrictions because people were changing their behaviour in the absence of restrictions. It was impossible to reliably quantify the scale of such changes as they reflected both the changing understanding of the medical implications of infection, and peoples' varying and evolving perceptions of risk.
61. In addition, economic effects, and their socio-economic consequences typically “spill-over”, so that ultimate, and longer lasting, outcomes can affect business sectors, areas and population groups that differ greatly from those originally impacted. In principle, sophisticated modelling could illuminate such relationships, but in practice models to do this on a reliable basis impact were infeasible in view of the extent of the uncertainties associated with a novel set of circumstances such as confronted us in the pandemic and as described above.
62. The challenges were less the result of a lack of data than they were the result of the absence of any robust basis for assessing what the impact of the restrictions were likely to be, particularly over the medium to longer-term, and what “marginal” differences the restrictions were likely to make in the context of behaviours that would in any case change because of the pandemic
63. Limited data was also an issue when deciding whether to fund interventions to mitigate the negative economic impact of the pandemic and non-pharmaceutical interventions. Our ability to assess the potential impact of such measures was limited by the lack of economic data, as well as the need to act urgently. In many cases, ministers made decisions to proceed much more quickly, and with a more limited evidence base, than would be expected in a normal time.
64. However, rather than data gaps or inadequacies affecting the design or analysis of economic support in response to the pandemic the lack of precedents and uncertainties around the basis for assessing the impact of the restrictions, played more of a role in this regard.

65. The uncertainty about important factors and the lack of evidence meant that it was not feasible to undertake fully quantified cost-benefit analyses of packages of restrictions. The most that could be done was to provide assessments of the relevant available evidence to support the selection of packages of restrictions that might plausibly be expected to be the least costly in socio-economic terms, taking account so far as possible of what might be disproportionate impacts on certain population groups, while achieving a given policy objective of temporarily reducing infections below a level that could lead to the health and care service becoming overwhelmed. This might be termed seen as seeking to constrain infections to a target level in way that imposed the least damaging socio-economic impacts.
66. Interruptions to business activity illustrate the limitations on the Welsh Government's ability to forecast the socio-economic effects of the pandemic, the adverse consequences of which have been much less severe than originally anticipated, particularly over the longer-term. This was undoubtedly in part because of the (again perhaps unexpected) level of effectiveness of the support measures that were put in place by governments. The clear lessons from previous instances of disruption to the labour market may be one reason why these effective responses were put in place.
67. It also seems that another factor was that the response of businesses to what was perceived as a temporary interruption to business-as-usual was quite different from what the response might have been, had the pandemic been perceived from its outset as presenting the longer lasting changes to fundamental economic conditions of the kind that often follow a major recession. Businesses therefore responded to Covid-19 on the basis that the interruption to their normal activities was assumed to be temporary – and this put them in a different position from the position in which that they might have found themselves, had they operated on the basis that the interruption was set to be longer-lasting. For example, businesses might have been more likely to permanently close sites, or to shed labour on a permanent basis, had they responded to the pandemic on the basis that it presented more than a merely temporary interruption to business-as-usual. In consequence, conclusions drawn on the basis of previous recessions may have been unduly pessimistic.
68. The Welsh Government's Chief Economist believed that making conclusions on the basis of a wide range of evidence from across the UK, whilst considering the ways in which the Welsh context differed, was the right, and probably the only feasible, approach.

