



Select Committee on Economic Affairs

Corrected oral evidence: Employment and Covid-19

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3 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 20

Virtual Proceeding

Questions 170 - 188

Witnesses

I: The Rt Hon Jesse Norman MP, Financial Secretary, HM Treasury; Lindsey Whyte, Director of Personal Tax, Welfare and Pensions, HM Treasury.

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Examination of witnesses

Jesse Norman MP and Lindsey Whyte.

Q170 **The Chair:** We welcome to the Economic Affairs Committee Jesse Norman, Financial Secretary to the Treasury, and Lindsey Whyte, director of personal tax, welfare and pensions at HM Treasury. We are very grateful to both of you for joining us in this session.

What is stopping the Treasury publishing an economic impact assessment of lockdown and other health restrictions to enable Parliament better to scrutinise those policies, as well as the financial support that is needed?

Jesse Norman MP: Thank you, Lord Forsyth. I thank the Committee and all its members. There is a galaxy of talent in front of me, and I am honoured to be here. As you know, I am standing in for the Chief Secretary and the Chancellor. We try to play total football in the Treasury. We have Cruyff haring off down the wing on one side and Neeskens going through the middle, and I am trying to protect the defensive line.

The Chair: The Chancellor assured me that you would be able to answer all our questions.

Jesse Norman MP: That just shows what total football we play and is the kind of support you would expect from Johan Cruyff.

In your very important question, you touch on two aspects: what are called the NPIs—non-pharmaceutical interventions—the health restrictions; and the fiscal interventions. On the health side, it is more a DHSC than an HMT area, but it is fair to say that across government there has been a struggle to think about how to quantify the economic impact, given the dynamic nature of the change and the way in which the pandemic and the response are changing. You have heard in testimony—I think Lord Burns referred to grey areas and crossovers—that whether or not an impact hits a particular group or at a particular time is extraordinarily difficult to measure.

On the fiscal side, we publish distributional analyses, and the overall impact comes from the forecasts that the Office for Budget Responsibility prepares. You will have seen the distributional analysis we published over the summer, and we will shortly be publishing a strategy for how we propose to handle reviews of the furlough scheme and the self-employed scheme. We do an awful lot of statistical updates through HMRC's KAI function. It does them fortnightly on cost and take-up, and monthly on claims by sector and region. We try to get as much information out there as possible.

On the OBR, the next one will be due on 25 November alongside the spending review. That will include an assessment of the fiscal effects, in particular the effects of the second wave of infections and the latest lockdown as they relate to the economy and public finances.

The Chair: We used to see signs in shops saying, "If you break it, you pay for it". Do you accept that principle as regards people's jobs being lost as a result of direct government action?

Jesse Norman MP: We have certainly respected the concern to preserve those businesses, keep them intact and maintain jobs. It tends to be in a more broad-brush way, as you will appreciate, because we need a regime that works for companies up and down the country and for individuals and particular groups. The CJRS and the self-employed scheme are themselves national schemes.

The Chair: What about the principle? If government action results in people losing their livelihood, surely the Government have a responsibility to compensate them for that, or do you not agree with that?

Jesse Norman MP: It is not so much whether or not I agree with it; it is about whether we can be sure of the causes of a particular business closing. It may be affected by tiering, where, as you know, there are things we provide—

The Chair: But then it would not be covered by the principle.

Jesse Norman MP: Of course, they may close because they are not viable in the circumstances.

The Chair: We will come on to that.

Q171 **Baroness Bowles of Berkhamsted:** What was the basis of the Treasury's decision to extend the furlough scheme in full, and why did it not make changes to its design to target it better at the sectors most affected?

Jesse Norman MP: I think the Chancellor put the matter very well in his speech announcing the extension. He said that the decision had been taken on the grounds of the significant uncertainty, a worsening economic backdrop, and the need to give people and businesses security through the winter. I think that was a comprehensible position. We were entering a new round of lockdowns; it is a national problem, and people were inevitably highly uncertain. I think you have heard in testimony from Paul Johnson and others about the importance of a proper period of run-out at the other end, to give people certainty. I think that was the basis of the decision.

