HOUSE OF COMMONS

Treasury Committee

Oral evidence: Work of HM Treasury, HC 969

Wednesday 11 November 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

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Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Clare Lombardelli, Director General, Chief Economic Adviser, HM Treasury; Charles Roxburgh, Second Permanent Secretary, HM Treasury; Anna Caffyn, Director for Finance, HM Treasury.

Examination of Witnesses

Witnesses: Sir Tom Scholar, Clare Lombardelli, Charles Roxburgh and Anna Caffyn.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the work of HM Treasury. We are very pleased to be joined by four panellists from the Treasury this afternoon. I wonder if each of you could just very briefly introduce yourself for the public record.

Sir Tom Scholar: Good afternoon. I am Tom Scholar, Permanent Secretary to the Treasury.

Charles Roxburgh: I am Charles Roxburgh, Second Permanent Secretary at the Treasury.

Clare Lombardelli: I am Clare Lombardelli, chief economic adviser here at the Treasury.

Anna Caffyn: I am Anna Caffyn. I am the finance director at the Treasury.

Q2 **Chair:** Welcome to all. Questions will be specifically directed at particular members of the panel. However, if you are not asked to comment and you particularly want to, please do not hesitate to raise your hand and I will endeavour to bring you in at that point.

Could I start with Clare? You will probably be familiar with the minutes of the SAGE meeting on 21 September. In those minutes, it states, "Policy makers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is under way under the auspices of the chief economist." Can I first ask you to confirm that you are the chief economist, as referred to in those minutes, just in case we have the wrong person before us?

Clare Lombardelli: I believe I am, yes.

Q3 **Chair:** That is a very good start. In that case, could you tell us a bit about the work that you have been undertaking? In the minutes, it refers to the interventions that it is focusing on, including, for example, a circuit breaker—a short period of lockdown—working from home, banning all contact within the home with members of other households, the closure of bars, restaurants, cafes, indoor gyms and personal services, and all university and college teaching to be online unless face-to-face teaching is absolutely essential. Could you tell us about that the work that the minutes refer to, and specifically in the context of the way the minutes frame the issues?

Clare Lombardelli: Yes, certainly. Let me tell you a bit about the work that we do at the Treasury on an ongoing basis. As part of policymaking and policy design, the Treasury continues to provide economic analysis to Ministers as part of that, considering a whole range of factors. What we have not looked at specifically, as the Chancellor set out last week, is a specific prediction or forecast around specific restrictions.

What we instead do is iterative economic analysis of policy that the Government are considering. We consider a whole range of data and analysis as part of that. A lot of that is in the public domain, as you would expect. We look at, for example, what has happened to the economy over the recent period. We look at things like gross value add and the size and contribution that different sectors or regions of the country make to the economy. We look at things like the numbers of people who are employed in different sectors. We look at things like the pay in those sectors. We look at the number of businesses and the size of those businesses. All of this is to build a general picture of what is going on in the economy, which we then use as part of our analysis.

We supplement that with a whole range of information that other external sources provide. As you know, the Government's forecasting is done by the Office for Budget Responsibility. They provided a lot of analysis through this crisis. The Bank of England also do a macroeconomic forecast for the economy four times a year, and we look in detail at that. We will also look at what other independent bodies have put out there in terms of analysis. We bring all of this together as part of our policy advice to Ministers across a whole range of issues, so that they have the latest view and position on the economy.

Q4 **Chair:** I am very aware that there are all these different strands to the kind of work that you are doing and, of course, all the external stuff that the OBR, the MPC, the FPC and others also produce, but my question is a very specific one, so I need to bring you back to these minutes. The minutes say, "Policy makers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is under way under the auspices of the chief economist." Very specifically, Clare, on that work on the economic impacts and associated harms of those proposed interventions, can you tell us about that?

Clare Lombardelli: Like I said, as the Chancellor set out in Parliament last week, we have not done a specific prediction or forecast of the restrictions. What we do is ongoing policy that feeds into decisions that Ministers take, which they consider alongside the health impacts, the social impacts and the economic impacts.

Q5 **Chair:** From what you are saying, it sounds like the SAGE minutes might need correcting, because they suggest that there is measure-specific work that has been undertaken by yourself and the Treasury, which one would reasonably expect to guide the very big decisions that Ministers, the Chancellor and, indeed, the Cabinet then have to take. Is it the case that the minutes here are just not describing the work that has been undertaken?

Clare Lombardelli: What the minutes are pointing to is the ongoing analysis that we undertake here at the Treasury across a whole range of economic factors and a whole range of policy options, as I say. Ministers consider all of that, and they consider these different factors—health, economic and social—in coming to their decisions.

Q6 **Chair:** I have to press you on this because it is really important. The Chancellor and I have had exchanges on this information, and his answer was broadly in line with yours in terms of pointing me to the OBR and others. These minutes very particularly say that there will be a "need to consider analysis of economic impacts and the associated harms." The references there are to the interventions that the minutes identify, and those are the ones that I read out earlier around schools, cafes and gyms closing, and so on. It is very specifically saying that there is ongoing work—or was at the time of 21 September—that you were undertaking in analysing the economic impacts and associated harms of those potential measures, is it not?

Clare Lombardelli: It is referring to the more general analysis that we undertake all the time in Government on the impacts. Ministers will have considered all of those impacts in coming to the decisions that they have taken.

Q7 **Chair:** It clearly does not because, if you look at the minutes, under section 2, it says, "A package of interventions will need to be adopted to reverse this exponential rise in cases." It then lists, (a) through to (e), the circuit breaker and the various other elements that I just referred to—the closure of all bars, et cetera. Then, further down, it has this statement that work "will need to consider the analysis of the economic impacts and the associated harms", and the reference is clearly to those proposed interventions, and yet your response is, "No, I think they are referring to something more general than that."

Clare Lombardelli: I can refer you back to what the Chancellor said in the House last week. You and he have exchanged on this a number of times, including in the House, where he said there are not specific predictions or forecasts of these measures.

Q8 **Chair:** That would clearly indicate that the SAGE minutes are inaccurate, because the SAGE minutes have said that there has been work carried out, under your auspices, on exactly that.

Clare Lombardelli: Work goes on as part of Government analysis. As part of policymaking, work goes on in which we analyse the economy, and that would cover some of these issues. All I can say, as the Chancellor said, is that we do not have specific predictions or forecasts of these impacts. Ministers will have considered the economic, health and social impacts in coming to the decisions that they took.

Q9 **Chair:** Has any of the work that SAGE suggests has been going on—specific work around analysing the economic impacts of these measures—actually taken place within the Treasury or under your auspices?

Clare Lombardelli: What we do here is we look at what is going on in the economy, including the impact of previous measures that have been taken.

Q10 **Chair:** I am sorry to interrupt, but I have a very specific question, which you could answer with a yes or no, really. Has any of this work, as described by SAGE, on the economic impacts of these particular interventions, as they suggest, been carried out under your auspices at the Treasury, or are the minutes wrong?

Clare Lombardelli: As the Chancellor said last week, a specific forecast or a specific prediction of the impacts does not exist.

Q11 **Chair:** Am I right in concluding or inferring from that that the statement, "Policy makers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is under way under the auspices of the chief economist," is an inaccurate statement?

Clare Lombardelli: Policymakers will have considered and did consider all of these impacts in coming to the decisions that they did. Ministers will have taken information across all of those factors—epidemiological, health, social and economic—in coming to the decisions that they did.

Q12 **Chair:** In terms of the information that you are referring to there, as on all these matters, the expression you have used is "the economic information." That would sound like the minutes are correct and that there is that economic information.

Clare Lombardelli: We undertake economic analysis as part of the policymaking process. That has, of course, been fed into the Chancellor and other Ministers in taking these decisions.

Q13 **Chair:** I am just not clear. I will have another go at this. In terms of what the minutes in SAGE state, are you happy that they are accurate? I am referring to the bit that we have been discussing, clearly not the other parts. In terms of the part that relates to yourself and the work that you have been undertaking, are you satisfied that those minutes are accurate?

Clare Lombardelli: The Treasury undertakes a lot of analysis relating to the impacts of the pandemic on the economy. That will have fed into the process by which these decisions were taken. In so far as SAGE suggests those considerations all need to be considered, we would agree with that.

Q14 **Chair:** With great respect, that is not an answer to my question. My question is very simple: is the statement in the minutes that describes the work that it says is under way at that point, under your auspices, accurate or inaccurate? Does this work exist or not?

Clare Lombardelli: Work considering the impact of the virus and the restrictions on the economy is under way. Work that is looking at predictions or forecasts of the impact of specific restrictions does not exist, as the Chancellor said last week.

Q15 **Chair:** If they do not have any economic analysis of the impacts of those measures, how can Ministers be expected to take rational and sensible decisions on these important matters?

Clare Lombardelli: They have economic analysis of the impact of the virus and the restrictions put in place in terms of understanding what we can look at—for example, what has happened in the economy under the last set of restrictions that were put in place in the period March to May. We can learn a lot from that. Of course, there are lots of reasons to think that, this time around, the impacts will be different.

Q16 **Chair:** I am sorry. I am going to have to stop you there because we do not have all the time in the world and I want to get to the nub of this. If the decision has to be made—and Parliament voted on this on 4 November—to bring in some very serious restrictions, the SAGE minutes identify a number of options or interventions in its list under section 2, (a) to (e). I think you are saying that there was not specific analysis, therefore, of the impact of those measures, such as whether the Government should be closing cafes and bars or should they just close other particular parts of the economy.

In other words, in working out the balance of measures, I cannot believe that the Treasury would not have had a view as to what the impacts of each of those elements were. If you are telling me that you did not have a view, but that you just had a general view on the general projections based on the history of the first wave and the first lockdown, I find that very surprising.

Clare Lombardelli: There is a huge amount of analysis and information that we can and do bring to bear on these questions, such as on the number of businesses that are in a particular sector, the number of people who are employed in a particular sector, the average wage of those employees in that sector, the size of those businesses, and the supply chains connecting them across sectors and otherwise. These are all the sorts of information that are relevant to this question and form part of the advice.

Q17 **Chair:** You will have analysed those?

Clare Lombardelli: We undertake a whole range of economic analysis building on, like I said, data that exists and things that other forecasters and independent bodies put out. We bring it all together, and all of that affects the analysis that we provide. What we have not done, as the Chancellor said, is very specific predictions or estimates on specific restrictions. There is an awful lot of economic analysis, information and data that can be brought to bear in helping to understand what the possible impacts may be, but it is incredibly hard and would be incredibly difficult to provide meaningful estimates of very specific restrictions, given the vast amount of factors that are unknown.

Q18 **Chair:** If we take the closure of pubs, for example, which is a big step to have taken, it says here in the minutes that the economic impacts are being assessed by yourself. What would have been that economic impact assessment that you were working on specifically relating, for example, to closing down pubs and cafes? Can you tell us a bit about that?

Clare Lombardelli: As the Chancellor said, we do not have specific forecasts or estimates of very specific measures. What we do know is things like the size of the sector and the size of the contribution that it makes to the economy. We know about the number of people who work in that sector. We know about things like the details of their employment in terms of things like the pay in that sector. We know about things like the size of the businesses. We know a lot about the sector. What we have not done—and it would be very hard or impossible to do it in a meaningful way—is to estimate the precise impact or provide a precise forecast of what the impact of that would be, because it would depend on a whole range of things. It is incredibly hard to know how businesses would respond, how consumers would respond and what compliance would be like. These are behavioural relationships that are very hard to estimate.

