HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: COVID-19 Employment Support Schemes, HC 810

Thursday 17 November 2022

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Olivia Blake; Dan Carden; Mr Jonathan Djanogly; Mrs Flick Drummond; Mr Louie French; Anne Marie Morris; Nick Smith.

Gareth Davies, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Andy Morrison, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-114

Witnesses

I: Jim Harra, Chief Executive and First Permanent Secretary, HMRC; Janet Alexander, Compliance Operations Director, HMRC; and Beth Russell, Second Permanent Secretary, His Majesty's Treasury.

Report by the Comptroller and Auditor General

Delivery of employment support schemes in response to the Covid-19 pandemic (HC 656, Session 2022-23)

Examination of witnesses

Witnesses: Jim Harra, Janet Alexander and Beth Russell.

Chair: Welcome to the Public Accounts Committee on Thursday 17 November 2022. Today we have witnesses from HMRC and the Treasury, because we are revisiting the Government's furlough and self-employment support schemes, which were introduced at the beginning of the pandemic to save jobs and to ensure that the economy did not crash completely. However, that cost the taxpayer £96.9 billion. We last looked at the schemes at the end of 2020, when we were discussing the issues of how HMRC was going to clamp down on fraud and error. We want to pick up on that issue in particular, because the fraud and error estimate on this is £4.5 billion, and we want to focus on how we are going to get some of that back to the Exchequer.

I welcome our witnesses: Jim Harra, chief executive and first permanent secretary at HMRC, joined by Janet Alexander, the director for compliance operations at HMRC, and, from the Treasury, Beth Russell, the newly appointed second permanent secretary, based in Darlington—a warm welcome to you, Ms Russell. We have no pre-questions because, with the Chancellor due on his feet shortly, you would not be able to answer them anyway, so I ask Anne Marie Morris, MP, to kick off.

Q1 **Anne Marie Morris:** Thank you, Chair. Generally, Mr Harra, the perception is that the covid-19 employment support schemes were overall a success. I will challenge you on that to get clarity as to how we measure that success and whether they were successful really. My understanding is that 33 million people were eligible, 14.6 million employments were actually saved under the schemes and 2.9 million were ineligible, either for policy reasons or because of the challenges of the tax system. If my maths are right, that means that 18.4 million in effect did not benefit in any way from the schemes. Should I take from that that the schemes were not successful?

Jim Harra: No. I think there is evidence—we have published an interim evaluation with the Treasury, and will publish a further one in due course—that the schemes achieved their objective and that the vast majority of people who needed assistance from them were able to access them. If we look at the furlough scheme in particular, where 11.7 million jobs were helped during the course of the scheme, we have done some survey work both on employers who used the scheme and on employers who were eligible but did not use the scheme, to understand why.

For the vast majority of the employers who did not use the scheme, it was because they felt that they did not need the support—their business was running and they were able to keep their employees fully engaged. There were some single-employee businesses who felt that the scheme was not for them but who might have benefited. By and large, however, the employers who used the scheme said that it prevented them from either going under or having to make redundancies, and the employees who did not use the scheme said that that was because they did not need to do so.

You are right that, particularly for the initial phases of the self-employed scheme, people were excluded because they had recently started in business and we did not have sufficient data to identify them and their entitlement. The decision was taken that the risks were just too high. Although we knew that, in there, there would be people who genuinely needed assistance and would have to turn to some of the other Government schemes, the decision was made that we couldn’t open the initial phases of the self-employed support scheme to them. But in later phases, as more data became available, we added to the cohort of eligible people.

Q2 **Anne Marie Morris:** You did, Mr Harra, and that was appreciated and helpful. There was one group that was never looked at, and that was directors of companies who took their incomes through dividends rather than through PAYE. It was therefore considered too difficult to assess. It seems to me that they certainly were in need, and if the outcome results are anything to go by, the self-employed group—those supported under SEISS—were generally more successful. It seems that that was a lost opportunity and a need that perhaps should have been met.

Jim Harra: Anyone who worked through their own company—anyone who was a director or employee of their own company—could benefit from the furlough scheme, but only in relation to employment income, not in relation to dividends that they withdrew from their companies.

Anne Marie Morris: Precisely.

Jim Harra: With the Treasury, we did look at whether it would be possible to bring those people within support. We looked at some suggestions that were made externally to us, but it was concluded that we could not do that. The main reason was that we had no way of distinguishing dividend income that was in lieu of earnings from dividend income that was just a return on investment.

Since the schemes closed, we have had a consultation on what further data it might be useful for HMRC to have in the future to enable us to target support. One of the questions we asked in that consultation was: should we in the future ask for data on dividends to be broken up between dividends from one-man companies and other types of dividends? That might help in the future. You are right that there was a group of people who, although they could access the support schemes, the way they structured their income meant that the scheme couldn’t support them to the full extent.

Q3 **Anne Marie Morris:** I am very pleased that you have made a decision to ask for that data in that way, because that was a very useful group of companies and individuals within our employment system.

Jim Harra: We have had the consultation and received the responses, and the Government will in due course announce what their decisions are.

Q4 **Anne Marie Morris:** Can I push you further? Success is also measured in the number of jobs lost. The OBR's initial prediction was that job losses would be 10%, but it actually peaked at 5%. Again, in theory—this is set out in figure 3 of the Report—that looks like good news, but do you think that figure actually reflected the real jobs being lost?

Beth Russell: With both schemes, but the furlough scheme in particular, one of the things that we are looking at in our evaluation—we have done an interim evaluation, but there is going to be a full evaluation next year— is the various different ways of looking at the schemes' success. There are, obviously, the jobs directly protected by the schemes. There is then a set of objectives about protecting incomes. We published some things in the interim evaluation about that, but we are going to look at it further. Then there is a third set of things, which is about the impact of the schemes on the wider economy—consumer confidence, consumer spending and an indirect employment effect. To be frank, it is very difficult to look at all that and at what the counterfactual would have been if the schemes were not in place. That is something we are going to try to do in our final evaluation, but we are not there yet.

Q5 **Anne Marie Morris:** I am very pleased, Ms Russell, that you understand that there is an issue, and I share your concern about the complexity. I am concerned, because the ONS in March '22 showed a real problem—it seems to be a specifically UK one—which is the fall-out from the labour market of the over-50s. It seems that 47% retired, 15% left the system because of covid, 13% left because of illness and 11% just didn't want to work. It seems to me that, given where we are now with the current rate of jobs available and still vacant, we have unintentionally lost jobs rather than saved them as a result of what happened during covid and the way we approached it through furlough. Would you say that is fair?

Beth Russell: I think you are right that there is clearly a big issue around inactivity in the economy now. What there isn't is an evidence base that shows that that is particularly related to these schemes. If you look at what happened to people who were on the schemes right at the end, 90% of them were still on a payroll a few months later, so the vast majority were staying in work. Also, if you look at other countries—as you say—it looks like in the UK we have a bigger problem with inactivity than other countries, but, of course, a lot of other countries had very similar schemes to ours during covid. Again, it is something we are going to try to look at in the final evaluation, but at the moment we do not see that there is necessarily a direct link between the two.

Q6 **Anne Marie Morris:** I am glad you are looking at it. I appreciate that it is difficult to look at the correlation, but in addition, Ms Russell, redundancies also showed a significant change. As you would expect, I think, the numbers went down during the course of the scheme, but as we came out towards the end of covid, the numbers went up. More worryingly, they have stayed up.

Beth Russell: I do not have the information right in front of me. As far as I am aware, I think the redundancies did tick up a little bit, but not actually that much.

Q7 **Anne Marie Morris:** Let me refresh your memory, then. From the ONS figures for ’19-20, there were 436,000 redundant, but for ’20-21, there were 956,000 that were redundant.

Beth Russell: I think, from the analysis that has been done by the OBR and others showing what happened to people at the end of the schemes, we did not see a big uptick in redundancies from those on the schemes. Obviously, there are a lot of other things going on in the economy, and what has happened subsequently in terms of other developments in the economy may have been the thing that has driven that particularly.

Q8 **Anne Marie Morris:** Can I add something to my list of challenges, then, which is insolvency? Surely, that is another measure as to how successful the scheme was. If we look at the Insolvency Service’s records at Companies House, unsurprisingly, during the time of support, insolvencies fell by a third, but then they went straight back up again, and they remain to this day higher than they were during the pandemic. Does that not give you concern?

Jim Harra: If I may pick that up, obviously as one of the biggest debt collectors in the economy, I am well aware of the trends in insolvency. Quite apart from the support schemes that HMRC administered, there was also an embargo—a legal embargo—on creditor insolvencies of companies during the pandemic. That meant, I think, that there was some pent-up pressure during the pandemic period of insolvencies that would have happened in any event but had been prevented from happening, and that was not actually lifted until March this year.

What you have seen since then is an increase in creditor insolvencies, which is inevitable. There is no sign at this stage that it is rocketing, and, of course, since then a lot of other events have happened that have affected the economy that are not covid-related. At this stage, you are seeing what I think you would expect to see from the level of indebtedness in the economy and from the inability to manage that debt in a usual way during the pandemic. There is no doubt that the support schemes did prevent businesses from closing, and the survey of employers, for example, who used CJRS showed that many of them said that they would have closed if it had not been for the scheme. At the same time, ordinary economic events were happening, and you would have expected to see some insolvencies. There is a catch-up period, from my experience.

Q9 **Anne Marie Morris:** Let me just ask you one final question on this. I think there is a question mark in terms of success—given that the success is at the cost of the taxpayer—about whether or not the length of the schemes was actually too long.

Beth Russell: It is fair to say that there was a set of really difficult judgments and balances to be struck through the life of the scheme. At the beginning of the scheme, clearly, there was a case for them to be there.

One of the things we looked at really carefully from only a few months in, and for the rest of the time, was getting the balance right between supporting jobs—particularly supporting the employer-to-employee matches through the furlough, which we know are so important to preserve if you want to protect the long-term productive capacity of the economy—and not ending up in a position where the schemes either incentivise people to not work when they could have done or to not move around the economy to areas where there was demand. We were constantly trying to get that balance right. Some of the things we put into the furlough scheme, like the employer contribution, were deliberately aimed at trying to put the incentive on the employer to make that balance so that we could exit the scheme in a way that made sense for the economy.