For the reasons we discussed a little earlier, it is very hard to target decisions on either a sectoral or a regional basis in a fair and deliverable way. In the same way in which the Treasury does not pick sectors for industrial support, it tries to remain neutral as between sectors in order to allow markets and economic change to occur without too much government intervention. If you intervene, you risk, as the economists remind us, further distortions that you cannot predict, and those will be all the worse if you have companies that operate across multiple sectors, or that have a head office in one place and business premises in another,

and therefore may not be captured by the targeted policy you want to bring in, or may be doubly captured and seek to exploit it.

Baroness Bowles of Berkhamsted: Has setting the furlough the second time around at 80%, or extending it—whatever you want to call it—created some kind of precedent for wage support at that level?

This is a totally different question, but I will put them together for speed. Is there any difference in the thought process going forward, now that we have the relatively good news about the availability of vaccines? Does that make thoughts about what happens after March 2021 any different, or do we just go into the job retention scheme in a delayed format?

Jesse Norman MP: The answer is that we do not think of it so much in terms of precedents being set as in terms of expectations. The CJRS has never closed. All that has happened is that the deadlines have been rolled forward and we have decided not to move to the job support scheme. If you think in those terms, the arrangement that preserves the greatest degree of continuity is the level at which we have set it.

If you think about what happens in due course—in a way, this goes to the earlier point you raised about targeting—the job support scheme was ready to go. It is a more targeted scheme. It has a financial impact condition. Whether or not a business was forced to close, and those kinds of questions, affects targeting. That in and of itself has to take its part alongside the wider set of measures. The one that you will be aware of, which we have suspended, for the time being at least, is the job retention bonus.

There is a variety of ways in which the Treasury has for some time been thinking about what life after Covid would look like. The news on the vaccines is very good, but there is still a great deal of uncertainty about both the way in which the economy will handle it and the impact it will have on individual groups of people.

The Chair: Was the decision to extend the furlough to March, which Paul Johnson described as incredibly wasteful, taken by other Ministers involved, or was it taken just by the Treasury?

Jesse Norman MP: The answer is that it is a decision the Treasury takes in consultation with other Ministers. I cannot comment specifically on the circumstances of that particular decision, but, as you will be aware, there are processes by which decisions are shared.

The Chair: Other Cabinet Ministers were consulted.

Jesse Norman MP: I do not know the exact circumstances of that decision, but I imagine so.

Q172 **Lord Stern of Brentford:** I have a question about impact. I was trying to come in on question 1, but it applies right across the board and I think it is a good idea to ask it at the beginning. What would have happened without direct lockdown or other measures? We know that unemployment

can arise because of worry about the very big expense of Covid and the risks associated with it. We see that in many parts of the United States.

There is a very serious difficulty in the case you espouse and what would otherwise have been the case. It may be you would have had a lot of unemployment without lockdown because of the very rapid spread of Covid. That is very difficult to handle, but the Treasury is there to handle very difficult things and to try to take on the question of what would have happened without the lockdown, not only with the disease but in unemployment. Have you tried the difficult economic modelling of that side of it?

Jesse Norman MP: It is a very important question. A point that has been made to you, or certainly other Committees, is that we never know what the counterfactual is, so we are dealing in a world of different sets of uncertainties and ranges. The Treasury operates within a framework in which forecasts are done independently by the OBR, but advice is given to Ministers about different possibilities and outcomes. We certainly thought that the extension was the appropriate reaction to the lockdown, but the lockdown was itself a Cabinet decision, taken with Treasury input and the input of other Ministers, so it is a bit hard to say what the counterfactual would have been.

We had been planning, as I think was well covered, a move to a more tiered system that would have allowed the economy to emerge from the retention scheme, the furlough scheme and the self-employed scheme. There was a lot of unlocking going on at that time. We were supporting jobs and investing very heavily in job creation through the plan for jobs. The furlough scheme had become more flexible, and tiering had come in to try to accommodate the different changes, and then we were put into lockdown. I think it is impossible to say in any strong way whether one could run the counterfactual for what would have happened if the epidemiology had not been as it was and the economics had not been as it was.