These are very unusual circumstances that we find ourselves in. If you think about the sorts of policies that, traditionally, the Government would look to estimate, those are based around relationships that we know and understand well, based on a very long history of evidence and analysis. In this case, the Government are undertaking policies that are highly unusual in the sweep of economic history and, therefore, those relationships and that data does not exist.

Q19 **Chair:** I appreciate that but, just because something is hard and is difficult, that does not mean it should not be done. The same argument could be applied to the epidemiological analysis, which is fraught with the same behavioural concerns that you have just referred to. I cannot believe that the Chancellor would have been sitting down and having discussions with the Prime Minister and others about which of these measures makes sense. Surely, he would have wanted to have argued from an economic standpoint as to the impact of these measures. The minutes from SAGE say that the economic impacts are being assessed by you within the Treasury, and I cannot conceivably imagine that he could be having those discussions and saying, "I just do not know what the impacts are."

My question to you is that he must surely be saying something in those meetings about the impacts, and he must be saying that based on, to a large degree, data that is generated from within the Treasury. Is that not the case?

Clare Lombardelli: What we do here is pull together a whole range of information looking at data that is available; as I say, for example, things like gross value add, numbers of employees and the like—things that we know and data that is publicly available and well known about the size and significance of different sectors of the economy and different regions. We look a lot at things like some of the distributional analysis and all of that.

Q20 **Chair:** Clare, that is great, and I appreciate all of that. You have gone through that on a number of occasions now, but it is not really answering the thrust of what I am getting at. Let me thank you for your contribution, and perhaps I can turn to Tom.

When you look at the first wave, I believe that a number of Departments—and the ONS produced a summary of this—looked at trying to quantify the health costs as a consequence of the economic costs of the first national lockdown. That certainly involved the Department of Health and other Departments, and the ONS brought it together. The Treasury was not in the mix in that analysis. Can you comment on why the Treasury was not involved in that particular exercise across Government?

Sir Tom Scholar: It would naturally fall to the Department of Health to look at the health impacts. That is not something we would take the lead on. They would have all the data, and we could help them with the data, looking at what the economic impacts of the first lockdown had been, but trying to estimate the health consequences of that is not something that we would be well placed to take the lead on.

Q21 **Chair:** It is not so much taking a lead. The Department of Health, the Office for National Statistics, the Actuary's Department and the Home Office were involved. They came out with the impacts of lockdown on health in terms of QALYs—quality-adjusted life years—as a result of the economic impact of the measures that were undertaken, which would seem to be very squarely a Treasury issue. Was there any approach to you to get involved in that process? Was it something that you decided positively you did not want to be involved with, or was it just something that did not come your way?

Sir Tom Scholar: I do not know what precisely our involvement in that was, but the Treasury is the centre of expertise in the Government on economic things, so if people were looking for guidance as to what data to look at and what the relevant economic considerations would be, we would have provided that. I must say I am not familiar with the publication that you have in mind, so I cannot answer the question of precisely what our involvement in the work was, but I can certainly look into that.

Q22 **Chair:** Could you come back to us on that? There is a perception out there that very important decisions are being taken and, albeit that it is imperfect data and we all accept that, there is quite a lot of health data out there, totally understandably and rightly, but that maybe the Treasury's view on all this in terms of economic damage and, in turn, the health consequences of that economic damage, is not really featuring that widely in the public debate. That brings me back to the kinds of questions I was asking Clare on the availability of that information, if, indeed, it exists, and the Treasury's involvement or otherwise in this cross-departmental exercise. Do you have a view on that? Is there a concern within Treasury that maybe the Treasury's position is being understated and underplayed in this crisis, in that sense?

Sir Tom Scholar: There is a huge amount of economic data and economic information out there. There is backward and, these days, more or less real-time data provided by the ONS. For example, yesterday, they published their labour market data for October, which gives a full breakdown of developments in the labour market by region. They look at regions, sectors, ethnicities and age groups. It is a huge amount of information there. Last week, the Bank of England published their forecast, which incorporates their analysis of all the lockdown measures up to and including those announced on 31 October. In two weeks' time, the Office for Budget Responsibility will publish its forecast, which will include a great deal of information on all these things, too, and I am sure you will be talking to them about it. There is a huge amount of information. That is just the official information I have talked about. There is also, clearly, work produced by others. There is a lot of information out there.

What there are not, as the Chancellor said last week and as Clare has been explaining, are specific point estimates of the impact of particular measures. We can talk about the reason for that, but it is the inevitable limitations in modelling a situation where you have no previous data and no previously established statistical relationships. You can only base those estimates on huge assumptions.

Q23 **Chair:** I totally get all that. The trouble with relying on the OBR and things is that Parliament met on 4 November and had to take a big decision. They cannot wait until 25 November for the OBR, which last came out with a forecast back in July, as it is after the event. Also, they need to take their decisions based on specific measures that are being put forward, because that is what they are voting on. They need to know the economic consequences of those. Can I just run this by you for an answer, please? In the minutes, it says, "Policy makers will need to consider analysis of economic impacts and the associated harms alongside this epidemiological assessment. This work is under way under the auspices of the chief economist." Is that, to your knowledge, an accurate statement?

Sir Tom Scholar: That seems accurate to me. It depends on precisely what the minute-writer meant by that wording. Can I just explain what I understand by that minute?

Q24 **Chair:** I am very short on time, Tom. Having said that your belief is that that is an accurate minute—and I have to say it seems to me overwhelmingly likely that that is an accurate statement, given the kind of work that the Treasury must be doing in this area—could we have that published, so that Parliament, when it considers the next round of measures that it might have to consider, is better informed than it was on 4 November?

Sir Tom Scholar: I would have to go back to what Clare was saying. What I understand by that minute is that the Treasury, on an ongoing basis, is looking at all of the different measures that, from time to time, are proposed and considered, and is looking at the economic context and trying to get a sense of the size of magnitude. That is something that is completely bound up in our policy advice to Ministers. It is part of ongoing policy advice. It is not that there is some separate forecast, prediction or comprehensive compendium of economic impacts, and the Chancellor was very clear about that last week. It is not as if there is a thing that can be published; what there is and what we have produced for our Ministers in providing them with our policy advice is a vast amount of economic thinking and analysis as we go along, which they have available to them.

Q25 **Chair:** It refers in the minutes to analysis of economic impacts and says the work is under way under the auspices of the chief economist, so could I ask that that work, having been referred to in those minutes, is pulled together and made public, so that this Committee can review it, please?

Sir Tom Scholar: Perhaps I can undertake to write to you after this hearing, having taken that away and consulted.

Q26 **Alison Thewliss:** I have some questions on Treasury support packages and accountability. A number of the support packages that were brought forward have required ministerial directions because of concerns about value for money and other risks. How has the Treasury monitored these risks across the system of support, and what is the Treasury doing to monitor the deadweight costs and fraud costs in the major support programmes?

Sir Tom Scholar: There have been directions issued by the Business Secretary to the Business Department and by the Chancellor to HMRC. In each case, those have been directions, if I remember correctly, specifically related to the administration of the schemes and, in particular, the need to protect the schemes against the risk of fraud and error. Those, of course, are, in a sense, technical accounting officer directions within the parliamentary definitions, which you will be very familiar with. In each case, it is the responsibility of the Department concerned to be managing those risks. I know you have taken evidence from Jim Harra at HMRC and he has been able to explain to you how they are doing that in HMRC; the same would be the case within the Business Department. The Treasury keeps an overall eye on these things, and we have reporting to get a sense of the implementation of the schemes. The OBR also asks for information because they are the ones ultimately costing the schemes, but the day-to-day oversight is for each Department concerned.

Q27 **Alison Thewliss:** Some of the figures given for fraud and error have been quite eye-watering. How worried are you about that?

Sir Tom Scholar: When all these schemes were introduced and when we were preparing the policy advice on them, going right back to March, it was very clear from the beginning that there was a significant risk of fraud and error, and that is something we went through with Ministers. The policy decision was that it was an inevitable risk, given the nature of the scheme, and a risk that was justified, given the need for very urgent action to support the economy. Having said that, it is part of our focus and the focus of each Department to try to crack down on and minimise those risks, and there is a lot of enforcement action being taken to do that. The intention is to minimise the risks and, in fact, the reason for the directions was so that Ministers could weigh up the broader public interest here.

Q28 **Alison Thewliss:** What analysis has been done to monitor the effectiveness and make any changes that are required to be made, given that we are quite considerably further down the road than we were when we began and into another round of support?

Sir Tom Scholar: We have been monitoring the schemes right from day one, as they have been introduced, and, indeed, made changes as we go along. To give a couple of examples, the Bounce Bank Loan Scheme was introduced a few weeks after the first small-business scheme, which was the CBIL scheme. It was introduced in the light of feedback and what we learned about the scheme in its very early days. That is one example. In terms of the furlough scheme, at the beginning it was available only to those not working, and then we introduced the ability for people to work part of their hours. Within the self-employed scheme, we changed the treatment of people taking parental leave and of former servicemen and women. Those are just a few examples. We are, as we go along, trying to learn what we can and improve the schemes.

Q29 **Alison Thewliss:** The job-retention bonus was one of the schemes made under ministerial direction. Has that been delayed or has it been scrapped? I understand that, in the direction, it was said by HMRC that it was difficult to establish counterfactuals and that the efficiency of measures was also in doubt. Many sectors across our society are planning for getting that, and they do not know if it is going to happen.

Sir Tom Scholar: That has been postponed, as the Chancellor said last week. The original intention was to pay it in January. That was when the furlough scheme was due to end at the end of October. The furlough scheme is now extended to the end of March. Since the purpose of the job-retention bonus was to incentivise employers to keep staff on beyond the end of the furlough scheme, it makes sense to come back to that beyond March, once the furlough scheme has ended. The Chancellor has said that he will bring back a proposal on that next year.

Q30 **Alison Thewliss:** £1,000 for each employee is quite a lot of money for some companies, and they were expecting to get this in January, in helping to tide them over. What analysis has been done of the impact of delaying?

Sir Tom Scholar: Those same employers will also benefit from the extension of the furlough scheme through to the end of March, which is more generous than the Job Support Scheme that it has now superseded, so most employers will be getting more support than they would otherwise have done.

Q31 **Alison Thewliss:** Some of the recent support packages would appear to be uncosted. Could you tell us how much the extension of furlough and the measures announced by the Chancellor earlier in the week and last week will cost?

Sir Tom Scholar: That will be costed by the OBR, which will publish that in two weeks' time, on 25 November.

Q32 **Alison Thewliss:** Does it concern you that these things are put forward to Parliament without any costs attached to them?

Sir Tom Scholar: In considering them, we know the cost of the furlough scheme in its early months. I do not have the figures in front of me, but it is possible to do a fairly simple calculation based on the likely number of people who would be on the scheme. In terms of making a proper costing, you also need to forecast the take-up, which is not something that we would do but something that the OBR would do. We certainly had a good sense of the range of it at the time that the Chancellor announced the measure.

Q33 **Alison Thewliss:** Are you able to give us any figures for that range?

Sir Tom Scholar: I do not have that now, but I can certainly write to the Committee with that.