Q10 **Chair:** Before I hand on to Mr Smith, you talked about insolvencies, Mr Harra. We get that there might have been some pent-up demand, but there must have been an impact on insolvencies as a result of the pandemic. How are you disaggregating those figures?

Jim Harra: In the case of our own debts, we can track the debts that arose during the pandemic. As you know, they peaked at about £72 billion in August 2020. We have cleared about £60 billion of that now, so we have about £12 billion still to clear. We are able to track what's happened to those. Obviously, we cleared those during the period when we were not using insolvency as part of our toolkit, because that embargo only got lifted in March. I think it'll be important to monitor what happens with that £12 billion, because that will be the more difficult debt to clear and is more likely to end in insolvency. We will monitor that, quite apart from the indebtedness that has been happening—

Q11 **Chair:** When will you be able to tell us what you think the real impact of the pandemic has been on insolvency?

Jim Harra: I think when I appeared before the Committee before, I said it would take us a couple of years to work through the pandemic debt. In fact, as I say, we have worked through the vast bulk of it now but have probably got the most difficult cases, but I still think that is the timeframe.

Q12 **Chair:** How will you be able to disaggregate what is the result of the pandemic and what is just a business that was—

Jim Harra: We can certainly disaggregate debt that arose during the pandemic versus debt that has arisen in the economy subsequently. We are able to track that.

Q13 **Chair:** But there could have been a business that was having trouble and the pandemic just made it worse—but you don't think you'll be able to disaggregate that.

Jim Harra: I think that would be difficult. As Beth said, first of all, the counterfactuals are very difficult to predict but there have also been events since the pandemic such as the energy crisis that have affected the economy and are separate from it. That will be difficult to disaggregate, but in timing terms, we certainly should be able to do that.

Q14 **Nick Smith:** Good morning. I have a quick follow-up on that question. What data are you collecting to understand the reasons for insolvency?

Jim Harra: Obviously, I am only responsible for using insolvency in relation to tax debt. We have a published policy that says that we use it only as a last resort, where it is clear that a business is not going to be able to sustain its tax payments or where we believe that people are not co-operating with us to clear their debt. We use it by exception. We take care to comply with that policy. But it is the case that there is still a very high level of indebtedness in the tax system compared with normal times, through a combination of the pandemic and events that have happened since then in the economy. We will monitor very carefully how we use insolvency and what the trend is, but the policy hasn't changed at all.

Q15 **Nick Smith:** I have a couple of quick questions on self-employment payments compared with furlough. Ms Russell, why were the payments so much higher for each self-employed person than for each person who was furloughed?

Beth Russell: What Ministers were trying to do with the two schemes was make them as consistent as possible. As you say, the evidence is that the payments were a bit higher under the self-employment scheme than under CJRS. We don't exactly know the reason for that. The hypothesis is that primarily they were paid out in a lump sum.

Q16 **Nick Smith:** You say they were a bit higher, but it was more than a bit.

Beth Russell: Okay, they were higher. They were paid out as a lump sum for three months' worth of the pandemic, whereas in the furlough scheme people might have been cycling in and out of using the furlough, or using it for different amounts of time. The overall rules of the scheme were very similar between the two, in terms of 80% of previous earnings or income over the previous year.

Q17 **Nick Smith:** The rules were similar, but the benefits were very different, weren't they?

Beth Russell: Yes, which I think is because of this three-month approach in the SEISS. Obviously, we were trying to deliver the scheme quickly. One of the ways to do that was to match it against data already held on HMRC's system and do it in a single payment to that cohort. But it is something we are looking at because we are not entirely sure what has driven that, but that is the hypothesis at the moment.

Q18 **Nick Smith:** Thank you. My next question is for you, Ms Russell. To what extent was it good value for money for the SEISS grants to increase claimants' average profits by 14%?

Beth Russell: If you look at the self-employed population, they are in a wide range of different circumstances. We know that, including the SEISS payment, some people ended up with a better outcome than the previous year. If you look at it without the SEISS payment, about 80% of people who used the scheme were either the same or worse off than they would have been. It is partly a result of the fact that by its nature—because we were trying to protect against fraud and error and deliver it quickly—this scheme was not exactly tailored to everybody's different circumstances.

Q19 **Nick Smith:** Was it good value? That is what we are trying to understand.

Beth Russell: We think that it was, in the sense that it supported incomes. Without it, there is a lot of evidence that people would have had a drop—in some cases a very large drop—in incomes. There is a comparison between what happened to somebody who was self-employed over a whole year, which is what those numbers refer to, but in that year they may have been doing particularly badly during the three months in which they received the SEISS payment. We need to look at how that came out overall, but overall if we did not have the scheme a lot of people would have had bigger falls in income.

Q20 **Anne Marie Morris:** Mr Harra, we are now in November 2022. Can you explain why this evaluation only goes up to October 2020? That is two years ago and a lot of time, and a lot of information has been made available. Could we not have evaluated the scheme to a more recent date?

Jim Harra: This is an interim evaluation, and there will be a final evaluation next year. There is a lag in HMRC receiving data for the purposes of these evaluations. If you take self-employed people, for example, we will not have the returns until January 2023 for the final year of the scheme. That is one of the reasons. We evaluated it based on the best data available, and we concluded that we had quite a lot of data for that period and could therefore do a decent evaluation of it. In the later periods, I am not sure that the circumstances will be that different. You can see in both schemes that, as time went on, usage went down as the economy recovered. There will be some interesting things to evaluate around that. Otherwise, I suspect that there are a lot of learnings from the initial parts of the scheme that will apply the whole way through.

Q21 **Anne Marie Morris:** Can we be confident that, come spring next year, we will have the final evaluation?

Jim Harra: For 2023, I am not sure that we have a date yet for when we intend to do that, but the returns for 2021-22 are due at the end of January. We are committed to doing the final evaluation.

Q22 **Anne Marie Morris:** Given that you will get them at the end of January, as you say, what is your best estimate of the earliest that we might get the final report?

Beth Russell: I don't know. 2023 is the commitment that we have made at this point, but we will be trying to do it as quickly as we can.

Q23 **Anne Marie Morris:** Right. Might I hope for spring rather than autumn?

Chair: Ever the optimist, Ms Morris.

Jim Harra: I do not have a date that I can give you.

Q24 **Chair:** Okay. We like to pin things down; it is like pinning jelly to the wall sometimes, with all the best respect to Whitehall. Ms Russell, as you and many of your predecessors have said, there was no counterfactual, but you must still look at the value for money of this. We will touch on that a bit more later but, in that evaluation, will you be looking at the value for money? The headline message is, "Jobs were saved. The economy didn't tank." Fine—we can bank that—but there are all the other moving elements. How will you be assessing that, and will the evaluation include it?

Beth Russell: Yes, it will. As I said, we have been looking at this through three different lenses. One is the direct jobs saved, one is the incomes, and one is the impact on the broader economy. We need to look at all of those and work out some kind of counterfactual to be able to make that assessment.

Q25 **Chair:** And will you turn this into a document that will be used, hopefully not for a very long time? We are pushing other Departments on this, but it would be useful to have a "how to" guide, because hopefully none of us will be here the next time it happens.

Beth Russell: Actually, on the schemes themselves, that is something we have already done in terms of bringing together the material and, in a sense, the playbook on how to do these kinds of things. But the broader evaluation will tell us a lot as well.

Q26 **Chair:** Ms Morris and Mr Smith have touched on this a bit. The two different schemes were targeted in different ways, but there was no financial impact test at all for the furlough scheme and CJRS. Why was that?

Jim Harra: The purpose of this scheme was to prevent job losses where employers could not keep their employees occupied in the first phase and then, after that, to supplement incomes where people were on short hours, so it was not directly related to the loss of business income. That is the contrast—

Q27 **Chair:** That was the policy design. Now, looking back at it, what would you do differently?

Jim Harra: There has been some interesting survey evidence afterwards, which shows that, for about 15% of the employers who used the scheme, their business income did not go down. But when you survey them, the vast majority say that, nevertheless, they would have shed jobs if it had not been for the scheme, and some of them say their business may have closed had it not been for the scheme. I think that is probably evidence that a financial impact test in that scheme might not have been well targeted in terms of preventing relief from going to people who did not need it, because those employers were saying that they did need it. On the other hand, there is also evidence from the employers we surveyed who did not use the scheme that where they didn't need it, they didn't use it.

Q28 **Chair:** We have the impact on the individual—the employed person who perhaps would have lost their job—and then the impact on businesses. I am not trying to stray into policy areas here but, practically, those that carried on making good money, even though they were using furlough—that could have been an opportunity to reap some of their profits back from them in order to shore up the Exchequer more generally.

Beth Russell: We did look in a lot of detail at different ways to target the scheme. In fact, almost as soon as we had launched it, we started doing work on different options. Obviously, Ministers decided not to introduce a financial impact test. What they decided to do instead was to target the scheme by increasing the employer contribution and, in a sense, putting the incentive on the employer to decide if they really needed it.

On the financial impact test, there were various reasons why Ministers decided that was not the way to go. One was that it would have added complexity into a scheme that was relatively straightforward for businesses to use. Another was that the data that HMRC had to administer a financial impact test was always going to be out of date. It was a very fast-moving pandemic, where a three-month period a few months ago may not have been representative of what was happening to them right now. Also, about 40% of the furlough employers were not in the VAT system, so we would have had to do some kind of self-certification for that group, and Ministers decided that was not where they wanted to go.

Q29 **Chair:** The self-employed scheme was a lot more fraught, because you could work when you were on furlough, if it was another job. Do you know how many people did that?

Beth Russell *indicated dissent.*

Jim Harra: No, I don't think we do.

Chair: It would not come through your real-time pay information.

Jim Harra: It's not something that we have measured. Obviously, we have data about who works, and we have data about who was furloughed, but I do not think we have crashed that data together—not that I am aware of.

Q30 **Chair:** Will you be able to do that in your evaluation?

Jim Harra: We will have a look at whether we can and whether it is good for the evaluation. You are right to say that the furlough scheme was directly targeted at income loss because of hours not worked, but there was an ability to take a second job if you wished. In the self-employed scheme, there was no such test. The self-employed person could continue in business and work as many hours as they wanted, as well as using the scheme.

Q31 **Chair:** Ms Russell, surely you must be curious in the Treasury about people who were able to get a second job—everything from the profile of them, such as whether it was younger people who were more easily able to do it, or whether there were people who had skills that were more easily transferable. That would surely help in evaluating the scheme and targeting it better if there was ever another occasion to do this.