To make a slightly more theoretical point, Lord Stern, I am sure you will appreciate the theoretical force of the point that has been made that routine normal measures of cost-benefit analysis tend not to work when you are not dealing with marginal effects. When you are dealing with massive shocks to the system, they tend to be much less effective, so inevitably there is a grosser calculation. If I may say so, I think the calculation that the Treasury has made has been rather well validated. If we look at some of the things the IMF has said about the UK scheme, and that you have heard from other witnesses, we have taken one of the more generous approaches overall. I think the IMF called it one of the best examples globally of co-ordinated action. That is testimony to the fact that, even if you do not have the perfection of precise economic analysis, whatever that may be, you can still take effective action.

The Chair: Perhaps you learned from the experience of modelling the outcomes of Brexit and other matters.

Q173 **Lord Burns:** The Treasury has now made five changes to the job retention scheme and the job support scheme in quite a short space of time. We understand the changing health background and the uncertainty that has created, but, as we move forward, how would you describe the lessons that have been learned from the design of those schemes from the extent to which we have had to have so many revisions?

Jesse Norman MP: It is a very interesting question. The Chancellor said originally that he wanted the Treasury response to be flexible to accommodate the shape-shifting nature of the virus and the dynamic effects in the economy over time. We have certainly made every effort we can within that area to adapt. The different transitions, from lockdown to what we might call unlocking and then tiering and back into lockdown, have all been an attempt to stay close to the movement of the virus. As a result, we wanted to bring in JSS from the start of November, but underneath that—it is perhaps not so clear—there is quite a lot of continuity.

On infrastructure, one of the lessons that comes out of this in scheme design is that it is radically dependent on how much information you have, the timeliness of that information and what you might call the information and technology backbone. If it is of interest, we might come on to the reforms we have put in place. The 10-year tax administration strategy, which is designed to fill those gaps, was being framed, and I had been pushing for that before Covid struck. We are trying to lift the whole game of the Treasury.

One of your witnesses said that they could never have imagined HMRC adapting as quickly as it has done, even 10 or 20 years ago; you probably know that from personal experience, Lord Burns. The point is that there is an underlying continuity. The JSS is very similar in the way it operates functionally, and it is also quite similar in the way it affects businesses. If a business has already closed, it affects it in roughly the same way, and for businesses that are open the CJRS is somewhat more generous. The difference tends to be at that end rather than in scheme design or infrastructure.

Lord Burns: You quoted the Chancellor as saying that he wanted the scheme to be flexible. Would that not point to the fact that maybe the withdrawal of support should be determined by the speed of economic recovery rather than by an arbitrary deadline, and yet we have had what might be described as two arbitrary deadlines? We had the first one and now we have another one at the end of March. Why are we fixing these endpoints when you say that you want it to be flexible and to respond to the health background?

Jesse Norman MP: You will be as aware as I am that you can be so flexible as to create uncertainties. The question is: how do you create enough certainty to give people the ability to know where they are, gather their breath, plan and perhaps adapt? How do you give them enough sight of at least the potential of something coming under consideration? As you know, there are waypoints en route to the end of

March; we are thinking about how generous the scheme might be, and the same will be true across the piece. We need to give people some guidance so that we can come out in the right way.

I do not think it was wrong of the Chancellor to plan on advice for the possibility of a relatively swift emergence in the autumn. That has not happened, and the good news is that the contingency arrangements have been able to accommodate it because of the underlying design of the system.

The Chair: Lindsey Whyte, I know you are here to support the Financial Secretary, but if you want to chip in, please indicate. I do not know whether you want to add anything on the lessons learned point that Lord Burns mentioned.

Lindsey Whyte: As the Financial Secretary said, we are trying to achieve a very tricky balance in a number of ways—giving businesses enough certainty to plan, while also being able to be agile and respond to a rapidly changing situation.

There are some positive lessons for us in the way we have developed the policy to enable us to be agile. In particular, working hand in glove with the delivery teams in HMRC has been a positive development at the heart of enabling the delivery of these schemes in the way we have managed. We have also developed our iterative approach to designing the policy and engaging with business representative organisations, trade unions and others, and responding to their views and thoughts about the detail of the policy. We recognise that it is challenging for businesses to manage changes in the scheme, and we are doing our best to communicate with them and get guidance out as quickly as we possibly can and learn from that.

Q174 **Viscount Chandos:** At least 3 million people are still being excluded from the employment and self-employment schemes. What steps has the Treasury taken to address that, or are the exclusions deliberate?