Q34 **Alison Thewliss:** The support package announced on 5 November still did nothing for some of those people who have been excluded since the start of the crisis, including limited company directors, PAYE and self-employed. Since some amount of time has passed since we began this, should we now take it that this is a policy decision rather than a result of admin problems, which is what was said at the start?

Sir Tom Scholar: You and other members of the Committee have had a chance to ask both the Chancellor and the Chief Secretary about that, and the Prime Minister was asked about it earlier today. There are some groups of people who fall outside the policy as defined; in particular, those with self-employment profits over £50,000 a year and those for whom self-employment is not their main source of income. The Chancellor has explained that, in both cases, that was in order to try to target the scheme at those most in need. In the case of people whose main source of income is not self-employment, many of them will also have been eligible under, for example, the furlough scheme.

There are then other groups of people where we face the same difficulty that we faced in March in terms of a lack of real-time data and serious operational difficulties for HMRC in introducing a system that is robust to the risk of attempted fraud by organised crime, for example. That would, in particular, include managers or directors, those who are recently self-employed and some freelancers who have not been registered for PAYE.

The difficulty that HMRC faces there is the same that it faced previously, which is that the data does not exist and that it would not have been possible to gather that data, because it refers to data going back to a previous tax year. Treasury Ministers have said repeatedly that we understand that that is very frustrating for people who do not qualify but, in the end, Ministers have to make a balanced judgment about the level of support as against the risk to the taxpayer. In those cases, that is where the line was drawn.

Q35 **Alison Thewliss:** Do you appreciate how frustrating it is for people who have had absolutely no support from March and who are seeing a huge level of fraud in the existing scheme that they still cannot access anything?

Sir Tom Scholar: I completely understand that people are very frustrated. As the Chancellor has said, there is a range of other support available beyond the self-employment scheme, including grants to businesses, money available to local authorities and so on. The Government have tried to provide a comprehensive package of measures but, as the Chancellor has said, we understand that we have not been able to help everyone in exactly the way that they would have liked. Clearly, that is difficult for some people.

Q36 **Alison Thewliss:** It is not the way they would have liked; they have not been helped at all, in many cases. What discussions have you had with representatives of the various excluded groups involved here, such as limited company directors, to see if there is any way around this problem? Many of them have made very reasonable suggestions as to how they could get that information to you.

Sir Tom Scholar: We have had a lot of representations on this issue. We have had them directly from this Committee. We have also had them directly from some of the organisations representing them. I do not have a list in front of me of all those discussions, but certainly we have had those representations.

Q37 **Alison Thewliss:** Would you be willing to meet with the all-party group on this issue?

Sir Tom Scholar: It would not be for me as an official to meet the all-party group, but I am sure our Ministers would be happy to do so.

Alison Thewliss: They have not so far, but we live in hope.

Q38 **Mr Baker:** I begin by declaring my registered interest in Glint Pay.

Government are spending absolutely enormous quantities of money. The previous Chancellor in the last Parliament undertook to review the fiscal framework. I believe that, at the moment, you are still bound by an obsolete set of fiscal rules from 2016. Is the Treasury working towards a new fiscal framework in time for the next Budget? In the meantime, are the fiscal rules suspended? Perhaps we might bring in Anna, because we have not had an opportunity to hear from her yet.

Sir Tom Scholar: With respect, Chair, that is not a matter for the finance director; that is a matter either for me or for the chief economic adviser.

Mr Baker: Tom, do go on.

Sir Tom Scholar: The Chancellor announced in the Budget that there would be a review of the fiscal framework, and the original plan was to complete that for the autumn. Given the enormous economic uncertainty we faced, that has been delayed and put on hold. As you know, the Budget is also not now happening in the autumn; it will happen in the spring next year.

I cannot say now precisely where we will have got to in terms of the fiscal framework by then because it will depend on the economic conditions, but what I can say is that every Government in the world—and the IMF, in its recent interventions, has supported this—has concentrated first and foremost on supporting their economies in the short term. We all recognise that this has come at considerable cost in terms of a rise in borrowing. At some point, that will have to be addressed but that is not today's priority. Today's priority is supporting the economy through these very difficult times.

Q39 **Mr Baker:** Thank you. That is admirably frank. Could you set out for us a bit about what this means for the Treasury's ability to monitor and control spending?

Sir Tom Scholar: We have absolutely retained the standard public spending framework, with all the usual approvals. We have, in certain cases, either increased Departments' delegated authorities or agreed particular pots of money that they are then able to use. That is particularly in order to enable rapid decision-taking, where needed. One thing that Ministers have had to do is to look very carefully at risk appetite and, within that, value-for-money assessments. We were talking a bit about that just now in terms of some of the schemes, but some of the same considerations apply also to public spending. We have kept the framework. We have adapted it to the needs of the times but, in terms of the basic discipline on public spending, that is something that we continue to take extremely seriously and it is very much central to our discussions with Departments at the moment on the spending review, the conclusions of which, as you know, are to be announced in a couple of weeks' time.

Q40 **Mr Baker:** Just taking that a step further, there was an attempt to bring the furlough scheme to an end. The furlough scheme is now extended, it seems to me, to coincide with when a vaccination programme might have reached the vulnerable, but that is another Department's issue. Was concern about debt and overall levels of spending one of the factors behind the attempt to end the furlough scheme whenever it was?

Sir Tom Scholar: No, that was not the primary motivation. The Chancellor explained this to the House of Commons last week. The furlough scheme was introduced in the spring to support people who were required to stay at home because their workplace was closed. Through the summer, as the economy was gradually opening up, albeit with some important exceptions, the Chancellor was keen to move that policy to be one more directly targeted at supporting people back into work, and also one where the employer would be carrying a larger proportion of the burden, so it was very much a supply-side labour market motivation.

Of course, at the same time, we have, right from the beginning, been very closely monitoring debt levels—both our own and those of other countries—because that is absolutely not something we could be complacent about for a moment. We are fortunate, like other countries, in that global markets are mostly quite benign, with bond yields at all-time lows or even negative at some maturities and in some countries. Of course, we do not assume that that will go on forever—that is all part of our risk assessment and the OBR's risk assessment, so we look at that—but the Chancellor's main motivation was in trying to support the economy in getting back to work.

Q41 **Mr Baker:** Can we come on to that risk assessment? What assessment have you made of the risks? What is the scope of that risk assessment? In particular, we are going to have some additional debt due to extending the furlough scheme, so what assessment have you made of the risks of the additional debt that is being incurred?

Sir Tom Scholar: Our starting point in looking at fiscal risk is the fiscal risks report prepared by the OBR in July, which sets out very clearly the magnitude of the numbers we are looking at and the scale of the risk. As I said earlier, that is something we have to bear in mind. We are confident that all the policies the Chancellor has introduced can be successfully implemented and funded. We are looking at similar market conditions in other countries, too. At the same time, as the Chancellor has said, at some point, once we get beyond the short-term crisis, that is something we are going to have to address. That will partly be addressed through growth in the economy, and all countries will be looking first and foremost to growth to pull them through it. That is clearly going to be a medium-term challenge.

Q42 **Mr Baker:** We come to the heart of the matter. We have seen it reported that the Treasury has concerns about the possibility of a sovereign debt crisis. The Bank of England made it clear to us that it is not its task to fund Government, and it asserted, quite rightly, the statutory independence of the MPC. It is very clear that, if inflation were to come in, the Bank would have to act within its remit. What assessment has the Treasury made of the risks of a sovereign debt crisis?

Sir Tom Scholar: I do not know where you saw that reported.

Q43 **Mr Baker:** It was a Treasury document leaked to the *Telegraph*. It laid out several scenarios of public borrowing and debt. It said that a tax-and-spend package may be needed to "enhance credibility and boost investor confidence"; there is a possibility of a spike in interest rates or inflation, leading to "much higher debt costs"; and most alarmingly, a "plausible"—albeit low—risk of a full-blown sovereign debt crisis. This was a report in the *Telegraph*.

Sir Tom Scholar: You would not expect me to comment on leaks or speculation. I can say a couple of things. First of all, as you say, the Bank of England has statutory independence, and its statutory objective is to pursue price stability, so all of its actions should be considered under that heading. The fiscal position is our job. In terms of projections and risks, we take the OBR work on that, which is all public so that the world can see it. We look extremely carefully at those projections and we consider our policy against that backdrop as well. We will have the Budget in March. We will have an OBR forecast in two weeks' time and another in March. Alongside that, the Chancellor will be setting out his medium-term fiscal plans. That is how we look at it.

Q44 **Mr Baker:** To what extent is Government spending dependent on quantitative easing at this time?

Sir Tom Scholar: The two things are entirely separate. The Bank of England makes its decisions on quantitative easing in pursuit of monetary stability and, in particular, the inflation target. It has set out extremely clearly why it has taken the decisions it has in order to meet its remit on monetary policy. That is its job. Our job is to support the Chancellor in making the fiscal judgment, where he has to balance both the medium-term impact of decisions that have an impact on debt and borrowing, as well as, completely critically, the short-term impact and the need to support the economy, minimise scarring and minimise a short-term problem turning into a long-term weakness that ultimately would be even more damaging. That is, in the end, the Chancellor's judgment, but it is our job to advise him on that.

Q45 **Mr Baker:** I will just observe that the head of the Debt Management Office, Mr Stheeman, made some comments to *The Times*, which he subsequently somewhat backed away from when he came before the Committee, about the market being sustained by the intervention of the Bank of England. People can check the record for the exact words that he said. I will just finish with this question, and perhaps I might put it to Clare: is there any reason to think that there is any risk of a sovereign debt crisis in the United Kingdom?

Sir Tom Scholar: What I would refer to there is that the bond market is a global market. Bond yields in the UK are very heavily determined by global bond yields. Everywhere you look around the world, bond yields are at record lows and, as I said, in some cases at negative levels. It is a global issue that we are looking at here. It is global factors that are really driving the bond market, including the gilts markets.

Mr Baker: Tom, I hope you will not mind my observing that I did specifically push that question towards Clare. I know that you have certain rights as the Permanent Secretary.

Sir Tom Scholar: My apologies.

Q46 **Mr Baker:** Can I ask the chief economist what assessment she makes of the risks of a sovereign debt crisis?

Clare Lombardelli: You certainly can, and you will not be surprised that I would agree with my boss, the Permanent Secretary. He is right: the bond market is global, and the UK, like other countries, is benefiting, if you like, from the huge amount of demand for our gilts at the moment. If you look out throughout the curve, that is expected to continue. We do not see that as a risk at the moment. The immediate focus and the economic risks, as we see them, are all around preventing the scarring that Tom talked about. This is about how we make sure that a short-term economic hit does not turn into long-term damage to the growth and productivity of this country, and that is why the Government are providing this overwhelming amount of support.

Interestingly, around the world, that is the judgment that is almost uniformly being taken, including by a number of institutions that think very hard and carefully around the fiscal stuff. The Institute for Fiscal Studies and the International Monetary Fund are generally bodies that are seen as quite hawkish on fiscal policy but are also hugely supportive of this argument that what matters now is preventing long-term damage.

That is not to say that we do not think about and monitor the long-term fiscal consequences. For a number of reasons, we care about this, including, as you have mentioned, the fact that interest rates are incredibly low at the moment. They may not be forever. We have also seen two very large, once-in-a-generation hits within 10 years, so there is an argument for rebuilding fiscal buffers as and when the right time is. Of course, there is a broader intergenerational point.