Modelling as part of the economic response to the pandemic

69. I am asked what use the Welsh Government made of mathematical, statistical and/or economic modelling and what types of model were used or developed in the economic response to the pandemic.
70. “Modelling” is not a precise term. In economics, it has been used to refer to a wide range of forms of quantitative analysis, of varying degrees of complexity and comprehensiveness. The Chief Economist advised that the use of modelling comprehensively to assess the effects on the Welsh economy of the pandemic and/or the marginal effects of different levels of restriction would require a complex macro-economic model of the Welsh economy. The Welsh Government does not have such a model, and the Chief Economist’s advice was that no external body possesses a model of an appropriate type, although exploratory work is underway by several organisations, including the National Institute for Economic and Social Research.
71. The Chief Economist noted that there was no consensus amongst academics about the best approach to economic modelling of the kind required or even about its feasibility. The Office for Budget Responsibility, for example, does not model the economy in Wales, despite its responsibilities in respect of forecasts of Welsh taxes, and has observed that, when expressed on a per-head basis, the short-term trend of economic output in Wales is not distinguishable from that for the UK, although there is some random variability.
72. The Chief Economist’s advice was that developing a macro-economic model of Wales posed very great challenges and should be seen as a very long- term project requiring a high level of expertise. While data limitations posed obstacles, these were in principle addressable, albeit only at potentially very high cost. A more fundamental challenge was posed by the close integration of the economy in Wales with the wider UK economy, which meant that modelling would have to encompass both “levels”. This is indeed the approach being explored by the National Institute of Economic and Social Research. Once a model is developed, further challenges arise in respect of validating it such that it could be used with a reasonable degree of assurance.
73. Even if a validated macro-economic model of the Welsh economy were available, using it to assess the impact of the pandemic and/or the marginal impact of different packages

of restrictions would run up against the same range of fundamental obstacles faced by any approach to the same challenge described above. These include (but are not confined to):

- The uncertainties about the future trajectory of the pandemic, including the prospects for effective vaccinations and treatments, and how the assessment made by consumers and businesses (including by trading partners in the rest of the UK and internationally) of these uncertainties affected their behaviour over time.
- The effectiveness of restrictions in comparison to the (uncertain) changes in behaviour that would be made in response to the pandemic even in the absence of restrictions.
- The effectiveness of the support measures being put in place, particularly those that were novel (such as the furlough scheme).

74. In summary, therefore, the Chief Economist's advice was that there was no realistic prospect for fully comprehensively modelling of the impact of the pandemic and associated restrictions, and that Welsh Government should rely on a range of less comprehensive approaches which could contribute to balanced assessments. Such assessments would draw on a wide range of evidence, including that assembled by the Covid-19 Project team, other parts of the Welsh Government, and the Socio-Economic Harms subgroup.

75. The Socio-Economic Harms subgroup itself drew on a range of existing data, research and analysis relating to previous periods of reduced economic activity, such as the labour market consequences of major economic recessions. This included the evidence that was relied on in the UK Government's report "Direct and Indirect Impacts of COVID-19 on Excess Deaths and Morbidity", a copy of which I exhibit as **WGWT/038-INQ000220213**, which drew heavily on previous studies into the impact of recessions on public health. Similarly, as referred to in paragraph 36, there was a body of research published in the early stages of the pandemic that drew on evidence from previous recessions in order to understand the potential adverse longer-term economic impacts of Covid-19 on young people entering the labour market, (**WGWT/028-INQ000350798**).

76. A key aspect of the Socio-Economic Harms subgroup's role was to identify, analyse and synthesise the available evidence, and to consider how that evidence assisted in determining what the potential longer-term socio-economic impacts of the pandemic and the restrictions might be. The evidence that was available provided some level of guidance in that regard, but these were very much imperfect analogies and there was of

course no way of being certain as to the extent to which the novel circumstances that we were facing might play out from an economic perspective.

77. There were no new types of model developed in the economic response to the pandemic because of the problems summarised above.
78. Epi-macro modelling was not used by the Welsh Government and so it played no role in preparation of advice to Ministers. A macro-economic model for Wales would be the basis of epi-macro modelling but no appropriate, Wales-specific macroeconomic model exists.
79. I am asked what structures and processes were developed for the provision of advice about modelling, including commissioning of advice and also for the consideration and discussion of modelling. As outlined above in paragraph 43, we relied on the existing structures and those which had been set up to support the Covid-19 response more generally such as the Technical Advisory Group and the Socio-Economic Harms subgroup. There was no specific structure or process introduced for modelling.
80. Beyond the modelling and analysis described above, the Welsh Government did not undertake any further formal scenario analysis for economic outcomes. However, scenario planning was central to monitoring changes in the pandemic itself and its impact on the health system in particular.
81. The main challenges that existed with regards to the availability or use of forecasting, modelling or other scenario analysis related to the data that was available not being timely or frequent. Even if timely and granular data were available there is no consensus on how to model economies, particularly at the regional level. There are also challenges in specifying how behaviour would change, both as a result of the disease itself and the restrictions put in place, and uncertainty over how long the pandemic would last, which was critical in assessing economic impacts. In this context formal economic modelling would not have provided meaningful results and other forms of economic evidence therefore played the key role in contributing to the balanced assessments that were made.
82. So although a lack of the data appeared to be the immediate barrier to economic modelling and scenario analysis, even if better data had been available, it is unlikely the modelling techniques available at the Welsh level would have assisted much – if at all - in making better judgements about the policy response.