Jesse Norman MP: I think you will have seen from the NAO report that that is a very diverse group of people. My officials are not able to stand up all the 2.9 million it mentioned, but I want the Committee to understand that I take this very seriously and so do they, and we very much recognise the issue and the effects it may have on specific groups.

I think you have had testimony that the schemes were put together at great speed initially. They have evolved somewhat, as you have noted, but they were put together very quickly. The question was always how to balance the desire to get money into hands, or support for jobs in place, as fast as possible, given the constraints and the concerns about fraud and error. There has already been quite a lot of public comment on some of the numbers involved.

The fraud and error percentages are by no means egregious, given the astonishing speed at which the schemes were put together; we have about 5% fraud on tax credits and the tax gap hovers around 5%, and

we think that CJRS fraud and error before enforcement will be between 5% and 10%¹. Although that is the case, I shudder to think what the reaction of the Lords Economic Affairs Committee or the Treasury Committee would have been if the Government had taken a cavalier or less careful attitude towards fraud and error. That is the first point.

The second point is that the problems we are wrestling with in trying to address the issue are not just to do with what you might call practice. There is a problem about manual checking, as you will appreciate. Just think of what a tax inspector would have to go through if they were manually checking a company director dividend claim, for example. In the normal course of things, they would check to see whether it had come through an agent and whether the agent was a member of a professional body; they would check the dividend declarations in the company accounts; they would need to cross-reference that against personal tax returns; there would have to be some kind of adjustment because the company's accounting period does not normally correspond to tax years; and there would have to be cross-references to shareholder information at Companies House and third-party sources. Many small businesses do not present that information together and the sources can be hard to check, so there are very serious issues involved in manually processing hundreds of thousands of claims. That is, fairly obviously, outside the reach of an organisation, so we are in the world of automated responses.

The question then is about issues of principle. How would they check the information? They do not hold information by which to assess what percentage of dividends should be counted as pay; there is no recognised public standard for what percentage of dividends should be counted as pay and they do not have historical records. There are genuine issues that we are trying to work through in recognising both the problem that people have fallen through the cracks and some of the concerns that have been publicly expressed, but it is a very difficult and complex problem.

Viscount Chandos: You picked out the payment of dividends by directors of private companies. Where that has been used to remunerate, I am not as sympathetic as in many of the other categories, because that deprives the Revenue of national insurance contributions, among other things. It is only one of the categories, and I am not wholly convinced that concern about fraud and error is a very good reason for the exclusions that still exist. I think everybody has to be grown-up about how fraud and error, or other alleged waste of money, is raised in the future. We should recognise that things were introduced under what, as you said, was a very fast timetable. I think all of us applaud the speed and effectiveness of that. Eight months on, you say that there has been some change, but could there not have been quite a lot more change in at least a large number of the identified categories?

¹ The HMRC planning assumption is that CJRS fraud and error before enforcement will be between 50% and 10%.

Jesse Norman MP: I absolutely understand the concern, and it is one that I have spent a considerable amount of time exploring. To be perfectly clear, we are still struggling with it. It is important to be equally clear that this is not a policy decision. We would like as many people as possible to take up this benefit, and we would like it to extend as widely as possible. The trouble is that HMRC, in the spirit of realism you described, will tell you the number of times it has had to deal with very rapidly escalating fraud schemes based on people piling into what are perceived to be loopholes, or other attempts to cheat the public revenue. That is before you get to error, which in many ways is an even bigger category historically.

I understand the point you are making, and I recognise the diversity of the group you describe. There are some where the averages disguise the effects they may have on individual groups. There are others where, for example, a business may not be earning any profits and therefore is not the obvious target for an income support scheme, but the overall problem of people falling through the cracks is one that we continue to look at very closely. We remain very open to suggestions from professional bodies and individuals about how the system, within the constraints, could be improved. So far, we have not seen any that are fundamental enough to address the concerns we all share.

Viscount Chandos: Not even the £50,000 cut-off for the self-employed, when there is no cut-off in the case of employees either in the reserves the company may have or the savings that any individual employee being furloughed may have.