Mr Baker: Thank you very much. Having just provoked you to talk to me about this subject, I now have to draw stumps. I can only apologise for not having more time to prod this issue of the source of demand for all these bonds, but that is by the by.

Q47 **Julie Marson:** I have some questions on the economy and on business. I am going to direct my questions to Clare in the first instance, but as the Chair said earlier, if anyone else would like to come in, please do so. The Chancellor wrote to this Committee on 4 November and said, "The labour market enters these restrictions in a weaker state than in March, and so do corporate balance sheets, including in the worst-affected sectors." That is not a particularly surprising statement. What is your assessment of how damaged corporate balance sheets are, and what does that mean for their resilience to this lockdown and in the future?

Clare Lombardelli: As you know, we do not do forecasting or forward-looking estimates of corporate balance sheets, but there are lots of reasons to believe that they are under more distress than they were in March. We look at and monitor a whole range of data when it comes to the corporate sector, such as the ONS Business Impact of Coronavirus Survey, which does tell us a bit about how businesses view their own positions. They have noted that a number of them have low confidence in their ability to continue. We look at things like insolvency data and we look at other people's research around this, so we reflect on that, but we do not have estimates on the level of distress in the corporate sector.

Q48 **Julie Marson:** If we do not have much of that data—and I appreciate what you are saying—how can we formulate future policy responses such as the effectiveness of further borrowing opportunities and interventions? Do we need that information to assess how we intervene in the future?

Clare Lombardelli: We can look at things like what is happening in the sectors that are most affected. As you rightly alluded to, some sectors are far more affected by the nature of the restrictions that we are seeing in this crisis than others. We can look at the size and scale of those sectors. We can look at what sort of impact this is having on them. We are, of course, in constant conversation with a lot of businesses and their representative bodies about what they are seeing. We bring together all of that information in informing our policy design to provide the right sort of support to businesses.

Charles Roxburgh: We do not do the forecasts but we track what is going on very closely, and we have a very close dialogue with business groups, sectoral representatives and individual businesses as well. For the large end of the businesses, many have been successful at raising equity to support their balance sheets, which has been a reassuring aspect of how some large businesses have been able to respond.

At the small-business end, the Chancellor was concerned about the ability of small businesses to repay the loans that they had taken on, and so he has introduced what is called the Pay as You Grow scheme, which extended the terms on the bounce back loans to 10 years and has options for interest and capital repayment holidays. It enables businesses to spread that repayment over a much longer period and to reduce their debt service payments. That was a very explicit response that picks up one of the points that Tom made earlier about how we have made course corrections as we go along in light of what we learn about these schemes. For those businesses that need more time to pay back their bounce back loans, they will now have up to 10 years to pay them back, so that is our response there.

We also, very early in the crisis, working with our colleagues in the Business Department, introduced some changes to the insolvency regime, which give more time for companies and have been a helpful response to enable companies to have more time to restructure their finances in this crisis. We are aware of the problem, we take actions where we can, and we continue to monitor it.

Q49 **Julie Marson:** Clare, I appreciate that the format of this lockdown is different from the last one. In your assessment, do repeated lockdowns have a cumulative effect, or would you say that they have very distinct and short-term effects? It must have a cumulative effect, potentially, on business uncertainty, business investment and so on. How big would you say that cumulative effect would be?

Clare Lombardelli: We would certainly expect the effect of this lockdown to be different from the previous one, for a number of reasons. As the Chancellor set out, the corporate sector is in a much higher level of distress and is in a more difficult position this time around, as is the labour market, with far larger numbers of people either unemployed or inactive. That, of course, will change the impact of a second lockdown, as you would expect.

A number of things are different this time around, and it is worth pausing on it. It is one of the reasons why it is very difficult to accurately predict what the impact will be. For example, the fact that schools are open this time will make a really large difference to things like labour supply because, in the last lockdown, for a lot of people, childcare responsibilities will have had an impact. It will also change things like the distributional impact of the lockdown because we know that caring responsibilities differ on average, so you would expect some differences this time around.

Also, a number of sectors this time around are operating to a much higher level than they were last time. For example, if you take construction, a number of large house-builders have put out trading statements to say that they are fully active this time around, which differs from last time around, so you will see a lot of differences. Other things will have a different impact; for example, with things like compliance, it is very hard to know but that will change consumer demand. You would expect the impact this time around to be different, not least because the lockdown happened last time, and so you are starting with the economy in a very different position.

Q50 **Julie Marson:** What about business investment? There has been quite a fall-off in business investment. What can the Treasury do to stimulate private investment going forward?

Clare Lombardelli: You are right that business investment has seen a real fall-off; in fact, we saw it fall by a record amount between the second and first quarter of this year, which will have had a large impact not just in the short term but in the long term. It relates to some of the things we were talking about earlier with respect to scarring.

One of the biggest drivers of investment is uncertainty, so those factors are related. Once there is more certainty in the environment, particularly around the level of demand, it will help businesses make a judgment about their investment.

Q51 **Julie Marson:** We have had a lot of news about vaccines this week. Has the Treasury put in place any planning for a stimulus in the event of a vaccine or treatment? Would that be focused on any particular part of the economy?

Clare Lombardelli: The Government's immediate focus now is on ensuring we provide the support that workers and businesses need through this period that we are going through, and thinking very much about what is going on in the economy in the immediate term. It is for others and not really for the Treasury to talk about vaccines and the outlook in terms of what that means, but what we are thinking about is, as the economy evolves and as the levels of certainty around that evolve, of course we will adapt. What the Government and the Treasury have shown is, to use Charles's language, just how able we are to correct course and how quickly the Government can respond to changing circumstances.

Q52 **Julie Marson:** Is the Treasury measuring how the coronavirus is impacting on regional disparities?

Sir Tom Scholar: As discussed earlier, in our analysis we look at the regional and sectoral dimension. Our main source of information for that, of course, is the ONS data. As I said earlier, the labour market data yesterday includes a regional breakdown. This is something that forms part of the ongoing process of monitoring that we were trying to describe earlier.

Q53 **Julie Marson:** What kind of effect are you seeing on regional disparities?

Sir Tom Scholar: It is clearly a moving picture. In March and in the first wave, London was hit relatively harder than other parts of the country. Since then, as the virus has developed at different speeds in different places, the impact has been spread around. We will not know, until we get to the end of this, what the overall consequence has been in terms of regional disparity, but we can already see that it is having a very serious effect everywhere.

Q54 **Siobhain McDonagh:** I would like to look at the implications of the postponement of the multi-year spending review and wider issues of spending control, such as tracking spending and procurement. The Treasury announced a multi-year spending review on 21 July and then cancelled it in mid-October. Why was the multi-year spending review not cancelled earlier to save Departments spending time on detailed multi-year proposals? Was the late cancellation due to conflicting views between No. 10 and No. 11 Downing Street?

Sir Tom Scholar: As you say, the spending review in two weeks' time will be primarily a one-year exercise, although I should say it is not just a one-year exercise and there will still be important multi-year settlements to be discussed, agreed and announced; in particular, under the various capital programmes, where there is a very strong value-for-money case in making decisions on a multi-year basis. It is not simply a one-year spending review.

The reason for the change of plan, as the Chancellor and Chief Secretary have said, is that, as the autumn has worn on, the health situation and the economic situation have deteriorated and become more uncertain, and so, by the middle of October, the Chancellor felt that it just was not sensible, given the huge degree of economic uncertainty, to make multi-year spending commitments across the board, not least because, in these circumstances, it is very difficult for the OBR to give a stable multi-year forecast. Just to give one illustration of that, even since that decision was taken, with the 31 October announcements, there has been a significant increase in the further restrictions and the economic hit associated with that. That was the reason for the change of plan.

All of the work that Departments have done will certainly be needed next year because, next year, we will come back to the multi-year spending review, and we all hope, of course, that that will be as we put the pandemic behind us and have a rather more stable basis on which to plan. All of the work that we have done with spending Departments is put to one side, but we will come back to it really quite soon.

Q55 **Siobhain McDonagh:** I do not really understand how you can have a one-year spending review and have agreements on infrastructure and significant capital projects, unless you can look at future years this year. Are we pushing the integrated defence review and the national infrastructure strategy back a year?

Sir Tom Scholar: As you know, Departments budget separately for resource, or current spending, and capital spending.

Q56 **Siobhain McDonagh:** Yes, but every capital project has a revenue implication, so you cannot see them separately.

Sir Tom Scholar: In many cases, the associated revenue is really quite small, and it is really the capital that you are looking at. For the programmes that we are talking about, which will be announced in a couple of weeks' time, we are looking at a multi-year capital settlement, and that is precisely because there are a number of capital programmes where it just would not make sense to plan on a one-year basis, given you would end up making decisions that would be poor value for money. That is an exception to the general principle of one year, although there are, I should also say, existing multi-year settlements, for example, for schools and for the National Health Service, which will continue to apply.

Q57 **Siobhain McDonagh:** On the point of NHS infrastructure, the Government have pledged the building of 40 new hospitals, but the devil is always in the detail. In my local area, two hospitals will be downgraded in order to open a new acute site in an area where life expectancy is already at its highest, but here is the key: the chosen site requires 22% more capital than the option of rebuilding where health needs are greatest. From a Treasury perspective, at a time of extraordinary demand on spending, is this unnecessary extra cost not of concern?

Sir Tom Scholar: If you will forgive me, I cannot speculate. We are, of course, discussing the NHS capital budget with the Health Department. That is part of the spending review discussion, and the conclusions of that will be announced in a couple of weeks' time. As part of that, we are very focused on value for money as well as the needs of the health service. That is part of the discussion, but I hope you will understand that I cannot anticipate what will be announced in a couple of weeks' time.

Q58 **Siobhain McDonagh:** I am disappointed. I appreciate that these are extraordinary times and the Treasury has had to make extremely fast spending decisions on a wide range of issues, but the importance of speed must not overshadow that of transparency and due diligence. Why does it increasingly appear that, to be awarded a Government contract, you have to be linked either to a Government Minister or to Dominic Cummings?

Sir Tom Scholar: As I said earlier, we have kept the same spending framework. The spending framework delegates nearly all spending decisions to Departments. We agree overall spending envelopes with Departments, and then they have delegated responsibility up to the agreed limits within that. There are some separate Cabinet Office controls that apply to things like consultancy and procurement but, primarily, these decisions are for Departments, as I say, sometimes in consultation with the Cabinet Office.

Siobhain McDonagh: So it is their fault, not yours.

Sir Tom Scholar: I am not sure there is much more I can say beyond that. We have, in some cases, increased delegated limits, especially to allow Departments to move quickly where they need to do that.

Q59 **Siobhain McDonagh:** One of your predecessors, Lord Nick Macpherson, told us that "there is a risk at the current time that, because the Government can borrow at virtually no interest rate at all, they are just going to keep on borrowing and spending." How concerned are you that the Treasury has lost its grip on spending control?

Sir Tom Scholar: As I said, we are using the same framework. We have exactly the same grip on spending that we would normally have. We are increasing spending very significantly across a whole range of areas, whether that is support programmes to support the economy and keep people in jobs and support them through this time, or whether it is extra money for public services to deal with the pandemic. Those decisions are all taken by Ministers in a very hard-headed way, looking at the overall spending aggregates and the overall fiscal aggregates as well. As I was saying to Mr Baker earlier, in looking at that, we have the overall fiscal position very much in mind. I am sure that the Chancellor will be speaking more about that when he introduces the spending review in two weeks' time.