Beth Russell: Yes, and as Jim said, we can take that away and look at it. It was a really important part of the scheme, because, as I said earlier, we did not want this to be stymieing economic activity that could otherwise take place, and there was also a lot of volunteer activity that we wanted people to be able to participate in if they were on furlough.

Q32 **Chair:** Okay. On the knotty issue of self-employment, we can go through the finer detail, but basically there were two buckets of people: people who could claim and carry on working—some of them did very well—and those who did not get anything at all. Did you not think about a financial test as people carried on with their self-employed work? Some continued to do very well. Some got very adept at going online, for example, and making quite good money, but were also benefiting from the selfemployment support scheme, so some people did quite well out of this. I am not attacking them. That was the design of the scheme. There was no financial impact assessment. Do you regret that now?

Jim Harra: During the five grants, there were a series of different tests. For the first two grants, the self-employed person had to satisfy themselves that they had been adversely affected by the pandemic. For the next three grants, we changed that test. They had to have a reasonable belief that their profits were reduced as a result of the pandemic, and they had to keep some records of that in case we asked to see them. In the final, fifth grant, there was an additional financial impact test that determined the level of grant that they could get, which was directly related mathematically to their previous year's profits. So there were tests in that self-employed scheme. If you look at the take-up of the scheme over the five grants, you can see that take-up declined over time, presumably as people determined that they no longer satisfied those tests and could not claim.

Q33 **Chair:** For the ones who couldn't claim, some of them have experienced long-term damage, so there does seem a very big divide there. Has any thought been given to looking back at those people, particularly now that they have for a couple of years been putting in their self-employed returns? You now have data on them, and of course it kicked in for them after a year if they were genuinely self-employed for the year before.

Jim Harra: This is the newly self-employed?

Chair: Yes. The 0.2 million people as of 2020.

Jim Harra: People who were newly self-employed could not qualify for the first couple of grants, but they were able to qualify for the later grants under the self-employed scheme.

Q34 **Chair:** Have you thought about reaching back, because, for some of them, it was a devastating time when they had absolutely no income? Some could not even qualify for universal credit.

Jim Harra: Certainly the interim evaluation does not look at that group specifically. We would have to take away whether that is something that we should do in the final evaluation.

Q35 **Chair:** Some of that will change as you get more data on taxpayers. Do you think that the 0.2 million—the missing freelancers—is something that would not happen again? We are talking, hopefully—hypothetically if we are a long time away—about something that we would not have to do again. But if you had to make such an intervention again, do you think you could do a better job for those people in future?

Jim Harra: The key reason they were not included was because we did not have data about who they were, when they started in business and what their earnings were. There are two things that you could look at in the future. First, did we make the right judgment about excluding those people as opposed to allowing them to self-certify? There is some evidence from overseas, although it is quite difficult to get evidence, that selfcertification did result in a higher level of error and fraud, as you would expect. The other thing to look at is whether we can in future have more up-to-date data about who is self-employed and what their earnings are so that we could be more responsive. Undoubtedly, if we had had the data, we would have wanted to include those people.

So there are two things we are doing on that. First, the Making Tax Digital programme is intended to get more regular information about people's turnover and expenses. In addition, in the recent consultation we asked the question about what further data we should gather on self-employed people to enable us to do that in future.

Q36 **Chair:** So that would be an option for people who are newly selfemployed to submit regular information about their income for the first year of self-employment.

Jim Harra: In Making Tax Digital, we will expect to get those regular updates in any event. In addition, we asked questions in the consultation such as when people should tell us that they have started selfemployment and ended it. Also, we do not currently collect data about what sectors people work in or where they are in business or employed geographically. All those pieces of data might be relevant in future schemes, because a future crisis might affect particular sectors or geographical areas, and we know that we don't have great data that would enable us to target in that way.

Q37 **Chair:** Do you have a sense of the people who claimed but were not adversely affected? Again, in your evaluation, will this be coming out, or can you give us any information about it now?

Jim Harra: Obviously, people had to certify that they were adversely affected or, later on, that they had a reasonable belief that their profits had been depressed by the pandemic. That is something that we do look at as part of our compliance work. Similarly, on the furlough scheme, we mentioned that about 15% of the employers who used the scheme did not suffer a reduction in their business income. While that was not a qualifying condition, it is a risk factor when looking at compliance with the rules of the furlough scheme, because you would expect that when employees are furloughed, that would have an impact on the business. So it is something that Janet's people take into account in their risk assessment.

Chair: Do you want to add anything to that, Ms Alexander?

Janet Alexander: With the "adversely affected" test and the "reasonable belief" test, what we were asking self-employed people to do was to look at their activity now compared with what it might have been if there had not been a pandemic. That is quite a hard thing to test.

What we can test, as the returns come in, is as follows. For the first three SEISS grants, we have the returns that came in in January this year. We can look at previous history and then start to ask questions: "Your turnover seems to have been much higher even than in the pre-pandemic year. Why is that, and do you have evidence that supports your assessment of whether you were adversely affected?" It is quite a difficult test to enforce, because obviously the information is with the person who is self-employed. And often you will see, over the course of the year, that at the time they made their claim, they absolutely were adversely affected. They were ill; their staff were ill. Demand was affected because they were shut down. But you can imagine the situation six months later.

I think the best example is a physiotherapist. "All my appointments are cancelled. I can't work." Post lockdown, lots of people want to see physiotherapists because they all have bad backs, and the demand goes up. So overall, in the course of the year, they are actually more profitable than the year before, but when they made the claim, it was a reasonable thing to believe that their business would have been impacted, because they just didn't know.

Q38 **Chair:** Okay. How are you going to design that out of a future scheme? Can you?

Janet Alexander: If you are going to rely on that "reasonable belief" test and say you are comparing against a counterfactual that you don't know, you cannot design that out, but I think we have to accept that the majority of people who made a claim made an accurate claim. And as Jim said, we did see the tail-off as people were recovering from the pandemic.

Q39 **Chair:** But with people doing annual accounts—even with real-time data or Making Tax Digital—there will be a way of recouping that at the end of the year when people put in their full, finalised tax return and financial information for the year.

Jim Harra: There is no mathematical test—apart from in the final grant, where there is—so, as Janet said, the fact that someone's profits for the year as a whole look not out of line with the previous year's does not mean that, at the point when they made their claim, they were not being adversely affected. We can look at what evidence they kept at the time, because they were told that they must keep that evidence. Clearly, in really egregious cases, we will challenge, but the reality is there is no straightforward mathematical way of saying, "Aha, this is a case where you could not have reasonably believed."

Q40 **Chair:** Would it have been easier if you had had earlier a clear test that was based on income at the time?

Janet Alexander: The difficulty is that any test that is a mathematical test does not account for people who might reasonably expect their business to grow and are saying, "Actually, it was perfectly reasonable to accept that my business would increase or improve, and you are now disadvantaging me." It's a really difficult one—to think about how you would design a test that does not require people to make an assessment about whether they are personally adversely affected or whether they have a reasonable belief.

Chair: But everyone is not optimistic that their business idea or their employment will do very well—

Janet Alexander: And at the time, if you were in the middle of a lockdown, they were not unreasonable assessments to make, were they, if you thought, "I don't know when I can open my shop again" or "I don't know when I can service my clients again"? I think that becomes quite a difficult test.

Beth Russell: May I just add one thing to that as well? I was talking earlier about the financial impact test. One of the things that we looked at was what the result of a financial impact test, with the information we have, would be for different sectors. Actually, we did find quite a good match between those most adversely affected and the sectors where there were lockdowns, but we also saw that a lot of people in sectors not that affected by the lockdowns would have received the support. I think that is partly a reflection of the fact that, in any year, businesses doing more or less well has to do with lots of different factors; it's not just related to the lockdowns.

Q41 **Mrs Drummond:** Is there any evidence that companies and the selfemployed are now restructuring and taking income as opposed to dividends?

Jim Harra: I don't think so. First of all, there are a whole range of factors that might cause people to do that, such as the rates of taxation on dividend income. I would be surprised if anyone is taking less dividend income and more salary income in anticipation of such a scheme being reintroduced. The Government are pretty sure that unless something very unanticipated happens, that is not what they plan to do.

There are a number of different factors in the tax system and elsewhere that influence how people structure. Obviously, a big change that was being introduced in 2017 and 2021 was the new rules on how we administer IR35—the off-payroll working rules—which undoubtedly have resulted in a significant number of people no longer working through personal service companies and therefore no longer taking their income in the form of dividends. Those changes have meant that there's no economic benefit for them to do that in the way there was in the past. That just is an illustration of how difficult it is to disaggregate all the different factors that might cause people to make decisions, but I would be surprised if people are doing it in anticipation of this.

Q42 **Chair:** Probably not at this point, but it is an interesting point. You were talking about the CJRS and the companies that you said would have made people redundant. As the NAO highlights in paragraph 11 on page 8 of the Report, a survey was done that shows that "around 3.7% of employments claimed for under CJRS from March to October 2020"— roughly when we last looked at it—"would equate to £1.5 billion if representative of all jobs claimed for." That was the companies that said they would not have made redundancies or closed without the CJRS. Basically, there is potentially £1.5 billion that could have been saved on the scheme.

Jim Harra: I think that is an illustration of the imperfection of the targeting of the schemes. They were imperfect—I think they were always going to be imperfect. The question is: could you have come up with something that could have identified who those particular businesses were and built that in as a rule to the scheme? The main finding from the survey is that if we had built in a financial impact test that was based on a reduction in business income, it would have caught a lot of businesses that actually did say that they would make redundancies or close. Yes, there are some who say that they wouldn't have, but the question is: could you have identified and targeted the rules to exclude them? I think it is inevitable in both of these schemes that they were never going to be perfectly targeted.

Q43 **Chair:** Ms Russell, this is perhaps more of a policy issue for the Treasury. There were those—including the self-employed, the newly self-employed, which we have touched on, and short-term or freelance workers who were missing on payroll—who have really suffered as a result of this. They are very easily identifiable. In terms of shoring up the economy— these are people who are earning money, and some of them potentially employing people—is there any thought in the Treasury about providing support to them now that we know who they are and what happened to them? There is clear data on those cases.

Beth Russell: Obviously that would be an issue for Ministers. I think actually what we don't know is what has subsequently happened to that group.