Jesse Norman MP: A £50,000 profit is quite a substantial number by the standards of the ordinary man or woman in the street, and it is also set by reference to other thresholds in the tax system, so it has a kind of coherence in itself. In each case, we could debate the rationale for it, but the goal has been to try to segment, in as effective and rapid a way as possible, a group of people who are in need and give as many of them as possible support as rapidly as we can. I think the scheme is understood to have done that, so in that sense it has met its policy objective. Now that it has done so, we need to continue to think about how we can, if possible, extend it and, if not, make sure that the rest of the package we have, which is very widespread and internationally recognised as such, is available for people to fall back on.

The Chair: You say that you are thinking about it. There are 3 million people. You have obviously done your homework and read the evidence to the Committee. There are some absolutely heartbreaking cases of world-class musicians and people of that kind being reduced to sofa-surfing and unable to feed their families. I go back to my original question. This has arisen because of government action. Surely, the Government have a moral duty to do something for these 3 million unemployed. All you have done so far is give reasons for how difficult it is, but what about people who at the moment are struggling and have been struggling for months?

Jesse Norman MP: The reason we are in this situation is that a brutal global pandemic has caught us up and transformed—

The Chair: No. The reason people are in this situation is because of government action.

Jesse Norman MP: It has transformed the situation into one where we have had to take some very serious public health and economic measures. That is the constraint we are operating under. We are doing what we can to try to support different groups. As the Chancellor said, we cannot in every case do it as we would like. In the case of musicians and people in the arts and culture, on the spending side there has been a substantial £1.6 billion package designed to support them. I do not think anyone is pretending we can hit and support everyone in that environment, but we are absolutely trying. We do not lack ambition or good intent.

The Chair: The Chancellor said he would do whatever it takes.

Q175 **Baroness Kingsmill:** In a similar vein, does the Treasury intend to revisit the business funding formula for the regions in tiers 2 and 3, if and when England's national lockdown ends on 2 December?

Jesse Norman MP: You have posed a question that it is impossible for me to answer because it involves commenting on future Treasury policy, which is a matter for the Chancellor. What I will say is that we have already set out that there will be a review point in January on CJRS in relation to employer contributions. We have not yet decided how we will handle the self-employed scheme, but that will have a direct impact on businesses across the country that are caught in different tiers.

We have also said that we will come back to the question of a job retention incentive after the furlough scheme. We continue to work very closely and to have a lot of engagement with business groups and unions. One of the most encouraging things has been the extent to which both sides of that historic divide have come together to share a view about the right way to tackle some of these issues. I am sure you were as heartened as I was to hear representatives of the CBI and the TUC, with the Chancellor, at the time of the job support scheme, say that it was something they broadly supported. That is because there is less disagreement about the principles involved than one might think, and rightly so in some respects, because we need to pull together in this crisis.

Baroness Kingsmill: Pulling together is a very good idea, but it seems as though the Government did not offer businesses and workers in Greater Manchester employment support at the 80% level, but they did in other areas some days later. Perhaps you could explain that "pulling together" effect.

Jesse Norman MP: It is hard for me to comment on that, although I see you have taken some testimony on it. I was not involved in the decision, and it is hard to give insight on it. What I will say is that the approach

has been to try to have a consistent pattern of support for different areas according to the different tiers and, alongside that, where we have something like a lockdown, which is a national matter, to try to offer national policies, in the form of the furlough scheme, the self-employed scheme and the like, which address the national dimension. It may have a slightly rough justice aspect in some respects—I cannot comment on the local authority or the MHCLG side—but I think the broad picture is pretty clear.

Baroness Kingsmill: That sort of differential did not smack of pulling together. Perhaps you would give an opinion on whether the business funding formula should pay more regard to the concentration of businesses in an area rather than the concentration of population.

Jesse Norman MP: That was put with a degree of force by Andy Burnham when he appeared before you.

Baroness Kingsmill: Indeed.

Jesse Norman MP: I have enormous respect for him. He was arguing a case and campaigning for his city. I thoroughly respect that. I would do the same for the city of Hereford if we were thinking about the effect of lockdown measures and tiering on the city of Hereford.

Baroness Kingsmill: But what about the principle of the scheme?

Jesse Norman MP: To complete the thought, I will not pre-empt any view that the Chancellor or officials may come to, but we have certainly taken on board the concerns he has raised.

Baroness Kingsmill: Does it seem like a reasonable principle that, given that it is business support, it ought to be in the areas where there is a lot of business?