Q60 **Siobhain McDonagh:** In your 4 May letter, you noted, on PPE procurement, that "decisions on the use of these funds are delegated to the Department for Health and Social Care, who are responsible for the Government's strategy on PPE procurement and testing. The Treasury will be reviewing progress in the use of these funds, including in the context of future proposals for funding." Did the Treasury do any analysis before it handed over the funds?

Sir Tom Scholar: We certainly did analysis and discussed it with the Department. I remember, at the time, that that was an important discussion between the Treasury and Department of Health, at both official and ministerial level. There was, at the time, a huge need to get PPE as quickly as possible to the frontline. The Department needed to make very quick decisions about where to source it from, and so we agreed with it a larger delegated budget, with higher delegated spending limits, to enable it to do that quickly. That was a deliberate decision taken in light of those circumstances of extreme urgency.

Q61 **Siobhain McDonagh:** Will you do any review of its effectiveness?

Sir Tom Scholar: The letter said that we would be reviewing it. I do not know off hand whether we have already done that or whether that is something still to come, but perhaps I can look into that and also include that in my letter to the Committee after this hearing.

Q62 **Felicity Buchan:** My questions are on contingency planning. The national risk register, which was published in 2017, assessed the risks that civil society was facing in terms of their likelihood and impact. A pandemic influenza was number one. Another major risk was an emerging infectious disease. Did the Treasury do contingency planning for these risks?

Sir Tom Scholar: You are referring there to Exercise Cygnus, which has been discussed a fair bit. As you say, Exercise Cygnus looked at the possibility of an influenza-style pandemic. An influenza-style pandemic would not have had anything like the impact on society or the economy that the coronavirus pandemic has had. As modelled at the time by the scientists and medics who do the modelling, I think I am right in saying that in the scenario it was set out that it was an illness a bit like serious flu, which would affect more people than a normal flu epidemic and might involve possibly 20% of the workforce at any time being unable to work and ill. Critically, it would not have posed the same risk to life as the coronavirus, would not have had the same impact on the health service and therefore would not have required the same measures to counteract it, in particular the lockdown. In that kind of pandemic, the main issue for the Treasury as a Department would be to make sure that public services would be able to keep operating. There was some discussion at the time about that, but that would be the kind of issue that we would normally deal with on a business-as-usual-type approach.

Critically, in preparing that scenario or in identifying it for the risk register, nobody had envisaged that it would be the kind of pandemic that would require a national lockdown and all the consequences of that. It was a very different type of scenario from the one that ended up happening.

Q63 **Felicity Buchan:** In terms of the schemes that we introduced, such as furlough and CBILS, were any of those pre-planned or war gamed?

Sir Tom Scholar: In each case we were building on a considerable body of work that we had done in other contexts to look at the kinds of economic support measures that might be needed. We had done some contingency planning on a work support scheme. We had done a great deal of work on potential business support schemes. That partly went back to the 2008 banking crisis and the recession that came after it. Also at other points during the intervening years we had done that. We certainly were not starting from a clean sheet of paper. We had quite a bit of experience of different circumstances and different types of support.

At the same time, as I said, because the risk register did not identify the kind of emergency that in the end has materialised, we did not have schemes on the shelf ready to go for the kind of situation that we ended up finding ourselves in, because that had not been identified as a risk.

Charles Roxburgh: We do a lot of contingency planning on the financial stability side, where the work is led by the Bank of England. We are involved in that through membership of the FPC, but also we work jointly with the Bank on scenarios for financial stability issues. That followed from the financial crisis and, through the stress-testing regime that the Bank has put in place, has led to banks holding a lot more capital through the new regulatory regime and stress-testing. That is proof that the contingency planning on the financial stability side meant that the banks went into this crisis with very significant capital, which means that we have not had a problem of banks not having enough capital to support their operations. That is proof that in that case we did the contingency planning, the regulators took the necessary action, we put in place protections that we needed of high capital and that has stood us in good stead through this crisis.

Q64 **Felicity Buchan:** Let us look forward now, because clearly we have a range of potential outcomes. We all hope that the vaccine comes on stream, is very effective and safe and that we do not have further lockdowns. However, are you doing contingency planning going forward for various scenarios? If you are, what is the worst-case scenario that you are planning for?

Sir Tom Scholar: We have tried throughout, since March, to think ahead as to what might be coming down the track and to make sure that our Ministers have the information they need to make decisions in response to changing circumstances. You have all seen a whole string of announcements from Treasury Ministers as circumstances have changed. We are still trying to do that.

Clearly, the extension of the furlough scheme and of the Self-Employment Income Support Scheme to the end of March was all decided before this news of the vaccine came along. To the extent that the news gives the country the hope of a quicker recovery, a path out of the pandemic and a quicker recovery for the economy, so much the better, but if, for reasons that none of us can predict today, things prove a bit slower, then we will certainly be ready and our Ministers will be ready to do whatever needs to be done.

As we were saying earlier, it is not really possible in these circumstances to provide a robust forecast. The OBR, when it produces its forecast in a couple of weeks' time, will be talking about the range of possible outcomes, depending on the path of the pandemic. We will take that as our basis for planning for the months ahead. Then again, of course, they will be doing another forecast to accompany the Budget in the spring.

Q65 **Felicity Buchan:** Are you doing contingency planning for one year out or for two years out, because there is a scenario that this crisis goes on a lot further than the end of March?

Sir Tom Scholar: We are certainly looking at the state of the economy. Clare talked a bit about that. We look at the state of the labour market, the state of corporate balance sheets and so on and so forth. We have a Budget next year. We have a spending review next year. We will need to be ready at that time for whatever the circumstances require. We are absolutely doing what you say and trying to think ahead.

Q66 **Felicity Buchan:** Clearly, what you have said is that you are very dependent upon the OBR forecasts. Do you think that you were in a position 10 days ago, or whenever it exactly was, to recommend a course of action to your Ministers if you did not have those forecasts in front of you?

Sir Tom Scholar: We may not have had a point forecast from the OBR, but we and the country as a whole had a pretty good idea that a further lockdown, albeit a partial one compared to the first one in the spring, could only have a significant, serious impact on the economy and that there was a need for a support package to counteract it. The Chancellor looked at that and decided that, in the light of those new measures being extended across the whole country, the previously planned Job Support Scheme was no longer appropriate and a more comprehensive safety net through an extension of the furlough was the right thing to do, and the extension of some of the business support schemes and loans as well.

Although you cannot be precise about these things, those were well-founded decisions based on a good assessment of the state of the economy.

Q67 **Felicity Buchan:** I am not disputing that. I just find it remarkable that you would make such substantial recommendations on the basis of no firm data in front of you.

Sir Tom Scholar: You could say the same for the decisions in March. Going back further in time, you could say the same for some of the decisions made during the banking crisis. In the end, sometimes in economic policy you have to make very big judgment calls on the basis of limited data and limited information. You have to compare the costs and benefits of acting as compared to not acting. Often in those circumstances, the data is not yet available. It is impossible to make a precise forecast because you are dealing with circumstances that are, by their nature, highly unpredictable.

The decision needed to be taken, but it was taken 10 days ago with a good understanding of what the impact of the first lockdown had been, what the impact of the schemes to counteract that had been and so, to a reasonable degree of approximation, what we could expect this time around.

Q68 **Felicity Buchan:** As you do the planning going forward, what lessons have you learned from the last nine months?

Sir Tom Scholar: As I tried to suggest earlier, in all of our schemes we have been trying to incorporate the lessons as we go along and improve those schemes where it is possible to do so. We have announced that we will be doing a formal evaluation of the furlough scheme, although that will take some time. Once we get through the pandemic, there will be a general question for the Government, for Parliament and for the country, which goes much broader than the Treasury, about the nature of contingency planning and the nature of resilience. That clearly goes much wider than us, but we will certainly be looking to learn the lessons when we get to that point.

Q69 **Ms Eagle:** The test and trace system has cost £12 billion, and so far we have spent £10 billion on PPE. Is that right, Sir Tom?

Sir Tom Scholar: I do not have the figures in front of me, but I have no reason to think that you are mistaken.

Q70 **Ms Eagle:** The Chancellor said that £10 billion had been set aside for PPE when he last came before us, but that was a while ago. Perhaps that has gone up in the meantime.

Sir Tom Scholar: I do not have the latest figures. I do know that in September we estimated the total expenditure this year across all of the Covid public services interventions at around £70 billion, across everything. There will be a further estimate of that published in two weeks' time with the spending review. That will then certainly include a breakdown, including the breakdown of those areas that you have identified.

Q71 **Ms Eagle:** Sir Tom, what has been set aside for the so-called Moonshot mass testing initiative?

Sir Tom Scholar: Again, I do not have the precise figures there. It can be expected to be very expensive.

Q72 **Ms Eagle:** I have heard £40 billion, but I am not sure whether that is accurate or not.

Sir Tom Scholar: I am not sure of the accurate figure either. I can certainly write with the figure.

Q73 **Ms Eagle:** I am quite worried if you are not sure. I know that you cannot have a super-forecaster's brain and expect to be across all of this, but these are huge figures. I would have hoped a prime ministerial announcement of Moonshot mass testing would have at least passed your desk at some stage before he made the announcement.

Sir Tom Scholar: It certainly will have done, but an awful lot of things also pass my desk, so I cannot remember everything. I am completely confident that the Health spending team will have all of that information, so I will get that for you.

Q74 **Ms Eagle:** That would be very helpful, and also whether you are expecting that to go up, because clearly test and trace continues to be an ongoing issue. PPE is clearly also going to be an ongoing issue. We need ongoing supplies of it, so I suspect that £10 billion might be the first tranche. That would be very helpful.

I am struck as well, Sir Tom, by the furlough scheme and how we have effectively had eight different iterations of it since it was first introduced in March. The longest stability for the scheme has been four months and some aspects of the scheme, for example the Job Support Scheme, have actually been postponed or abolished before they have been introduced. Do you think there has been too much tinkering with the scheme, which has just caused confusion among those who are trying to deal with it? Also, given that the furlough scheme was meant to wind down and the timing of that was right in the middle of when we would have expected the second wave, was that entirely a sensible way of approaching job support?

Sir Tom Scholar: As the Chancellor has said, we have tried to adapt the schemes, including the furlough scheme, as we have gone along in the light of changing circumstances.

Q75 **Ms Eagle:** Was it good wishes instead of changing circumstances, hoping that the virus had gone away over the summer and would not be back, so the furlough scheme could be wound down, but in fact most people were expecting there to be a potential second wave of the virus?

Sir Tom Scholar: At every point, predictions, forecasts and projections, or whatever words you choose to use, of the path of the pandemic have been very uncertain, subject to wide margins of error. Some have been right and some have been wrong. What we saw through the summer was a situation where, not just in the UK but in other countries too, the incidence of Covid was falling. Many countries were then looking at how to start to open up their economies, get people back to work and have something a bit more approaching normality.

Q76 **Ms Eagle:** A lot of them did not change their job support schemes. For example, Germany announced that its scheme would go through all the way to the end of next year. Have you got involved in over-detailed iterations of a scheme, which has just damaged the people's trust in it and caused confusion by making big changes over the period from March to now?