Q44 **Chair:** Is there any curiosity in the Treasury about that? I'm not asking you to answer the policy point, but are you looking at it?

Beth Russell: As part of the final evaluation, we want to look as broadly as possible at all these things, so this is another thing we could take away to see if we can track those people.

Q45 **Chair:** That is still a long way off. Will you have produced this evaluation report by December next year? You've talked about 2023.

Beth Russell: Yes.

Chair: That is a definite. We like to keep pinning you down.

Beth Russell: The interim evaluation report obviously tells us quite a lot of things and we have done that as quickly as we can.

Chair: And that has been helpful to us in preparing for today, so thank you for that.

Jim Harra: I would add that one key feature of the UK's approach to these schemes was that we wanted to minimise the extent to which we relied on self-certification and maximise the extent to which we relied on data we had. Other countries took a different approach. One thing that would be useful for the future, if those countries are transparent and do their evaluations, would be to understand what the outcomes were there compared to here, based on those decisions. We did take a slightly different approach from some of those other countries, based mainly on a concern about error and fraud.

Chair: I think I see an international conference of audit bodies and Treasury officials coming up.

Jim Harra: What is interesting is that while we have some information about other countries, no other country has actually produced an evaluation or a measure of error and fraud at this stage.

Chair: Well, there is something for the NAO to promulgate around its international networks.

Q46 **Anne Marie Morris:** Clearly, from the perspective of the taxpayer it is crucial that we try to maximise benefit and minimise wasted money. To that end, there are three areas—it is almost like a continuum: we have the dead-weight, which we try to minimise, we have the error, and then we have the fraud. All those three added together is the money that we ideally want to minimise so that we make the most of what we have for the benefit of the people of the country. We have not really touched on the dead-weight; we have gone round the edges. Ms Russell, for the purposes of this exercise, how did you define it, and how did you then look at structuring the scheme to try to reduce the dead-weight?

Beth Russell: The honest answer is that, in this context, we did not define it in one single way. We were obviously looking at some of the metrics we have talked about before, in terms of making sure the scheme was used by those who really needed it, as much as possible. Then we have the wider objectives of the scheme around income replacement and the broader impacts on the economy. It is quite difficult to take a single measure of dead-weight. We are going to have to look at it through all those different lenses and look at what would have happened if the scheme had not been in place—as far as we can.

We really cared about the scheme and cared about it as much, if not more, from an economic rather than a fiscal perspective. One of the things we were really concerned about throughout the scheme was that we did not end up in the position where the scheme itself was holding back economic activity. That was why we looked so intensively at targeting options, and why Ministers decided to introduce the employer contribution into the scheme and, eventually, the tests into the self-employed scheme. That was to target it as much as possible at those who really needed it.

Q47 **Anne Marie Morris:** Would you agree that there were roughly two buckets, even if you do not want to define them? Those were articulated by the NAO in its Report. You have those jobs that, frankly, were never going to survive, and it was throwing good money after bad—they just were not viable. Then there were others that were absolutely viable and did not need the support at all. With that in mind, what might you have done differently in how you structured the scheme to minimise that waste?

Beth Russell: It was precisely that first group that the employer contribution was aimed at. So instead of the Government deciding that they were going to support these people but not those people, the idea was to put incentives into the system so that it is on the employer, who knows best, if they think jobs are viable for the longer term, and what the future of their business is. They then make the judgment, "Do I want to pay money to keep people on furlough as opposed to making them redundant?" That was very much aimed at that first group and distinguishing between those groups.

In terms of what we would have done differently, I think the alternative option was for the Government to decide they were going to target one set of businesses or employers versus another. That takes you back to things such as a financial impact test, and we want to collect more data in the future to enable us to do that if that is what Ministers decide.

Q48 **Anne Marie Morris:** That is really helpful. The thing that I find interesting is that the Government approach, as expressed by Mr Harra, was very much, "We will be led by the data and we will not go for the subjective test." However, the answer you have just given is effectively all about a subjective judgment on the part of the employer. I find it very interesting that there is a bit of a mixed message coming through. I suspect that one of the challenges that Mr Harra faced—as indeed did you, Ms Russell—was that we did not have the data to actually follow the diktat or the overall approach that the Government would have liked. Is that fair?

Beth Russell: I think that is fair.

Jim Harra: You are right that we put the onus on the employers to decide which jobs were viable and which weren't. But it was not simply a subjective decision. What we did in the scheme was say, "From this point, if you want to keep an employee furloughed and claim under the scheme, you are going to have to use your own funds to pay part of the costs." There was a financial incentive on employers to get that right. I think that would have driven more of a logical decision than a subjective decision on the part of those employers. That was the mechanism that we used in the design of the scheme, rather than us try to analyse data and figure out which jobs were viable and which weren't. You are right: there is no way that we hold data that enables us to do that effectively.

Q49 **Anne Marie Morris:** Given that comment, would it be right to say that there are probably a number of people in the excluded group who were excluded because the view was taken that you just could not get the data within the framework of what you had to put enough knowledge into a decision to ensure that you were not going to get fraud and error? Might they not feel a bit aggrieved that they got no benefit and were automatically excluded, whereas others within the group—I think we would all agree that there was a degree of subjectivity—at least had the opportunity? Would you do that differently next time?

Jim Harra: Some people definitely were aggrieved. We know there were people, particularly in the initial stages, who could not access the schemes but who, if you look at them individually, you would have wanted to assist—less so in the furlough scheme, because we had very up-to-date information about who was on payrolls, and much more on the selfemployed scheme, because we did not have up-to-date data about who had started in self-employment. What we did was, as we moved through the phases of the grants, we brought in those cohorts as we had the data, so that problem reduced over time. Certainly in the initial phases it did. So yes, ideally what you would want in the future is—well, as I have said, we have consulted on whether we can get better data so that if you had to do this again you would not exclude as many people.

The other question that I also mentioned is that you could look at whether we made the right decision or whether we should have been more prepared to tolerate error and fraud and accept self-certification, which some countries did. It would be interesting to get at the outcomes and error and fraud in different countries to help you evaluate that. However, at this stage there is no way of doing that.

Beth Russell: May I add one thing? I think there is a differential here between data that enables you to target within a population that we already know about and that is on HMRC's system and the issue of people who just weren't identifiable on Government systems already. That is the fundamental principle—we thought: to guard against fraud and error, that was what we really needed to do.

Q50 **Chair:** Obviously, fraud and error is the big thing that we want to focus on today. As I said at the beginning, it is £4.5 billion or 4.6% of the cost. The range is quite wide. The NAO's Report highlights the range, with your estimate going from £3.2 billion, which is 3.3% of the scheme, to £6.3 billion, which is 6.4% of the scheme. Where would you say it is at the moment, Mr Harra?

Jim Harra: Our best estimate is £4.5 billion. However, you are right that there is uncertainty in this estimate, which is why we have published a range. There have been three figures over time: the initial assumptions that we made when we were designing the schemes about what the level of error—

Q51 **Chair:** We played that out in 2020.

Jim Harra: Over time, those three figures have gone down as we have got better data. We will have better data to do a further revised estimate because we have a round of inquiry programmes and also a new set of self-assessment returns coming in in January, so we will come up with an even more accurate estimate in due course. Our best view at the moment is the £4.5 billion.

Q52 **Chair:** When we looked at this before, in 2020, you were then doing the exercise to ask people to voluntarily bring money in, and that brought in just shy of £1 billion. Companies chose to repay. In your view, Ms Alexander, was that enough compliance? Or do you think that some of those errors that were repaid were just the tip of a bigger iceberg?

Janet Alexander: I think there are two different things going on here. We gave and promoted an opportunity for people to repay, and people repaid for different reasons. Some did so because they did the assessment and said, "Actually, I do not need this money. The country is in a time of economic crisis and I am going to voluntarily return the money." They were entitled to that money, but they just voluntarily returned it. There were some people who looked at it and, in the context of all the communications that we were doing about our compliance activity, decided "Actually, I am not entitled to this money at all." They used the same route to return that money and that amount returned is £1.1 billion.

All that is outside our compliance activity, so our compliance activity is on top of that. We have done a fairly intensive range of compliance interventions. First, we designed it into our system—as we set up our system, we put checks and balances in. If you didn't have a live pay-asyou-earn scheme, you did not get in to start off with, and we stopped 100,000 claims at the front door. We then stopped another 67,000 claims by looking at pre-payment checks—so the claims that showed indications of criminal activity. That amounts to about £425 million. Then, we have done what we call post-payment compliance activity. Where we have got the claims in and we have paid them out, we risk-assess, using data, all those claims and say, "What's the likelihood that this claim is incorrect?" We then prioritise those and take action, starting with the most risky and going right through to the less risky.

It is important to point out to the Committee that risk is not purely financial. Going up the risk escalator as it were, you might say, "If we have information that an employer has not passed that money on to their employees, they are further up the escalator." We want to intervene quicker with those people. Similarly, where we have evidence that we are talking about egregious behaviour, they will be higher up our priority list.

Chair: That has very helpfully laid out the areas; Nick Smith will start to probe further.

Q53 **Nick Smith:** Colleagues, I want to look at page 40 of the Report and paragraph 3.15, on organised crime estimates. It says that HMRC's counter-fraud staff assess losses to organised crime of 0.15% of the CJRS costs. I know that applies to a very big number, but it is a very, very small percentage, isn't it? Janet Alexander, how confident can you be that the organised crime activity was this close to zero, given the amount of monies available?

Janet Alexander: I am fairly confident in that. I would never say it is 100%, because that would be foolish, wouldn't it? We put in some very effective up-front controls. We looked at the kind of risks that were being presented on our pre-payment controls and we worked very hard. Where people were showing indications of suspicious activity, we absolutely blocked before the money went out. The percentage is low because we think our up-front controls were really good. That absolutely is where we prioritised our activity, because once money goes out to criminals it is very hard to get back. We have also validated those assumptions by looking at random inquiry programmes, and we have not seen organised crime activities in our random inquiry programmes to any degree at all.

Q54 **Nick Smith:** It also says in the Report that the estimate by HMRC's counter-fraud staff—I know they are good in lots of ways—of this very low percentage was "opinion-based". That leads to the question of why you did not bring in other external experts to help you to calculate this estimate of organised crime activity.

Jim Harra: First, you are right: my counter-fraud staff are very good.

Nick Smith: I always try to give credit where it is due.