Jesse Norman MP: My experience has always been that the most reasonable-sounding principles are the ones that people have thought up relating to their own area. As there are lots of different areas affected in different ways, we will have different kinds of principles applying to them, so I would like to wait for a wider all-things-considered decision, which I am sure the Chancellor will come to in due course.

Baroness Kingsmill: You do not really want to comment on that.

Jesse Norman MP: I cannot comment on future policy for the reasons I have described, but I am grateful for the question.

The Chair: Surely, you can comment on Baroness Kingsmill's point that, if you are providing support to business, the number of businesses in an area should determine the amount of support. That is just a simple matter of multiplication, is it not?

Baroness Kingsmill: It seems rather obvious.

Jesse Norman MP: Baroness Kingsmill was raising questions about the concentration of businesses. The approach we have tried to take has been one that segments the number of people and businesses where they are affected by closures. I think that is a reasonable approach. It has the merit that it can be rolled out in a completely equal way across the country.

Baroness Kingsmill: It does not sound very clear to me. Surely, if it is business support, we should be giving it where there is a concentration of businesses. They may employ a lot of people, or they may not employ a lot of people, but it seems logical for business support to be where there is a concentration of businesses.

Q176 **Lord Livingston of Parkhead:** I declare my interest as chairman of a retailer, as we may stray on to some sectoral matters.

In the design of the job support scheme, it was clear that some jobs were considered to be viable and others not viable. What work has the Treasury done on that question? Has it assessed whether certain jobs and sectors are viable?

Jesse Norman MP: If I may say so, I think the question mistakes the JSS. The job support scheme does not take a position on whether or not a job is viable, nor does the Treasury. What the job support scheme says is that jobs will be supported in certain circumstances. Companies may be able or unable to support jobs in those contexts, but it does not pick one job over another, or one sector or region over another.

From our point of view, the goal has been to try to get the very difficult balance right between supporting people who cannot work and incentivising those who can. It is a difficult truth, but it is well acknowledged that it is not necessarily always good for an employee to be off work and not able to return to a job, so the question is: what can you do that gives a consistent overall approach? The job support scheme is the approach that we have taken.

Let us be clear: it is a shifting and evolving picture. I would draw a theoretical distinction between what we might call changes relating to shock and changes relating to structure. There are certain sectors—retail, leisure, hospitality and the like—where we have tried to cushion the shock because they have been so immediately exposed, but that is not the same thing as deeming some jobs viable or non-viable as a structural matter in the longer term. We have not tried to do that.

I also note, as I mentioned earlier, that both the CBI and the TUC were supportive of the approach of flexible furloughing, with employer contributions and minimum working hours. This in no sense draws dividing lines; this is something where people across the political spectrum, from a variety of interests around businesses and jobs, can come together and see the merit of it.

Lord Livingston of Parkhead: You mentioned cushioning certain sectors. I think you said somewhere else that you were neutral as

between sectors. In that context, can you explain the decision to impose VAT on tourist purchases starting at the beginning of next year against the background of industries such as tourism, retail, airports and travel, which are among the worst-hit industries? While one may not be taking sectoral moves to support them, it seems somewhat odd that you have kicked when they are down industries that employ a lot of people. It seems a strange time to do it.

Jesse Norman MP: I think you are referring to what is called the VAT RES scheme. The position was that after Brexit we would either have to extend it to all EU residents alongside the rest of the world, which would be extremely expensive, or take the measure that we did. The measure we took is by no means a single measure. We have increased the duty-free allowances and the purchases of—

Lord Livingston of Parkhead: Supporting cigarettes and alcohol.

Jesse Norman MP: Characterise it as you will. The point is that it was not a decision taken in the abstract or by itself. It is also worth saying that it is a scheme used by 5%, 7% or 8% of tourists; it is not used by anything like the preponderance of tourists. It is also a scheme whereby it is possible to buy goods and have them shipped back home by other means. The overall decision was to adopt a somewhat different posture because we had to act on VAT, and we have made other aspects of the visitor experience to this country a lighter burden. They are better able to benefit financially, but not on this.

Lord Livingston of Parkhead: Airports might take a different view about how vital it is for them.