Sir Tom Scholar: We have worked throughout in very close consultation with employers and trade unions, including employers' organisations, the Federation of Small Businesses, the CBI, the TUC and others. We have worked closely with them. They have mostly welcomed the direction of policy. We have tried to be as clear as possible and as early as possible about what is planned to come down the track. Of course, the one exception to that was the change of plan 10 days ago when the Job Support Scheme was postponed and the furlough scheme was extended. As the Chancellor said, that was in response to a sharp change in policy on the pandemic in the light of new evidence.

You gave the example of Germany. It did extend its scheme, but other countries have ended their schemes earlier. Clearly, that would have been an option, for the Chancellor not to have extended the furlough, but in his judgment it was an absolutely necessary thing to do to support people through the next few months.

Q77 **Ms Eagle:** Do you think the Eat Out to Help Out scheme, which cost £522 million, actually helped spread the virus? There is some epidemiological analysis that suggests it increased infections by between 9% and 17%.

Sir Tom Scholar: I know the study you are referring to, and the authors of the study referred to them as "back-of-the-envelope calculations." Obviously, it is for other people to judge that, not us.

What I would say on the Eat Out to Help Out scheme is that it was designed to encourage people back into premises that were required to be Covid-secure. It was also targeted at days of the week when fewer people tend to use those premises. It is not as if it was something that was decided independently of the Covid context. On the contrary, those premises, bars and restaurants, were required to be Covid-secure and comply with all the relevant health guidance.

Q78 **Ms Eagle:** Whilst I understand that speed is of the essence in crises like this, are you worried about the lack of transparency in some of the procurement that we have seen for very large sums of money and about the increasing connection of cronyism to some of the contracts that are being handed out?

Sir Tom Scholar: I cannot really go further than what I said earlier on that, because issues of contracts are almost invariably delegated to Departments, sometimes under Cabinet Office controls. I can certainly get a Cabinet Office view on that and write with it, but these are not things that really come to the Treasury, because they are part of Departments' delegated spending limits.

Q79 **Ms Eagle:** Deadweight costs and fraud costs are some of the potential risks caused by increased speed in acquiring contracts and introducing the systems that have caused ministerial directions to be issued. What do you think is an acceptable level of deadweight costs and fraud costs for the schemes that you have been responsible for?

Sir Tom Scholar: In terms of the economy-wide support schemes, we will have estimates of those from the OBR in a couple of weeks' time. In each case, it was very difficult or, in fact, impossible to know in advance what the likely level of fraud or error would be. In each case, we identified that the risk was there and, in each case, Ministers took a public-interest judgment that the need to move quickly and provide support quickly justified that.

Let me take bounce back loans as an example. That is a programme being implemented by the British Business Bank under the auspices of BEIS. The British Business Bank has stopped 27,000 fraudulent applications, which would have amounted to something over £1 billion. There have been a number of arrests in relation to people suspected of fraud under the Bounce Bank Loan Scheme. That is one example. HMRC is acting in a similar way in respect of the schemes that it is implementing. The Departments implementing the schemes, having obviously flagged the risk, received the direction and are now implementing them, are doing everything they can now to minimise that risk and, through that, protect the taxpayer.

Q80 **Ms Eagle:** Finally, perhaps you understand some of our frustrations as parliamentarians, given that the fiscal rules have been suspended, spending reviews, in any meaningful way, apart from this one-year one, have been cancelled, Budgets are not really happening and keep being put off, and we are just seeing fiscal policy and the Chancellor's announcements proceeding with a series of ad-hoc statements to Parliament, with very few costings. What can be done to learn from all of this? It may be convenient for the Treasury not to have these costings available for us to look at, but what can be done to try to increase the transparency and make it easier for there to be appropriate questioning during periods like this, if we go through them in the future?

Sir Tom Scholar: I certainly understand that. I should say it is not at all convenient for the Treasury. It is not the way we like to do things. As a former Treasury Minister, you will know that. It is normally in the Treasury an article of faith that you have two fiscal events a year with a forecast, and fiscal announcements go at those events; you have multi-year spending reviews and you try to do things in a predictable manner. The circumstances of this year just have not allowed that to happen. As soon as we can get back to a more normal way of doing things, we will.

Despite that, there has been a great deal of transparency. To give one example, the Office for Budget Responsibility, which would normally just confine itself to its two forecasts a year, this year, given the way things were moving so quickly, has produced various other analyses, estimates and costings related to Covid out of sequence. They have tried and we have tried to be fully transparent at every point. I totally accept the premise of your question, which is that this is not the normal way of doing things, but we are not in normal times.

Q81 **Anthony Browne:** I have a question about a figure that we used to quote a lot in the British media; it used to seem like a huge amount of money at the time but now it seems like a very ordinary sum: £39 billion, which was the so-called Brexit bill. That is the amount of money we have to pay to the EU when we leave. That was the estimate back in March 2017, when we triggered Article 50. I want to know what has happened to that money. In the latest Treasury accounts, you put an estimate that the provision for Brexit is also about £39 billion, or £38 billion. It has not moved very much. I am not quite sure who is best placed to answer this question. I am not sure whose area of responsibility it is. I would have thought the bill would go down quite a bit over time.

Anna Caffyn: Within Treasury's own accounts, we are reflecting the provisions that are true to the Treasury, if that makes sense. This is not the full costs and benefits of leaving the EU. Within our accounts, it reflects those costs that will fall to the Treasury in future years. There are a wider set of costs and benefits. Those are set out in the EU finances White Paper as our most complete view on those costs.

Q82 **Anthony Browne:** What is the actual estimate of the amount of money the UK will need to pay to the EU? I assume we carried on paying, clearly, until we left the EU, which was 31 January this year, and we have carried on making payments throughout the transition period. What is the money left that we still expect we need to pay?

Sir Tom Scholar: There are two things here. The first thing is that the original estimate was £35 billion to £39 billion as the overall value of the financial settlement. The latest estimate is still within that. The best place to get the detail on this is the EU finances statement publication that we laid in the House of Commons Library in July. We do that every year. It is a full statement of our financial relationship with the European Union. This year it included a chapter specifically on the financial settlement.

The figure is still the same, but there are two important things that I should add to that. First of all, there are several different bases for calculating it. In particular, the £35 billion to £39 billion was always a net figure. It took off expected receipts to the UK from the European Union. The figure in our accounts—I think I am right; my finance director will correct me if I am wrong—is a gross figure so it does not take account of those expected flows. The first thing is, depending on the definition and the accounting convention, there are several different ways of calculating it.

The second thing to say is that the £35 billion to £39 billion was based on the assumption that we would leave the EU at the end of March 2018, which was the plan at the time the financial settlement was agreed. As you know, in the event, we did not leave until the end of January 2019. We ended up paying more as a member state. We ended up being a member state for an additional 10 months and so we were paying into the budget as a member state during those 10 months. As a consequence, the value of the financial settlement comes down, because some of the liabilities that we would have been responsible for were paid during that time through our membership contributions.

It is all quite complicated but it is all set out as clearly as we possibly can in that publication on EU finances from July of this year. The critical thing to say is that the overall value of the financial settlement is still what we thought it would be at the time we entered into it.

Anthony Browne: We left in January 2020, rather than January 2019.

Sir Tom Scholar: Sorry, I got my years mixed up.

Anthony Browne: It is very easy to get confused.

Sir Tom Scholar: It has been a very long year; apologies.

Q83 **Anthony Browne:** Even through this transition period of, as you say, 10 months or so now, have we not been paying out money? Has that bill not been coming down? We have been making the contribution. We are a massive net contributor to the EU; we obviously get some payments back, even through this transition period, for farmers and so on. As a net contributor, as time goes on, you would have thought the bill for the total amount still due would go down.

Sir Tom Scholar: Yes, that is correct. The outstanding amount gradually comes down. The OBR will publish the next official estimate of that in two weeks' time. We will again next year publish our EU finances paper, which will reconcile all these things. The outstanding amount still to be paid, as you say, is coming down over time as we are making payments, but the value of the overall settlement, which includes what has been paid as well as what is still to be paid, is still within that estimate.

Q84 **Anthony Browne:** Do you know the timetable for us paying that? Is that a single cheque for £35 billion to £39 billion, or is it that we pay it out over a period of time, over 10 years? It is quite a big sum. It will obviously affect the budget deficit.

Sir Tom Scholar: It is to be paid out as and when it arises. It is pretty heavily frontloaded, because it mostly relates to liabilities that we entered into while we were still a member state, still sitting around the table and able to take part in those decisions, for example on capital programmes that have been delayed, but they will mostly come through in the next couple of years. There is then a very long tail of payments that get very small by the end, in particular relating to an ongoing liability for the pensions of EU employees, relating to our time as a member. That is quite a small amount and gets very small very quickly. We have the ability at our discretion, under the financial settlement, at some point to request just one final payment to close that out.

Again, in that document you will find a chart that shows the expected profile. It shows most of the payment now. I should say in each case it is considerably less than we were paying through net contributions. It is clear why that would be the case. Most of it arises in the next couple of years.

Q85 **Anthony Browne:** We all hope for a deal. We may not get a deal. If we do not get a deal, would we still pay the money out?

Sir Tom Scholar: The financial settlement is now part of the withdrawal agreement, which has been legislated through Parliament. That is now a legal obligation.

Q86 **Anthony Browne:** That is regardless of whether or not we get a trade deal?

Sir Tom Scholar: The financial settlement is not part of the discussion now. That is a separate discussion. The financial settlement was part of the withdrawal agreement, which has now passed into law.

Q87 **Anthony Browne:** This is probably a question for Charles Roxburgh. I used to be chief executive of the British Bankers Association and we spent a lot of time negotiating the future framework for financial services with the EU to make sure that banks, in particular, can carry on servicing their customers across the EU. How concerned are you about the prospect of negotiations at the moment and the potential prospect of no trade agreement? Do you think financial services will be able to carry on serving their customers?

Charles Roxburgh: There has obviously been a huge amount of work done, both by the Treasury on the legislative side and by the regulators, to make sure that the financial services sector is ready for the point that we leave the transition period with or without a deal. A lot of that work has been published. You can follow the risk assessment in the FPC's work. We are confident that the financial services sector can manage any risks that arise. It is well prepared and the banks have done a good job of making sure that they are well prepared to continue to serve their customers as we leave, whether we have a deal or not. In fact, in this area, they are well prepared so that is in good shape.

The Chancellor has also announced decisions on equivalence. He has set out his vision of how we are going to approach equivalence. He has set out that we are going to be an open market and we are going to take equivalence decisions that work for us. That means that we want to be open as an international capital centre, which is the right answer for us. We have set out how we are going to approach those equivalence decisions. He has also set out which areas we have deemed EU-equivalent, because that is the right way forward. It is in our interest to do that. We set out how we think we should do these equivalence decisions; it will be for the EU to make its own decisions.

He has also set out a vision for the financial service sector, which he set out very recently in his statement to the House, about how we want to have it a very open and innovative system. He set out a vision for green finance and for technology. That set out a very positive vision and it was very widely welcomed. In fact, it was almost universally welcomed by the industry as setting out a positive vision for the sector after we leave the transition period. The sector, both through the official authorities and the sector itself, is well prepared and has done everything it needs to do to get ready for whatever happens as we leave the transition period.

Q88 **Anthony Browne:** Was our granting equivalence to EU countries not removing a negotiating lever and making it less likely that the EU will grant equivalence to the UK in terms of financial services?