Jim Harra: I appreciate it, thank you.

Chair: We like people who collect money for the Exchequer.

Jim Harra: They will appreciate it as well. You are right that we have not brought in an external view on this. We do, however, engage right across the counter-fraud profession in Government, so we are constantly sharing intelligence. That will have been involved here. Our counter-fraud staff, in arriving at their opinion, will have taken into account not just what they know internally from within HMRC but any intelligence they are getting across law enforcement. I reiterate that this is opinion-based—that is inevitable—but as we are gathering more data, we are not finding anything that calls this opinion into question.

What is probably more relevant is that there is very little organised criminal penetration here, because of the strength of our rules and checks at the start. That calls in the opposite question, which is, "Were some people excluded because we put those rules in place?" That was the tension and balance that Ministers had to strike between, "How much risk do I take of organised crime being able to get at this money?", versus, "Who will be impacted by the kind of measures that we have to take?" We made a balance. Definitely from the point of view of organised crime penetration, you can see that we got the right result, but there is some price to be paid for that.

Q55 **Nick Smith:** May I press you on that? I understand the data on CJRS fraud is limited. The random inquiry programme did not provide data on the scale of organised crime, and there was very weak evidence of working while furloughed. Why did you not press on those issues?

Jim Harra: First of all, as you would expect, a random inquiry programme means that we randomly select a sample of cases to check. If there was widespread organised crime in the scheme, you would expect those random inquiries to find that. You would find non-existent people, or when you went out to people they would go, "Someone's hijacked my payroll or hijacked my self-assessment account." The fact that we have not found it strengthens the opinion. It is not that the random inquiry programme did not test for it, but we did not find evidence of it.

Working while furloughed is a slightly different issue. That is a key risk in relation to CJRS, and a key element of our estimate of error and fraud. But it is very difficult for our officers to prove when they go out there. They can do that in some instances, and they do look for it.

Q56 **Nick Smith:** Do they go out there very often?

Jim Harra: We have opened about 46,000 inquiries into these schemes so far, which is more than the 30,000 that we said we would. We definitely are policing it. I should make it clear that they are all inquiries, not the random inquiry programme. The nature of that risk is difficult to prove. Janet can give you some examples of where we have found it.

Janet Alexander: Jim is absolutely right that it is a difficult risk to identify. Where we can identify it is at the extremes, for example if somebody has furloughed 100% of their staff for 100% of the time—or a big proportion of their staff—and we see economic activity. We can find out economic activity by using different data sources, such as the organisation's own VAT returns. If it has returns of income and it has furloughed 100% of the staff, you ask how that could be. Similarly, we get information about debit and credit card transactions. If you have furloughed 100% of your staff, then how come you are making sales?

We have a case that we are just resolving, where a haulage company furloughed 100% of its drivers. We had intelligence to suggest that wasn't happening. There are tachograph records, so when you go out you go, "Oh, actually your guys are driving, aren't they?" In that case, we have recovered around £200,000 of grants that were claimed incorrectly.

Q57 **Nick Smith:** Are you prosecuting that case?

Janet Alexander: No, that is a civil investigation. The vast majority of our work is done civilly. We do have criminal investigations, but we reserve them for organised crimes. This is more opportunistic fraud, and it is very cost-effective, but there will absolutely be a financial penalty for that organisation to pay.

Q58 **Nick Smith:** Ms Alexander, Mr Harra says you are working with other bits of Government on data sharing and so on. How are you working with the Cabinet Office counter-fraud service to improve data sharing?

Janet Alexander: We have worked very closely with the counter-fraud service, sharing the information that we have and sharing our approach to dealing with error and fraud. Certainly, we were liaising at the beginning of the schemes on how we could support each other and share information where we had a legal gateway to do so. Obviously, we need legal gateways to act. Do you want to add anything else, Jim?

Jim Harra: As you would expect, we are one of the largest counter-fraud operations in Government, so we play a very active role in the profession. We also provide assistance to other Departments that have to manage fraud risks; they may not have the same capabilities as us. That might be sharing data, helping them with their analytics or supporting their counterfraud approaches.

Q59 **Nick Smith:** Is it the Business Department that you worked with in relation to bad actors around bounce back loans?

Jim Harra: Yes, we provided a service to banks if they needed it. We could use our data to help them police those schemes. That is a good example of how we have a mature, capable counter-fraud function and we are able to give some consultancy support. We can also give some analytics and use our data if necessary.

Q60 **Nick Smith:** Ms Alexander, you talked about measures that you took that were successful in stopping money going out the door in the first place—great stuff. To what extent did fraudsters target your schemes, do you think?

Janet Alexander: We are basically in a position where we know that we stopped 67,000 claims and we stopped 100,000 at the front door, so absolutely, they set out to target them.

I think we should be quite careful about the definition of fraudsters. There is organised crime, so businesses that do not really exist. It is people pretending to be businesses to get money out. We think we blocked the £425 million that I mentioned at the beginning—the 67,000 claims. They are claims that were from people that were showing identities of criminal activity. So they were absolutely targeting it; we just had a very effective front door.

Then, in post payment, we are dealing with what I would call opportunistic fraud and people who have made errors. It is probably worth saying that we are seeing more error from small businesses and small employers than we are seeing opportunistic fraud and egregious fraud. People were under pressure and have made lots of mistakes. We still collect that money, but that is a slightly different response. As we have said all the way through the schemes, if somebody has made an error, we will work with them to put it right, but we are not penalising those people. We recognise the pressure that people were under.

Q61 **Mr Djanogly:** Let me start off with the NAO Report. In paragraph 3.5, it says: "In October 2020, we identified weaknesses in HMRC's control environment, most notably around employers claiming furlough for employees who were working, which was against scheme rules...HMRC could not prevent such claims and thus intended to recover sums after payment." Before we come on to recovery, could I ask a little bit about the phrase "HMRC could not prevent such claims"? Why could you not do more to prevent such claims?

Jim Harra: That was an inherent weakness in the control environment that we were able to put in. The only people who know, at any particular point in time, whether an employee is working or not are the employee and the employer. We do not have any means of identifying that. It was therefore inevitable that that was a risk in the scheme, and that we would have to manage that post payment by risk assessing and trying to find the cases where that had happened. As Janet mentioned, it is quite difficult to prove, but there are certainly ways of doing it. You will obviously get on to this point, but the tachograph that Janet mentioned is one example. Another is where an employer both claimed that all of their employees were furloughed and, at the same time, had a record month of sales during the eat out to help out scheme. So there are ways and means that we have of finding out.

Q62 **Mr Djanogly:** Just a little more about prevention before we turn to chasing people after the event. We had a piece of evidence—which I was looking for but cannot find—that basically said, to paraphrase it, that the online application system was drafted in such a way that it almost led people through a process, and did not ask enough questions. The way the system was drafted, it did not pull people back and make them query whether what they were asking for was correct. If you had your time again, would you look again at that online application system?

Jim Harra: We do have a behavioural insights team in HMRC, which looks at where in our processes we put the honesty checks that pull people up short and cause them to think about it. In the case of CJRS, there was a very heavy communication programme with employers. In the first phase of the scheme, we were clear that everyone had to be fully furloughed; in later phases, employers were allowed to claim for people who were only partly furloughed. I am confident that every employer who went through that process knew fine well what the rules were regarding claims for people who were not working.

Q63 **Mr Djanogly:** Can I just stop you there? The evidence was from the Chartered Institute of Taxation. It said: "The claims process was very 'affirmative' in nature, encouraging claimants to complete the process, and make the claim, with no obvious mechanism to exit the claim if they were ineligible. There were insufficient 'red flags' in the process."

Jim Harra: I will look at that. I was not aware that they made that criticism. I do not agree. Certainly, once you were in the process, there was no inevitability that you had to go through and complete the claim; you could leave it at any point. But we were clear with employers that, before they went into that system, they had to check their eligibility and compile their data, then they went in and inputted that data. Of course, it was one of our clear objectives to make this as easy and quick as possible for people to use. I am confident that any employer using that scheme was well aware of the rules.

I think there is evidence from the very first phase of CJRS that leads us to believe that the level of error and fraud was higher than in the later phases. Some employers who had partially furloughed their staff bristled against the rule that said that they had to be fully furloughed. We have an expectation that, in that phase, employers claimed for people who did some work. Later, that was legitimised, and you could adjust your claim for their hours not worked. That was probably more responsive to the situation that employers found themselves in.

Q64 **Mr Djanogly:** If we have estimates of error and fraud of £2.3 billion, Ms Alexander, why have you identified only £640,000 of error and fraud from your compliance work targeting people?

Janet Alexander: I don't quite recognise those numbers. In terms of where we are on error and fraud, when the taskforce concludes, we are forecast to have recovered £1.1 billion that had been paid out either as a result of fraud or of error. As I said, in our compliance activity we are seeing more smaller employers making errors than egregious fraud.

Q65 **Mr Djanogly:** My understanding is that HMRC judged that employers should not be visited during the lockdown periods. You said that it was not going to be cost-effective to do so. My other understanding is that some 15,000 tip-offs were made in the 12 months to April. How could tipoffs have been dealt with without visits?

Janet Alexander: Obviously, in lockdown, our staff had to observe the same rules as everyone else, so they were also locked down because it was not an essential activity and we can do things from the desk. When we are looking at the working while claiming error, which I think is the position that you are referring to, we are investigating an employer, not employees, so we cannot ask questions of employees—we can ask them, but they can refuse, because we are not investigating them. We can assume that for some of those, there is an incentive for employees to say, "Yes, of course I was working," because it puts at risk their employment. That becomes quite difficult, so you are right.

In terms of acting on insight and reports or intelligence hotlines, at the beginning of furlough we took activity where we just acted on that intelligence. Those investigations were not particularly successful; you need an additional source of data that says, "Ah, yes, we're linking things together now." If you go and see an employer and say, "It has been alleged that you are doing x, y and z," and the answer is, "No, I'm not," you don't have anywhere else to go as an investigator. We are now taking those intelligence reports—we now have approaching 40,000—combining them with the data and saying, "Okay, this looks like a productive case to go after."

Q66 **Mr Djanogly:** How many cases that you have opened have been closed so far?

Janet Alexander: I think we have settled about 27,000.

Q67 **Mr Djanogly:** Out of 40,000?

Janet Alexander: 46,000.

Q68 **Mr Djanogly:** You have settled them?