83. The key issue was that the critical assumptions that would need to be fed into any such model would drive the results, and there was a very high level of uncertainty about those assumptions. This would have resulted in a vastly diverse range of scenarios with no reasonable basis for attaching probabilities to them.
84. Therefore, the challenges around modelling and analysis need to be seen in the context of what the Chief Economist understood to be the policy objective which was to avoid worse-case scenarios in the health system. With that in mind, the analytic problem became one of how to do achieve what the Welsh Government needed to do in the way that imposed the lowest overall costs on society (and not just short-term impacts). The Chief Economist's advice was this needed a balanced assessment, including consideration of harms that were very difficult to quantify (such as impacts on young people from school closures) but likely very important.

Other source of advice

85. I am asked whether the Minister for Finance, other Ministers or senior Civil Servants had their own separate sources of expert advice. To my knowledge, the advice they received came from the sources outlined in this statement and I was not aware of any other sources.

Reviews of access to data, advice or analysis

86. I am not aware of any reviews which have been carried out into the Welsh Government's access to good quality data, advice or analysis used in the economic response to the pandemic.

Frameworks for public expenditure

87. The main framework governing public expenditure, both on a day-to-day and an emergency basis, is *Managing Welsh Public Money*, exhibited at **WGWT/039-INQ000116472**. It sets out the main principles for managing resources and is primarily aimed at organisations within the boundary of the Welsh Government's consolidated accounts, but the principles hold true across the whole of the Welsh public sector. The document explains how to handle public funds with probity and in the public interest and it is recommended it should be read in conjunction with *Managing Public Money*

(published by HM Treasury) to understand the wider picture of funding and financial control at a UK level.

88. The other relevant frameworks which capture the overall public spending frameworks in which the Welsh Government operates are:
- a) HM Treasury's Consolidated Budgeting Guidance 2020-21, which is published yearly, exhibited at **WGWT/040- INQ000068418**. This guidance sets out the principles and standards underpinning the budgeting system mandated for use in central government, including the Welsh Government. The budgeting system is a key part of the UK public spending framework and enables the Treasury to control public spending and appropriately incentivises departments to manage spending effectively.
 - b) the Fiscal Framework, exhibited at **WGWT/041- INQ000116461**. This is the agreement between the Welsh Government and the United Kingdom Government on the fiscal arrangement which applies to the Welsh Government following devolution of some tax and borrowing powers.
 - c) The Statement of Funding Policy, exhibited at **WGWT/042-INQ000066149**. The purpose of the Statement is to set out the policies and procedures which underpin the UK Government's funding of the Devolved Governments, to set out the elements of that funding, and to explain the interactions with the funding the devolved administrations raise themselves. It is intended to inform those both inside and outside government how the funding process operates, particularly as the arrangements become less symmetric as the devolved administrations take responsibility for additional functions.
89. Despite the exceptional circumstances of the pandemic, and the need for urgent action at various points, every effort was made to ensure the principles of sound financial management, as set out in *Managing Welsh Public Money*, (exhibit **WGWT/039-INQ000116472** refers), applied. The need to manage and deploy public resources responsibly, with integrity, transparency and value for money was at the forefront of decision-making.
90. The Welsh Government had governance structures and processes as well as internal controls to safeguard, channel and record resources as intended. For example, the Star Chamber was put in place to assist the Minister for Finance in making decisions about the reprioritisation of existing Welsh Government budgets, and the allocation of funding from the COVID-19 Reserve, which included the consequential funding received from

the UK Government, in a way which ensured affordability and delivered value for money whilst meeting needs. The Welsh Government also worked co-operatively with partners in the public interest. This was particularly true of the economic policy leads who had regular contact with Welsh businesses, which was beneficial in enabling the Economic Resilience Fund to be devised at pace and agreed by Cabinet very early on in the pandemic response.

Statement of Truth

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

Signed:

Personal Data

Dated: 4/4/2025