Q177 **Lord Monks:** When the decision was made to update the business support loan scheme in October, did you assess the difference that extensions and repayment relief would make in comparison with the risk of companies becoming too indebted, and carrying too high a burden of debt? In that connection, how do you respond to the proposal of TheCityUK for a student loans-type repayment scheme that is tested against whether companies can afford it? In the same vein, what about equity injections? Is the Treasury interested in those for companies that owe money to the state?

Jesse Norman MP: That is a volley of questions. The Treasury does not think that debt will be the answer for all businesses. The context was that the country was heading into a second lockdown and the cost of inaction would have been horrendous. Stakeholders were pressing us very hard for extensions and further repayment relief. We were under a great obligation to continue to provide a degree of certainty and stability to the wider nation as a whole. That was the context.

The loans themselves are of a very different character, as between the bounce-back loans and CBILS and CLBILS. In the case of the two larger schemes, they are very much mitigated by the fact that they have only a partial guarantee; the lender has exposure and has skin in the game. We

would expect that, and I think there is evidence that it is limiting the degree of exposure.

There is a lot of exposure in the area of bounce-back loans, and that is something the Treasury is looking at. You will have seen that we have a pay-as-you-grow option that offers a degree of forbearance; otherwise, it is fair to say that policy options of different kinds remain very much under consideration by my colleagues. For the reasons I have indicated, I will not talk about future policy, but the issue is recognised and is under reflective consideration in the Treasury.

On the issue of student loans, I do not have any views. It is not an area I have ever thought about or looked at much. I do not know whether Lindsey wants to say anything, but it is not something I can speak about with any great intelligence.

Lindsey Whyte: That is not directly in my area, so it is not a proposal I have looked at.

The Chair: The Chancellor said, Financial Secretary, that you would be able to answer all our questions. TheCityUK proposal for a student loans-style repayment scheme has had an enormous amount of publicity. I am surprised that you are not able to comment on it. Lord Monks, do you want to come back on this?

Lord Monks: Not on that particular point. I would like to touch on another point, unless the Financial Secretary has something else to say about the student loans-type scheme.

Looking to next year, the main problem will probably be youth unemployment. The preservation of jobs is going on, but creating new jobs in the numbers required is not happening to anything like the same extent, and is unlikely to do so for some time yet. Does the Treasury have any ideas for a new scheme? Lord Tugendhat will be talking a bit later about Kickstart, but we will need some pretty large-scale programmes to create opportunities for young people.

Jesse Norman MP: I have read the testimony that you have been given from other experts in the field. We certainly recognise the challenge of creating conditions in which the economy can generate more jobs. As you know, the UK economy historically, in the last 10 years, has been astonishingly good at generating jobs. We need to support it as it changes shape and evolves coming out of the current pandemic situation.

If we are going to come on to discuss it, I can talk about Kickstart and the different packages of measures. I think you have heard in testimony already that there has been some recognition that the schemes in the plan for jobs were a pretty comprehensive package, designed to keep people in jobs, upgrading them and creating new jobs. There was also a degree of innovation in some of the schemes put in there, and overall a seriousness about the importance of jobs and skills that reflects best

academic thinking at the moment on the sources of well-being in the economy and the sources of economic recovery.

The Chair: Lord Tugendhat, do you want to ask your question so that we can deal with Kickstart now, or would you prefer to do it later?

Q178 **Lord Tugendhat:** It seems timely to do it now. Have the Government considered any proposal to expand Kickstart and other job creation schemes? In particular, what is their view about young people not claiming universal credit, and apprentices who have been made redundant?

Jesse Norman MP: The Kickstart scheme is still in its very early stages and is targeted specifically on those most at risk. It is a scheme that we have high hopes for; it is starting well, but it is too early to reach a judgment on how it is growing and what its eventual size will be. We have ambitions, as you will have seen, to reach a quarter of a million young people in the hard-to-reach category, and if we get to that number it will be a huge achievement.

The important point is that there are other aspects to the overall package that make it a coherent and wide policy response. There is all the work we are doing on apprenticeships and traineeships. Those in turn are complemented by the substantial amount of investment that we are making in what you might call post-Covid 21st-century areas such as broadband, infrastructure and green jobs. Shortly, we will publish the national infrastructure strategy, and the direction of travel in that area will start to become a bit clearer.