Janet Alexander: I think so. I will have to come back to you and confirm the exact number.

Q69 **Mr Djanogly:** Mr Harra, in October you told us that it was quite difficult to have someone working and not lay a trail, so why are you finding so few people?

Jim Harra: In the examples we have given, where we find a trail, that is where we are able to demonstrate this. Obviously, in the later stages of CJRS, people were entitled to be working and claiming, so you have to identify not only that they were working but that they were working hours that they claim not to have been working, so you need more data. Tachograph data is ideal. You might think that people would have thought of that in advance.

It can be difficult to identify whether people were working at particular times when their employer said that they weren't, but that is the kind of evidence that we look for. We have been clear throughout the scheme that, out of all the different elements of error and fraud, this was going to be one of the more difficult ones to police because we couldn't prevent it before payment, and after the event we were going to have to find evidence that is not always easy to find. However, I think we are doing a good job of getting to grips with that, together with the other elements of error and fraud.

I will give you some figures. You mentioned the number of cases. At the end of September, we have recovered £964 million of the £4.5 billion that we estimate was overpaid. Janet has mentioned that our current forecast is £1.1 billion. You can watch Janet's face as I say this, but I am hopeful that we will exceed that figure. In any event, once the taxpayer protection taskforce has been closed down, we will continue identifying and working on cases after that.

Q70 **Mr Djanogly:** Is there some element of this being a small business versus big business issue? We had some evidence from Pinsent Masons, which estimated that HMRC returns on investigations targeting small business were £16 for every £1 spent, but £56 for every £1 from big business. Is this a question of you using your sparse resources to identify those who you can get the most bang for your buck from and therefore small business can get away with more?

Jim Harra: I will pass over to Janet in a moment to give you some more detailed information. Yes, our experience in the tax system, which I think is reflected in these schemes as well, is that big businesses are much less likely to have dishonest behaviours or to deliberately break the rules of the scheme, so we are more likely to find errors in those cases. Of course, where you find an error in a large business, the multiplier effect means that it is often a large sum of money.

To give you an example in relation to the furlough scheme, you find an employer who has mistakenly assumed that overtime payments that they made in the pre-pandemic period counted towards the reference pay. If that was not contractual, they should not have done that. That needs to be corrected. It is clearly an error, and it is not egregious, but if it is a large employer, that error could apply across hundreds and hundreds of employees, so yes, the rate of return will be better.

Janet Alexander: To build on that, what we have seen in the CJRS scheme is that some large businesses did make errors, particularly at the start, but once we identified them, they were keen to correct them very quickly. I have an example where we spotted that an employer who employed 6,000 people had duplicated a claim for 22 people. Perhaps not unsurprisingly, we then did a further check and said, "We'll do a random sample and see if you've done it anywhere else." They hadn't, but they asked somebody to come in externally to review all their claims and then they volunteered, "Actually, we have made some more mistakes. Please have £70,000 that we have overclaimed." As they have better systems and controls, as Jim says, they are not interested in making errors in these schemes.

Q71 **Chair:** Presumably that was a reputational thing.

Janet Alexander: Absolutely.

Jim Harra: One thing I should add is that, as we have got better data about error and fraud, not only has that caused us to adjust the overall estimate, but we have identified that there are more small errors in a larger number of cases than we originally predicted. That is why, instead of taking up 30,000 inquiries as we originally planned, we have taken up 46,000. In order to police this, we have to take up a larger number of smaller cases.

Q72 **Anne Marie Morris:** Underpinning a lot of this is data. That seems to be the most challenging issue. With it, you can do stuff; without it, you cannot. It seems like it falls into three areas. There is the data you would have liked to have and, frankly, didn't have. There is the data that you might have collected and didn't throughout the pandemic. Some of that is hard data; some of it softer through surveys and interviews. The last piece is: knowing what you know now, what is the data that you know you absolutely must collect so that we are better placed for a future pandemic? We have three buckets, if you like.

I will start with you, Mr Harra. One of the challenges was that you did not have the data, as you have already said, and that you needed it to make the systems work more effectively and potentially include more needy individuals. Why is that? As I understand it, there have been some issues around the digitalisation of tax records. What was wrong that meant you did not have the data you needed?

Jim Harra: A key thing is that if you look at the difference between how we operate employment taxes and how we administrate self-employed taxes, in the case of employment, we get what we call real-time data. Effectively, every time an employer runs their payroll, we get that data. That enabled us to be much better at targeting in the furlough scheme than we were in the self-employed scheme. With the self-employed, we get data once a year, significantly in arrears, in a self-assessment return. That means that at any point in time we do not have an up-to-date picture of who is and is not self-employed and what their earnings are.

We have a programme under way called Making Tax Digital for selfassessment, which will give us more up-to-date information on selfemployed people. You are right, that is taking us longer than we would like to implement. It was not in place in time to operate these schemes, but it is a key reform that I think will give us more real-time data—it will not be completely real time, but will be more contemporaneous—on selfemployment, which would have made it easier for us to bring more people into the scheme.

We have consulted on additional data items that are probably not essential to administer the tax system, but nevertheless would have been useful in the context of this scheme to help to support people. For example, we do not hold data about where employees work geographically, so if you have got a big national company with a national payroll, we can tell where employees live, but we do not know where they work. If we had moved to geographical lockdowns, it would have been very challenging for us to administer the scheme. That is an example of a piece of data where we have asked the question: "Should we collect this in future?"

The other thing that we have very imprecise information on is sectoral data. What if particular sectors had been closed down and we had wanted to target the schemes on sectors? So, again, we have asked the question: "Should we collect better data in future on that?" Even though I can live without it in administering the tax system—it would probably be of some use to me, but I can live without it—it would have been very relevant for this support.

Q73 **Anne Marie Morris:** Mr Harra, first, can you confirm that by the time we get this final report, you will have a schema or the data that you would like to collect in future, so that we can clearly see what it is you will now try to collect or would like to try to collect to improve things? Secondly, can you confirm the final date when the digitisation will have been completed?

Jim Harra: On the former, first of all, we have had the consultation, we have gathered the responses and, ultimately, it is for Ministers to decide what happens with that. Of course, while collecting that data would be useful, it is also a burden for the people who have to supply it. That is something that will have to be weighed up. On the latter, yes, we currently have a date for when we want to implement Making Tax Digital for business. That is something that we keep under review. As time goes on, we will give people complete certainty on that.

Q74 **Anne Marie Morris:** So, there is no deadline there? There is no, "It will be done by…". It seems to be a moving date.

Jim Harra: Decisions still have to be made.

Q75 **Anne Marie Morris:** Thank you. That is very helpful. Ms Alexander, data could also have been collected during the process. Some was done through surveys, and I appreciate that face-to-face surveys might have been more difficult with covid, but there was the internet and we all got very used to using that for all sorts of different reasons. How much data do you think you failed to collect because you were not on it right at the start, in terms of trying to collect the lived experience of employers and businesses? Had you collected it, you might have been able to nuance the schemes so that, at the end of the day, we could have done a better job to ensure that the people who really needed the help got it, and that the people who frankly did not, did not.

Janet Alexander: The tax system collects data, and that data has continued to be collected as the tax system has operated throughout the pandemic, so we still have access to all that information. We did not stop collecting that information because of the pandemic. Obviously, as we have conducted our compliance interventions, we have learned a lot about the population, some of which—I have a deep background in compliance— is interesting pieces from saying: "As we have fully opened the SEISS scheme, you cannot amend your tax returns, for obvious reasons." The temptation would have been to say, "Oh well, I can see what grant I could get, so I will uplift my income." So, we did not allow such an amendment to go through, but we have obviously kept a record of people who tried. In terms of their compliance longer term—we continually assess risk—they are slightly higher up our risky cadre of customers. We have learned a lot as we go along, and how we apply that data in compliance terms.

Q76 **Anne Marie Morris:** Okay. But data is not just the hard data, which is the automatic process that you describe; it is also—"soft" is not quite the right word—

Janet Alexander: The insight from talking to customers.

Anne Marie Morris: Exactly. It seems to me that does not just have to be driven by compliance. Surely there was a role for, if you like, compliance techniques—the sorts of things you have talked about. They could have been introduced as soon as you started rolling out the scheme so that rather than checking whether or not somebody had inappropriately claimed, the surveys could get a better understanding and insight about who was claiming and why, and what the challenges were. That would have enabled you to tweak the system before we got to a position where there was a reasonable amount of dead weight and we had error and fraud.

Beth Russell: We obviously did collect a lot of data through the schemes—both through the sort of thing that Janet talked about but obviously doing research and that kind of thing as well. We looked at all of that. I think there is a bit of a difference, though, when it comes to collecting survey-type data, which all informed our policy making and our approach on fraud and error. But you cannot use that to administer a system that decides who gets the grant and who does not, because it is just a partial picture that you aggregate into some kind of assessment of what is happening across the economy. I think there is a fundamental difference between the sort of data and survey stuff that enables us to improve our policy making or our operations, and the data that is necessary to administer a scheme where you are making a decision between sets of people. It is that latter thing that we did not have and you cannot really do quickly with the systems that we have at the moment.

Q77 **Anne Marie Morris:** Okay. Are the systems going to be updated so that you can?

Beth Russell: That is the sort of thing Jim was talking about earlier.

Jim Harra: The Making Tax Digital system will collect better data from self-employed people in the future.

Q78 **Chair:** What date will Making Tax Digital be ready for that? We have been talking about Making Tax Digital for a long time.

Jim Harra: That is currently planned for 2024, but obviously it is something that we keep—

Q79 **Chair:** Is it on schedule for 2024?

Jim Harra: It is on schedule; we are working hard on it. But you also, no doubt, will hear from external sources that they feel that that is quite pressured—both internally on HMRC being ready, but also the external readiness of software houses and small businesses.

Q80 **Chair:** So you are in negotiation with everybody about the date?

Jim Harra: We keep our ability to deliver it under review. If anything changes, we will obviously let you know.

Q81 **Anne Marie Morris:** In terms of data architecture, it is clearly important that when you collect this data, it is joined up so that you can mine it in the way that you need. That means it must be fixed across Departments. What work has gone on since the pandemic to look at better ways of integrating how you can communicate between the different data boxes within HMRC? At the moment, VAT is an area you are looking at to help you determine the level of fraud and error, but there will be other, if you like, data boxes in other Government Departments. It could be BEIS; it could be DWP. To what extent are you looking at how those data collections can be synchronised and put into a framework that makes that data usable?