Charles Roxburgh: The Chancellor's view was that it was in our interest to do this. It is a very clear signal that the UK, and particularly London, as an international financial centre, is open and that we will make equivalence decisions on the merits, through a technical process. We are equivalent. It is the same laws at the moment. He felt this was an important signal. You know this well, but to be a successful international financial centre you have to be open; you cannot build a closed international financial centre, by definition. It was a very important signal and it is in our interest to have London as a successful, open financial centre.

Equivalence should be taken as an outcomes-based process, looking at the case on the merits, and should not be a negotiating chip or a political bargaining point. It should be a technical process where we take decisions that are in our interests.

Anthony Browne: I hope the EU does not use it as a political bargaining point.

Q89 **Felicity Buchan:** I am going to come back in briefly on Treasury's 2019-20 accounts. Can you please explain why these have been qualified by your auditors?

Sir Tom Scholar: At the outset, let me repeat what I said in my letter to the Committee at the end of September: I apologise for this error, which has led to a control breach of our capital AME. The principal reason was a technical error in one of our arm's-length bodies, UK Asset Resolution. As you know, when we prepare our accounts, when we submit to Parliament for main estimates or supplementary estimates, we do so on behalf of the whole Treasury group, including our arm's-length bodies. We get their contributions, which we then put together and aggregate to put into a single set of accounts.

When UK Asset Resolution prepared their contribution to that, it made an error. It actually repeated an error that had been present for a couple of years before. It is very technical, but it is a private limited company. It uses a different accounting definition from what we use in Government or in Parliament. In particular, it does not have the concept of AME—annually managed expenditure—or capital AME. It constructed its figure on its definition rather than our definition. It submitted the figure to us; we aggregated it across and did not spot the error in our own reconciliation process. Our own reconciliation process should have picked that up and did not. As a consequence, looking across the Treasury group, we underestimated the level of capital expenditure and underestimated our contribution to the winter supplementary estimate.

In normal circumstances, that would not have mattered and we quite possibly would not even have known about it, because we were expecting a very large capital receipt in 2019-20 from a major asset sale through UKAR. In fact, in previous years the reason the mistake had not come to light was because of the presence of large-scale capital receipts. For various reasons, this year that sale was postponed. There were also impacts on asset valuations from Covid-related market developments. A number of these things meant that we under-forecast capital AME and overspent. It resulted in a breach. The underlying cause was this technical error to do with definitions.

We have taken very thorough action since we discovered this. We did our own internal review. We commissioned a review from the Government Internal Audit Agency. It has made a number of recommendations to help us strengthen our oversight of AME across our arm's-length bodies: stronger controls, better guidance and a stronger process for scrutinising these returns. We have accepted all those recommendations. We have implemented them all. As a consequence, we can be very confident that this error will not reoccur. I hope that explains the position.

Q90 **Felicity Buchan:** Thank you for the explanation. I have one quick follow-up question. If a member of the public were to say to you, "You cannot track spending over the bodies that you are directly accountable for. Should we have confidence that you can track the entire public sector?" what would you say?

Sir Tom Scholar: I would certainly say that it was a matter of great regret and great concern that this error happened. It was, as I have said, both a technical and a relatively small error, amounting to 1.5% of our overall capital budget. This is a complicated process of reconciling different returns on different definitions. There is the possibility of error and it is a matter of great regret that an error was made, but we have identified the problem and acted very promptly to correct it.

Q91 **Harriett Baldwin:** Can I go back to the questions that my colleague, Anthony Browne, was asking Charles about the statement that the Chancellor made in the Commons on Monday on equivalence? Was it the UK's negotiating objective to try to achieve a statement of mutual recognition of equivalence in terms of financial services regulation by 15 October?

Charles Roxburgh: The EU announced on the critical dossier of MiFID that it would be on a later timetable in any case. We have always been realistic about the EU's approach to this. The industry has, pretty much from the day after the referendum, been preparing for the possibility that we would not have equivalence. The Chancellor has made decisions that he believes are clearly in our interest. The EU will make its decisions on its timetable. As I say, we believe that on these dossiers we clearly are equivalent and we are prepared to go forward on that basis. The EU will have to make its own decision.

Q92 **Harriett Baldwin:** It is our ask to have a Canada-style free trade agreement, which, as I understand it, has recognition in terms of financial services equivalence in it, does it not?

Charles Roxburgh: The equivalence decisions are separate. The decisions will not be part of the FTA negotiations that are continuing. The equivalence decisions are separate from that. I do not want to get into what is or is not in the final stages of those negotiations, but the Chancellor's decision was taken on what we thought was in our interest and setting out the right way to approach these decisions.

Q93 **Harriett Baldwin:** Thinking about the future regulatory framework and the reviews that the Treasury has published, my understanding is that the Government are committing to ensuring prudential standards to be updated now in line with the Basel III standards. That is going to be our generally supported framework and one over which we have quite a bit of influence, I understand. Is that the vision going forward?

Charles Roxburgh: The FPC has made this statement and repeated it several times. The Government are aligned entirely that we want high regulatory standards in the financial system, and Basel is the global standard-setter for bank capital. That is the starting point. We are not limited to that. There may be areas where the regulators and the FPC believe that we need to go further to address the risks that we face specifically here, but Basel is the global standard-setter and we are very committed to international regulatory standards.

Our colleagues at the Bank are extremely highly regarded internationally. They are very influential in international circles, including at Basel. We are one voice but we are an influential voice. We will, as you know, through the Financial Services Bill be implementing the latest round of Basel capital standards.

Q94 **Harriett Baldwin:** What I am hearing there is that, when we have been following EU rules and the EU has taken an approach of incorporating Basel when it best suits the EU's circumstances, the UK, post the end of the transition period, will follow a similar approach. We will incorporate Basel when it makes sense for the UK, and we believe it makes sense for the UK at the moment.

Charles Roxburgh: That will be a sovereign decision by the relevant parties. The precise timing and phasing in of these Basel requirements is something that Parliament will decide through the Financial Services Bill, in terms of whether to adopt this. That is what the Government are proposing, but ultimately it is a decision for Parliament. The detail as to the precise implementation is a matter for our independent regulators.

When you say we will do it at the point when it works for the UK, it is not when it suits the industry; it is when it is the right thing for the financial stability of the UK, which, on Basel, is what will be the PRA's and the FPC's decision. They will take it as to the implementation timetable under the framework set by Parliament. It will be a sovereign decision by the relevant authorities in the UK.

Q95 **Harriett Baldwin:** Turning to the point about the formal process that is proposed in the financial services consultation, where Ministers can feed into regulators at the policy development level, do you feel that has implications at all for the Treasury's rethinking of the independence of the financial regulators?

Charles Roxburgh: We strongly support the independence of the financial regulators. That is set out in statute, and they have clear statutory objectives that they are bound to deliver. The new financial regulatory framework being put out for consultation—it is being implemented for the Basel work now, because we need to have an approach there—does not compromise the independence of the financial regulators. Ministers have decided that it is perfectly appropriate to signal some of the important public policy considerations that the independent regulators should take into account when implementing these.

The financial regulators have their statutory duties, in the PRA's case to protect the safety and soundness of the system, but they do not exist in a vacuum. It is perfectly appropriate for Ministers to set out the context of the wider public policy considerations, whether that is around financial inclusion, competition, competitiveness or access to finance. Those are things that are perfectly reasonable for Ministers to signal as being important, and then the final details as to how the rules are implemented are for the independent regulator. This is not compromising independence and this has been a constructive discussion with both the Bank and the FCA.

Q96 **Harriett Baldwin:** In that case, how are you likely to publish for people like us to scrutinise those kinds of discussions?

Charles Roxburgh: A big part of the new financial services framework is a very clear role for Parliament in scrutiny. We make clear that there is that. The precise nature of how particularly this Committee decides to exercise that scrutiny is a matter for Parliament rather than for us.

Q97 **Harriett Baldwin:** What I am asking is, if Treasury Ministers are feeding into policy development with the regulators, will the Treasury be able to publish or minute those discussions?

Charles Roxburgh: We are still consulting on the framework. Can I come back to you on precisely the point at which we will be able to confirm what and when we would make those statements public?

Q98 **Harriett Baldwin:** That is great, thank you. In terms of activity-specific policy framework legislation, which is in the consultation document, what do you currently feel the Treasury needs more control over with the regulators?

Charles Roxburgh: I would start by saying we have a very good and constructive relationship with both the PRA and the FCA. We are not looking for more control in general. The areas that we have flagged as ones where we would want to have regard to are things like the importance of growth, innovation, competition, competitiveness and some of the consumer issues. Those are ones that we already talk with the regulators about. Those are areas where there would be interest. Do you mean whether there are particular areas of activity like insurance or banking?

Q99 **Harriett Baldwin:** Yes, because it says activity-specific policy framework legislation. That does imply certain specific activities.

Charles Roxburgh: If you take as a live example the Solvency II consultation for the activities around insurance, that consultation raises issues about how we get the balance right so that, within a sound and secure insurance system, with the right level of capital, we can ensure that insurance companies can invest for the long term. There is a broad sense that there may be opportunities, in an entirely prudent and secure way, to make some tweaks to Solvency II to do that.

That is an example of where, in terms of having regard to sustainable growth and long-term investment, there are opportunities. In that consultation, we signal some of those areas of interest and we are looking for specific input from interested parties as part of that consultation.

Q100 **Harriett Baldwin:** You mention competitiveness, Charles. I presume that is a result of industry lobbying, and that lobbying or any meetings you have had with the industry will be minuted and disclosed in the normal way.

Charles Roxburgh: First of all, competitiveness is not a code for lower regulatory standards at all. We are very committed to maintaining very high regulatory standards. That is true of the Chancellor, the Economic Secretary and our regulators. We believe that having strong, high regulatory standards, both on the prudential side and the consumer protection side, is essential for long-term competitiveness. There is no competitive financial centre that can survive for the long term without those high standards. We are totally committed to high standards for the long term.

Competitiveness and having a successful financial services industry that can export, attract inward investment, support growth in the economy and deliver great financial services to consumers in a fair way is a national interest. We have a national interest in seeing a strong, successful and well-managed financial services system that serves society well. We do not see a conflict there.

Harriett Baldwin: Sadly, I am being told by the Chair that my time is up. I am very sorry to interrupt you mid-flow.

Charles Roxburgh: There is no change to our rules of transparency on all our meetings. Senior officials have to be transparent about who we meet.

Q101 **Rushanara Ali:** I have a few follow-up points to raise. Sir Tom and others, on some of them I would be grateful if you could write to us, in the interest of time, because I am the last person on the list to ask questions and I have quite a lot of questions on Brexit.

When the furlough scheme was extended, there was a lot of concern about the last-minute approach, I am afraid. Our constituents were made redundant when that could have been avoided, because employers had to act earlier to give notice and go through the redundancy consultation legislative requirements. It seemed short-sighted. Could you either tell us now or write to us with how many jobs could have been saved if the announcement was made a few weeks earlier, given that the Chancellor has now extended it to March? I have nearly 50,000 people who are furloughed. Some of those people would have been made redundant and that could have been avoided. That is a problem up and down the country. If you want to pick up on that, please do, but feel free to write.

The second thing I wanted to follow up on is in relation to Eat Out to Help Out. You mentioned the "back of the envelope" point, but one member of SAGE, along with the Prime Minister, said that it could have contributed to the higher infection rates. That was Professor John Edmunds. He has warned that, if it is done again, it could be damaging. Do you have any plans to reintroduce it when we come out of lockdown? If you do, do you think it would actually be better to have an Eat In to Help Out scheme, rather than Eat Out to Help Out, spending £500 million and risking infection.