Jim Harra: I will pass over to Janet in a moment to give you examples. But yes—there is data elsewhere in Government. More often, I suspect, it is from commercial databases that are relevant to us and helping us to risk assess cases and identify where we need to intervene. Janet mentioned, for example, that we get data on credit and debit card transactions and businesses and that helps us to compare what that is telling us with what the businesses are telling us, whether that be about their taxable income or about their needs for these grants during the pandemic. We have a pretty extensive system that brings all that data together.

Janet Alexander: Compliance activity is all driven by data; you are absolutely right. We do bring it all together and match it to people's records. Certainly in relation to CJRS, we had a very good relationship with colleagues in DWP. If somebody had made a universal credit claim and, at the same time, we were receiving a furlough claim relating to that person, you would think, "Well, those things cannot both be true". There is always more we can do across Government to continue to share information and we just get that rich picture. However, I think that, as Jim said, we have to be mindful about the burden on businesses, who will have to provide this information, and the investment in systems to make that commonality of approach work.

Q82 **Chair:** You talked about the sectoral sharing of data. If you had a sector that was particularly affected, that is exactly the situation that could, depending on what the Chancellor announces, be applying to businesses after March when the energy support finishes, and it is not impossible that we will hear—I cannot predict what the Chancellor will say about this any more than you can. But there are other examples where targeted support is necessary. If HMRC had that data about what sectors were affected, would you be able to share that with other Departments, such as BEIS? Are there any legal issues that would prevent you from doing that?

Jim Harra: Generally speaking, if it is non-identifying, aggregate data, we can definitely share it. Treasury can use that data for its policy analysis, for example. If it is identifying data, there is a rule that says I have to keep people's data confidential, but I have about 250 legislative gateways for sharing data, mainly across Government. Where it is necessary, there is almost certainly a gateway that I can use. If there isn't, my experience has been that when you advise Ministers that it would be beneficial to share this data, they are willing to legislate for that.

Q83 **Chair:** So there could be a huge richness of information if it is possible for businesses to change their systems. It could be quite beneficial for businesses if it is done well.

Beth Russell: I would add that there are also policy reasons why some of these targeted things did not work. In a sectoral approach, businesses do not always know what sector they are in.

Chair: The definition of what a sector is—

Beth Russell: There are supply chains, and they may be part of multiple sectors. It was partly about the data, but it was also that it was just not a very clean way of doing it. There are lots of hard edges.

Q84 **Chair:** The Scotch egg debate—one of the living nightmares for Treasury officials is that sort of thing: Scotch eggs and pasties. It always seems to be about food, doesn't it? You know that the Committee's long-standing view is that a few more prosecutions would send a message to people. Obviously, you always prioritise getting money over that, but when will we see a high-level prosecution? You talk about inadvertent fraud, but it is still fraud. This was taxpayers' money that went to support businesses. You have given examples of obvious payroll errors, but why aren't you going tougher on some of the people who took taxpayer money that they should not have had?

Jim Harra: Broadly speaking, our approach to these schemes is the same as in the tax system. We have civil means of tackling fraud, including the ability to penalise people who have committed fraud, and there was a penalty given to us here for deliberate behaviour. But we reserve the right to conduct a criminal investigation and seek to prosecute people if we believe that that is the best way of tackling the fraud. In the case of these schemes, we currently have 31 criminal investigations under way, and we have made 56 arrests.

Q85 **Chair:** That is up from when the NAO looked at it.

Jim Harra: Yes, that is current information. We have sought to leverage that activity. I will give you an example of Eat Out to Help Out. We made a number of highly publicised arrests, and almost immediately got quite a few unprompted, voluntary returns of Eat Out to Help Out money.

Chair: That demonstrates the point we often make.

Jim Harra: Exactly. We are aware that although getting convictions can be very resource intensive and slow, we can leverage it in the short term, so we do that. All I can say is that we follow our policy. If we believe that non-compliance was deliberate, we will penalise the non-compliant person; if we consider that under our policy a criminal investigation is merited, that is what we do.

Q86 **Chair:** Ms Alexander, you have a few more investigations now, so perhaps you can give us an up-to-date figure. The 24 investigations that were under way as of March this year, when the NAO was doing the numbers, cover £13 million of suspected fraudulent claims. The overall scheme was a lot bigger than that. The mid-point overall fraud and error number is £4.5 billion, so £13 million does not sound like very much. Why is it so low?

Janet Alexander: It is probably worth saying that the £13 million was the money that reached those organisations. There was more money that we stopped going out—I think about £150 million. That is a larger amount. As Jim said, we applied our policy about when to use criminal investigations: it is in the most serious cases of activity where we can use it to a deterrent effect. The schemes are now closed, and when we were running them, we did criminal investigations and publicised those arrests.

We reserve that for cases that are incredibly serious, where we think that that is the way to address it, and where our intent is more than financial. Where there are criminal operators in the system, our intent is absolutely to recover the money, but it is also to get them out of the system. What is interesting learning for us, particularly in CJRS and Eat Out to Help Out, is that they almost gave us an extra bit of evidence about organisations that we were already suspicious about. So, because they behaved in a certain way in a scheme, there were other things going on and it gave us that final piece of evidence, so that we could take really quite direct action and disrupt them.

They are long and difficult investigations. They are very resourceintensive, as you can imagine, because the standard of evidence that we have to reach is very, very high. We have to balance that with the approach that we take in all our compliance work, which is to take civil routes to recover the money quickly for the public purse.

Q87 **Chair:** We are always keen to see prosecutions on this Committee—it is the bloodlust of politicians and HMRC officials, I think.

Obviously, we do not get access to all the detailed cases you are dealing with, so we appreciate any evidence you can give us today, but the NAO did manage to look at them; they looked at 30 CJRS compliance cases and they highlight that in paragraph 3.39 on page 47 in part three of the Report. I will not go through them all in detail.

However, you re-examined those cases and concluded that there were no grounds, or that there was insufficient evidence, to impose penalties. I know that it is difficult to talk about the individual cases, but let me just raise one of them, for example. The Report says, "A company director's daughters"—daughters plural, so not just one—"added to payroll after the scheme cut-off date." It seems to me that that is just not something that could or should have happened. Can you explain why you looked at those four examples and then decided not to proceed?

Janet Alexander: Sure. The level of penalties we have taken reflects the fact that, as we have said, we are seeing more error than fraud. To impose financial penalties in relation to the schemes, what we have to demonstrate is that when the person made the claim, they deliberately made a false claim, or an over-claim. That is quite a high evidential bar. It is not enough for us to be suspicious or sceptical, and believe me, quite a lot of my colleagues are suspicious and sceptical, as you would expect from compliance officers—

Chair: I think we are in the same boat, in that sense.

Janet Alexander: I think the NAO phrased it as "they may have" made this claim deliberately. "May have" is not sufficient for us to impose a penalty; we need to have evidence that they deliberately misclaimed.

Q88 **Chair:** So it is not the act? It is whatever it is in law—mens rea and mens whatever—and you have to prove that.

Janet Alexander: I have to have sufficient evidence that if that case proceeds to a tribunal—I have to consider that all cases could go to tribunal—that evidence is sufficient for me to stand up and say, "Actually, there's enough evidence here that this person deliberately went out to do that."

I can contrast with a case that you mentioned, whereby we absolutely had evidence that somebody created a fake document trail to justify an increase in the reference pay. Once you have that, you say, "That's a fake document trail. You absolutely deliberately set out to misclaim." If that evidence doesn't exist, we cannot impose a penalty.

Q89 **Chair:** One of our worries, which we raised with you back in 2020 and have raised with you a few times since, is that the longer it goes on, the harder it is to get that evidential trail.

Jim Harra: I suspect that with some of the cases that are taking us longer to settle, it is because they are at the more egregious end and we are trying to establish that evidence. In the period between when the NAO reported and now, there has been an increase in the number of penalties and the value of penalties that we have taken. By the end of September, we had charged penalties in over 1,000 cases. In the three schemes, including Eat Out to Help Out, it is about £12.3 million, which is an uplift. We are determined to charge penalties where we believe it is deliberate behaviour. It requires extra investigation, which means they are not the earliest cases that we settle.

Q90 **Chair:** We are talking in the millions, when the fraud and error estimates are in the billions.

Jim Harra: Yes.

Q91 **Chair:** It is very small-scale. What does the Treasury think about this, Ms Russell?

Beth Russell: It is for HMRC to make the decisions on exactly how to deal with individual cases—

Q92 **Chair:** Would you like to see more coming in?

Beth Russell: Obviously we would like to see more coming in, but we obviously rely on the advice of HMRC as to the best way of doing that.

Q93 **Chair:** Are you disappointed, Mr Harra, at this low number compared with the total figure of fraud and error?

Jim Harra: No, I am not disappointed. First of all, as the evidence has emerged on error and fraud, it is clear that there is more error and less fraud than we originally expected. And then you have the evidential difficulty of establishing deliberate behaviour in schemes where we know people could make a whole range of errors.

We have lots of governance within the Department to make sure that penalties are charged correctly, ranging from managerial oversight in the smallest cases right up to consistency panels that check the decision as to whether or not to charge a penalty in larger cases. We do a lot of work to make sure that we apply our policies effectively.

Q94 **Chair:** We want to play this out publicly, because it is important—it is taxpayers' money. On those four schemes identified by the NAO and some of the other examples you have given, my worry is that if somebody has made a serious error and they have found it, I do not see what incentive they have now for offering up the money. You were saying that unless there is a very high bar, you are not going to take them to a tribunal or prosecute them.

Janet Alexander: They still have to repay the money.

Q95 **Chair:** But if you haven't found it, why would they come forward? You have relied a lot on people coming forward voluntarily once you have publicised some of the issues or they have gone back and checked their records.

Jim Harra: First of all, there are some slight differences in the scheme compared with tax. We have a penalty for deliberate behaviour; we do not have a penalty for careless behaviour, which is obviously a lower standard to establish. That was a deliberate choice, because we did not want people to feel that they should not claim this because of worrying unnecessarily that, if they make a mistake, we are going to act disproportionately. That is one issue.

The other is that there was a rule in the scheme that said, "If, within 90 days of claiming, you say 'I have to give some money back', there are no questions asked on our part." You are right that those 90 days have long since expired, but the reality is that we are still investigating lots of claims and we've still got lots of resources deployed on this. For anyone who is sitting out there thinking, "I got my claim wrong", it is better for them if they come forward than if we—

Q96 **Chair:** Because you are still looking for them—is that the message you are trying to send?

Jim Harra: Yes.

Q97 **Chair:** When you have looked at cases like the ones in the NAO Report, would you categorise those as error, Ms Alexander? You have not taken them as fraud.

Jim Harra: I think we would categorise them as "we can't prove deliberate behaviour". Obviously, applying the smell test to those cases, you know what may well likely have happened, but what we have to ask is what we can actually prove.

Q98 **Chair:** So you have the core evidence. In terms of your own internal categorisation of this £4.5 billion—these figures we have talked about in terms of fraud and error—you have fraud and you have error. Actually you have this grey area, but you do not seem to divide it into two. Isn't it a bit convenient if you cannot absolutely prove whether something fits into the error bucket? How do you categorise it? I just think it is important that we are honest about the fact that, even if it is not absolute fraud, you can't prove that there is still fraud there.

Jim Harra: Our top-down estimate of error and fraud is based on what we think is the likeliest behaviour to have occurred; it is not based on a bottom-up, "What can I actually prove?" There will undoubtedly be cases where you know and I know it was probably fraud, but we are not going to be able to prove anything stronger than error. We still get the money back, but we will not be able to charge a penalty on top. That is quite distinct from the way we have estimated error and fraud.

Janet Alexander: It is probably worth saying that when I have said most cases are error, it is not these sorts of cases: it is things like people's spreadsheets not adding up or, as Jim mentioned, them claiming for overtime that they were not allowed to claim. Those are the sorts of cases we are seeing. I would not put these sorts of cases in that category when I say that most cases I see are error cases.

Q99 **Chair:** How did you make sure that overtime was going to employees? Have you done any checks on payrolls?

Janet Alexander: When we get our RTI returns, it actually shows that the money goes out to employees, so you can check whether the money has gone out. That is the whole pay package, not just the overtime amount.

Q100 **Chair:** We were talking about sharing data earlier. I remember the Tell Us Once initiative—perhaps you have been around long enough to remember that, Mr Harra and Ms Russell. Lots of times, members of the public— your average citizen—expect that they tell Government something and the information is shared. It is, in fact, very helpful sometimes to share information with the DWP when our constituents have challenges. Have you thought of just asking taxpayers to tick a box saying that they are happy for their data to be shared with other Government Departments?

Jim Harra: We don't do that.

Q101 **Chair:** I just wondered whether you have thought about it.

Jim Harra: I am pretty sure we will have looked at that. In most cases, we will want to be able to share the entire database, not just the bit where people have consented. If you take universal credit, for example—

Q102 **Chair:** That would be on an individual basis, so that if I was making a claim with DWP and had to prove something or other, you could prove that I did not have savings or some barrier to claiming a benefit, for example.

Jim Harra: I will take that away, but I know that in relation to DWP and universal credit, we do share RTI data—our pay-as-you-earn data—with them, and one of the reasons for introducing the real-time data was so that we could real-time support universal credit. But that is obviously mandatory in all cases.

Q103 **Chair:** Can I just nail that down? We were talking about the examples in paragraph 3.39. How are the ones you have looked at now categorised? Are they error or fraud? You say that just because they have a bad smell, you can't prove they are fraud or take them as evidential. Where would you categorise those?

Janet Alexander: I don't think I have the split in front of me of how we categorise those cases, so I would have to come back to you.

Q104 **Chair:** Can you let us know? That would cover that grey area where you can't prove it evidentially enough but it does not smell good.

Janet Alexander: Yes. We tend to report the holistic figure for recoveries rather than segregating it into individual categories, but I will see how we have segmented the data if we have done so.

Q105 **Mr Djanogly:** I note that in April 2021 HMRC established the taxpayer protection taskforce, increasing the staff deployed. Has that institution been a success, would you say? Would you have done better if it hadn't been brought into existence?

Janet Alexander: What it has allowed us to do is really focus on noncompliance in the schemes and pull different colleagues with different sets of expertise to work together to address that in a really coherent, focused way. Bringing together a taskforce also allowed us to secure funding. We could backfill those experienced colleagues with new recruits, so we wouldn't see that kind of diminution in performance and tax compliance more generally. We are kind of winding it up now between April and September next year and returning those staff to business as usual. But as Jim said, we will continue to look at covid scheme non-compliance, but in the context of people's general tax compliance rather than in a bespoke taskforce.

Q106 **Mr Djanogly:** Do you have data on the success rate of compliance activity as a proportion of overall cases compared with before it was set up?

Jim Harra: The taskforce was set up with additional funding from the Treasury. We already had compliance work under way on the schemes, but this put additional resources on to it.

Q107 **Mr Djanogly:** Sorry, how much was that?

Jim Harra: It was £100 million. That was to fund both the additional resources working on the taskforce and to fund the opportunity cost of moving those staff off tax work, so that over the medium term we did not lose compliance yield on the tax system through doing this. It meant that we were funded for 1,250 full-time equivalent staff to work on this compliance work. Throughout the life of the taskforce, its staffing has been slightly below that complement by roughly 100 people at any one time.

We are going to run it on longer than originally planned to make sure that over its lifetime we do deploy that amount of resource.

Q108 **Mr Djanogly:** So these were not new staff? They were moved from other places?

Jim Harra: Yes. In order for them to be effective quickly, they were moved from existing tax compliance teams, but then we had funding to backfill them. While it takes time for that backfilled resource to be effective, this funding means that over the medium term—up to about 2025—there should be no impact on managing the tax gap and on tax compliance. In terms of performance, the taskforce is obviously going to collect less money than we originally forecast it would. That is because there is less error and fraud than we originally forecast and it is spread over a large number of smaller cases. In its first year, it recovered £226 million. In the first six months of the second year, it recovered £202 million. It is on track to achieve somewhere between £525 million and £625 million during its lifetime.

Q109 **Mr Djanogly:** Would you say those are significant figures given the overall context?

Jim Harra: In total, we believe that by the time the taskforce is unwound, we will have recovered about £1.1 billion of the £4.5 billion errant fraud that we estimate was there.

Q110 **Chair:** Does that include the money that was paid back voluntarily?

Jim Harra: No, it excludes that. That is just the recoveries from our postpayment compliance work.

Q111 **Mr Djanogly:** Would all that £1.1 billion be related to this unit?

Jim Harra: No. There was some activity already under way before that unit was set up. We recovered about £536 million before it was created, but, broadly speaking, since it was created all our covid-19 scheme compliance work is accounted for through the unit. Once it is disbanded, we will continue to take up compliance risks in covid-19 schemes. We have not given up on the remainder, but we feel that we will have got what we can out of the taskforce.

If you look at payback in strictly financial terms, the payback per staff unit in the taskforce is lower than it is on tax work. Even if you assume what the marginal benefit would be, it would be higher in the tax system than here. If you are purely measuring it on financial terms, you do not get as big a rate of return from the taskforce as you do from tax compliance work.

Q112 **Anne Marie Morris:** We have had an interesting tour of the issue, but I am now more interested in what lessons have been learned for the next emergency. I would love to think that there may not be another emergency and that it will be different, but none the less we need to be prepared. I will ask each of you in turn what the two things are that you would do differently, based on the lessons that you have learned, to prepare us for the next emergency.

Beth Russell: There are two things from my perspective. We have covered a lot about data and having better data to be able to target schemes better in the future. We are actually seeing in other areas, like support in the energy crisis, the importance of being able to identify bits of the population that you want to support. It would be good to be able to do that better in the future.

I do not know if this is a lesson learned, but one of the other things about the pandemic is that it was a very fast-moving situation that none of us had come across before. I would have liked us to have been able to be one step ahead at various points, but that was the nature of the beast.

Jim Harra: First of all, there is a lesson to learn in terms of what went very well, which was really effective close working between policymakers and operational staff. Doing that in parallel in a really tight team is what enabled us to deliver things so fast and enabled all of the issues that the Committee has investigated to be weighed up. Whether you agree or disagree with the decisions that were made, they were all in the balance.

I have two things that are lessons for the future. One is better data. If we can find ways of ensuring that we have better data without putting undue burdens on people, that gives us greater flexibility for the future, come what may. The other is that, in the longer term, I am quite interested in comparing outcomes in the UK with other countries. Many other developed countries ran similar schemes but designed them in slightly different ways. If we can get all that with our international colleagues, learning lessons from that is important.

Janet Alexander: For me, the thing that I would do differently is that, in the first year, we did one-to-many campaigns and wrote to people asking them to check their own claims—we need to be a lot more specific about what they were asking people to check for. We have already taken that learning on how we carry out those claims.

Q113 **Anne Marie Morris:** Helping people to comply?

Janet Alexander: Yes. It should be, "What do you need to be checking for?" rather than, "We are a bit worried about your claim", which sometimes unnecessarily panicked people.

The thing I would preserve is the coherent end-to-end compliance approach, starting with the front door into HMRC's systems and concluding with how we are carrying out post-payment compliance, using the range of expertise and levers at our disposal.

Q114 **Anne Marie Morris:** Given that this is the interim report and I believe that the final report will be out in spring 2023— **Chair:** Good try, Ms Morris.

Anne Marie Morris: Can we expect the lessons learned to be set out clearly?

Jim Harra: The purpose of the evaluation is to evaluate the outcome of the schemes, rather than necessarily saying, "Here are the lessons for future schemes." That may be something slightly different, but we have certainly been working on ensuring that there are playbooks that people can use in the future, if it is not us, so that they can learn from that. We will definitely keep those up to date. On the international comparisons, as I said, we are the first out of the traps in terms of both evaluation and measurement of error and fraud. That does not mean that my colleagues around the world do not have those insights, but they are not accessible. I cannot guarantee that by 2023 we will have been able to do that.

Chair: Thank you very much indeed. It has been interesting and helpful to hear what you have had to say. Obviously, we are very concerned about this £4.5 billion figure. We will applaud you for every pound of taxpayers' money that you can get back, but for every pound that you do not get back we shall be on your backs for some time to come.

The transcript of this session will be published on the website uncorrected in the next couple of days—a big thank you to our colleagues at *Hansard* for that—and given that that there are only five weeks until Christmas, our report is likely to be produced in early January. Thank you very much for your time.