Finally, and again you can write to us on this, as well as on the points that Angela and Siobhain raised, if you feel that would give you a chance to provide a more comprehensive response. We rely on the Treasury to provide value for money, and we recognise all the challenges you have raised about a pandemic and the unprecedented challenges officials and Ministers have had to work under, but the fact is that there is a bit of a pattern of conflicts of interest between Ministers and others who have jobs or who have got contracts. The party political issues around that have been raised in Parliament. I have raised them and others have raised them. Also, there is today's report by the Public Accounts Committee of the £3.6 billion fund for struggling English towns not being impartially allocated by MHCLG.

You will probably turn around and say that this is not your Department, but there is a wider need for cross-governmental working to avoid what looks like pork-barrel politics, to be frank. That is not acceptable when our constituents are going hungry and the Treasury could not find money to feed children during the holidays. It took a footballer to run a campaign to get the Government to make a U-turn. I would be grateful if you could respond to those points, some of them now and then some of them in writing.

Sir Tom Scholar: Let me take each of those points in turn. On the extension to the furlough, the eligibility and your question about people being made redundant in advance of that, the new date for eligibility under the furlough scheme is 30 October. People who have been notified to HMRC at any point up to that time will be eligible to be furloughed under the scheme. Indeed, anybody who was made redundant before the announcement of the Job Support Scheme on 23 September can also be rehired and put back on to the scheme. I hope that at least addresses part of your question.

Q102 **Rushanara Ali:** Could I please have the data, when you get the chance, on how many employers have actually gone down that route or had already pressed the green light and decided to pursue the redundancy? It would be really helpful to get some facts at some point.

Sir Tom Scholar: Yes, certainly; I would be happy to write. On the question of the Eat Out to Help Out scheme, as I said earlier, that was an attempt to help restimulate economic activity in a safe environment, in a way that would help support jobs.

Q103 **Rushanara Ali:** That is disputed. With respect, I heard what you said, but that is disputed by a SAGE member and by the Prime Minister. The public need assurance that the Treasury is not going to do any harm. The "do no harm" principle seems to have been suspended. It is disputed. We need an assurance that if policies like this are reintroduced, our constituents are not going to be put at risk. I have seen examples where that has happened. Can you give us an assurance that, if this policy is reintroduced in some form, the risk assessments and the impact assessments are done, so that we do not see an increase in infection rates? The Prime Minister himself has said that it may have done so.

Sir Tom Scholar: You asked whether there was any plan to reintroduce it. As you know, it came to an end at the end of August and there has not been any further discussion of that.

Q104 **Rushanara Ali:** Did the Treasury do any impact assessments to see what the risks might be?

Sir Tom Scholar: I cannot recall precisely the nature of the advice that went into that, but the basic point is that employers and businesses had a responsibility to ensure that their premises were Covid-secure. This was to be used in Covid-secure premises. Again, you have asked for comments in writing and I will be happy to include that, too.

Q105 **Rushanara Ali:** On the final point, would you be able to write to us alongside the points that Angela Eagle raised, about how Government Departments spend money, given the change in ministerial direction? There is real public concern about waste of public money and, at its extreme, there is concern that money is going into the wrong hands and being misused. Frankly, people are starting to ask questions about whether there is something much more serious going on.

Sir Tom Scholar: As I said earlier, I will be happy to check the Cabinet Office's view on compliance with their frameworks.

Q106 **Rushanara Ali:** It requires joined-up working between the Treasury and Cabinet Office.

The final thing I wanted to raise in terms of agenda items is something I raised with the FCA recently. I appreciate the Treasury is dealing with the pandemic and you have Brexit coming up in terms of whether we get a deal or not and the implications. I would be very grateful if you can write to us about what the Treasury is doing with the FCA to try to address this issue about the EWS1 certificate for those who are in cladded properties, where they are living in potential death traps. I have some of the highest numbers of cladded properties where people cannot move because they are now not going to be given mortgages because the certificates are not available.

This is really a finance-related issue in terms of mortgages, alongside MHCLG. Again, it requires joint working between the two Departments and the FCA. If I could have some work done on that, I would be very grateful.

Moving on to the point around Brexit, would you say that the Treasury is fully prepared for the UK leaving the EU with no deal? Are there any Treasury policy areas where immediate action is needed if a deal is not reached?

Sir Tom Scholar: On the first point on cladding, we will certainly write on that. It is something we have very much discussed with the FCA. We are well aware of the issue and I will be happy to write on that.

In terms of preparing for the end of the transition period at the end of the year, obviously the Treasury's direct responsibility is for the financial services industry. That is something on which we have done many years of work. We do a lot of that with the Bank of England and the Financial Policy Committee. Charles could add more on that, but we were certainly confident last year ahead of the possibility of no deal, and this year ahead of the possibility of no future agreement. The sector is robust and well prepared to deal with that.

Most of the other issues that have been raised as potential issues are for other sectors and other Departments, but we would certainly be ready to do whatever was needed to support other Departments in dealing with their own particular sectors.

Q107 **Rushanara Ali:** Just picking up on that, Sir Tom, are you being asked to design financial support for sectors that are going to be most exposed to no deal, such as agriculture and chemicals?

Sir Tom Scholar: In the spending review last year, we allocated £3.6 billion to Departments specifically for their Brexit preparation this year. Obviously, at the time that was allocated, which was last autumn, the precise timetable was not known, but Departments have got that money. That is where it rests. As you know, there is a big Cabinet Office exercise, which is co-ordinated under the Chancellor of the Duchy of Lancaster, which looks right across the Government at preparedness. As far as we are concerned, we have already allocated that money last year.

Q108 **Rushanara Ali:** Is the economic forecasting that the Government published on the impact of no deal still a live document?

Sir Tom Scholar: You are referring to the analysis published two years ago looking at the different possible outcomes. That analysis is now two years old. It was prepared for a previous Government and it was also prepared under assumptions set by that Government. If you look at that paper, it says clearly that the assumptions underpinning each scenario were set by the Cabinet.

Q109 **Rushanara Ali:** There were assumptions made about what the costs would be of a no-deal Brexit. Is that still relevant? Is it still live, or are those numbers very different?

Sir Tom Scholar: There are three things. First of all, we have not updated that assessment. Secondly, the assessment at the time was about a no-deal Brexit. Obviously, we have passed that point. We left the EU at the end of January with an agreement.

Q110 **Rushanara Ali:** With respect, we are still in the transition period and we could end up with no deal or a series of mini-deals, which I wanted to come on to. Just to pick up on no deal, there is still a chance of that happening. Just because we are in the transition and we have left does not mean that is an academic point.

Sir Tom Scholar: It means something slightly different. Two years ago when people were talking about no deal they meant literally leaving with no agreement at all. That did not happen. We left with a withdrawal agreement. You are of course right that there is a big question about the future agreement. That is different from what was understood at the time to be no deal.

Q111 **Rushanara Ali:** Could we get an updated set of numbers on what no deal would mean? If you are saying those numbers are no longer live or relevant, what is?

Sir Tom Scholar: The third thing to say is that the effect of the pandemic on our economy, the European economy and every other economy has considerably changed the picture.

Q112 **Rushanara Ali:** I get that, but the significance of no deal should not be underestimated just because there is an even bigger crisis on our hands. We have heard some of those arguments being made elsewhere. It just masks the fact that this is a big issue as well. Your Department will not only have to deal with the pandemic—the second wave—but you have the unsavoury task of having to deal with the situation we have now, where we still do not have a deal. Could you say something about how you see things panning out? Should we expect a series of mini-deals? What progress has been made there?

Sir Tom Scholar: First of all, on the economic analysis, the Bank last week in its forecast assumed a transition to a standard free trade agreement with some short-term friction. It set all that out last week. The OBR will do its forecast in two weeks' time, and it has said that it will look at different Brexit options; I cannot quite remember how it was phrased. We will have that in two weeks' time.

In respect of the negotiations that have happened, there is not much I can say. They are not Treasury negotiations; they are Cabinet Office or No. 10 negotiations. As the world has seen, they are happening in conditions of secrecy, which is probably a good thing.

Q113 **Rushanara Ali:** I am conscious that my time is pretty much coming to an end. Charles, did you want to add anything?

Charles Roxburgh: I have nothing to add to what Tom said. We are live working on the cladding issue you raised. We are also continuing to work on the mortgage-prisoner issues that we have talked about in the past. We have an important report out today from the London School of Economics, which we will be studying very closely. I know the Economic Secretary wants to take a very close look at that.

Rushanara Ali: I just want to say that I am very grateful, particularly to Charles and Sir Tom, for the work you have done on mortgage prisoners following the issues we have raised, as well as picking up on this point about cladding. It makes a big difference to our constituents. Thank you for that.

Q114 **Chair:** That brings us to the end of this session. Could I thank the panel very much indeed, perhaps particularly Clare and Tom, who ended up with the lion's share of the questions directed to you? Thank you to everybody.

We covered a lot of issues. I want to briefly return and reflect on the early stage of the evidence that we took today around the information in the SAGE minutes. I just want to make a general point, which is that the Committee feels it is very important that, during this crisis, the voice of the Treasury is heard loud and clear when it comes to the provision of information around the effects of Government measures, so that Members of Parliament can be fully informed and take a very holistic view of the effects of the decisions that they take and the way they choose to cast their vote in the House. I think we arrived at the point, Tom, where you accepted that you believe the minutes were accurate and that you are willing to take away the data they refer to as an issue, with a view to writing to the Committee on that. I thank you for that and also for the other elements.

Sir Tom Scholar: I said this earlier, but, just to be clear, on the sentence that you quote in the minutes, as sometimes happens in minutes of meetings, it is not precisely clear what it means. It could be interpreted in different ways. My interpretation of it is that the associated harms referred to are economic harms, like, for example, job losses. The economic analysis referred to is the ongoing work that we have been doing and continue to do as part of our policy advice to Ministers. That is how I understood it. If that recorded the chair of SAGE saying, "It is the Treasury's job to look at economic issues", that is certainly absolutely true. I just wanted to make that absolutely clear. There are other interpretations that could take us into different places that might not be so accurate.

Chair: Clearly, when it comes to considering any form of words, there is always an element of interpretation to it. We accept that. My personal view and the Committee's view is that what is being said in the minutes is very clear, which is that, across the different interventions that SAGE has considered and Government were considering, it was important that work was carried out on the economic impacts and the harm issues that you raised, and that the work was being carried out under Clare's auspices. We will have to leave it to you to interpret it as you must, but that is the Committee's view as to what the minutes were stating.

As I say, thank you for engaging in the way that you have and for agreeing to write to the Committee on those matters and the other matters that you have agreed to write to the Committee about. It is important for us as a Committee to recognise that, although there is plenty of criticism of the Treasury and there will no doubt be plenty in the months and years to come, you are working under huge pressure, you are working at considerable pace, you are breaking new ground and doing a lot of very creative things, as well as the business as usual. The enormity of the work that you are doing is really very important indeed. I just wanted to place on record our thanks to you and to all of your colleagues at the Treasury for the extraordinary efforts that they are going through at the moment to make sure our country is in the best possible position that it can be, given the extraordinary circumstances that we face. Thank you very much indeed.