The other thing I would draw attention to, because I think it is really important, is the fact that we have doubled the number of work coaches². Again, that reflects a recognition—

The Chair: Can we focus on the question, which is about Kickstart and the youngsters who are not eligible for it?

Jesse Norman MP: We certainly have ambitions to expand the scheme over time and will continue to watch the position as it develops. It is very early days. It has already been recognised as having some more innovative features compared with the Future Jobs Fund, as some of your witnesses have recognised, and we want to continue to build on that, but it is very early to be projecting future changes before we have seen how Kickstart is launching effectively.

Lord Tugendhat: Are there any additional incentives for job creation in the private sector that the Government should be considering—for instance, tax incentives?

Jesse Norman MP: We have given quite a lot of tax support through Covid already. If you mean tax incentives to keep employees, we have an existing set of schemes. We have DfE trainee schemes; we have

² The Government has committed to double the number of work coaches by March 2021.

payments to employers to take on more apprentices; and we have tripled the different sector-based work academies. By tax or investment, there is a lot of attention on that area, and that is before you get to the lifetime skills guarantee at the other end of the spectrum, to which the Prime Minister is very much attached.

Viscount Chandos: I realise that we did not get very far on Lord Monks's question, so perhaps I could focus on bounce-back loans. There seems to be an inherent contradiction and dysfunctionality in the system, in that the Government guarantee 100% of the loan but, as I understand it, have told the banks to go out and pursue their normal collection policies in respect of any loans that fall into arrears. Those normal collection policies would surely involve an assessment of affordability and the implementation of suitable forbearance, as they would with loans to SMEs or consumers, so what will the banks do? Will they take a haircut or go to the Government and call guarantees? If the Government's guarantees are called, what policies will they implement in recovering those guaranteed loans?

All this is in the context that the loans were designed to maintain employment as far as possible, and with it economic activity. It feels to me as though the Government are several steps behind in thinking about what they are trying to achieve and how that will influence their policy on the management of that portfolio of loans.

Jesse Norman MP: I understand the concern in principle that you are describing, but it is quite hard to comment in advance of the facts. There are some preliminary estimates and concerns about default. Those estimates vary quite significantly. We know that there will not be concern about the initial period because the Government are covering the repayments for the first year. We also know that we are in an ultra-low interest rate environment. The goal has been to try to work through existing mechanisms for credit assessment, even though there is a guarantee as the backstop. It may be that in due course the Government will have to have a long conversation with the banks about the guarantee, or it may be that, as we emerge from the present Covid period, companies are able to rebuild and repay more quickly. We do not know yet and we have not got to the point of being able to speculate publicly in advance of the facts, and I doubt we ever will.

Q179 **Lord Skidelsky:** Mr Norman, you mentioned the lifetime skills guarantee, which comes into effect in April. Lord Macpherson told us that the UK's skills system is "hopeless" and that successive Governments have merely rearranged the deckchairs on the Titanic. Does the new lifetime guarantee break new ground in skills training and, if so, how?

Jesse Norman MP: Having scrutinised the testimony quite carefully, I thought that what Lord Macpherson said was very interesting. When I reread it, he did not say, as far as I understood it, that the UK skills system was hopeless but that Governments had determined over time that it was. In a way, that is a stronger indictment, so I would exculpate Lord Macpherson from the comment, but I think the point you are making

is absolutely right. This is an area that needs systematic, long-term focus.

We are, after all, talking about what you might call, without being too grand about it, the infrastructure of the mind. In the 21st century, that will be the kind of infrastructure we need, just as much as we need infrastructure on the ground. It is fair to say that there is a recognition in government that we are some way short of international best practice in a context where it takes a very long time to build up the kind of capability to build strong skills across a nation.

Having said that, I think the judgment that the UK's skills system is in anything like that state is wrong. I think it is continuing to get better. I give you some examples. The Government did a survey in 2018-19 that found that 93% of apprentices remained in employment or went on to further training after completing their apprenticeship. The apprenticeship levy is a very important long-term change in its own right to try to support higher-quality skills development. We have these things called T-levels, which are an attempt to eradicate the intellectual snobbery that sits around A-levels and allow technology to take the same place in public regard in our academic system. All this has been supplemented by the changes that have been made during Covid.

I massively welcome the lifetime skills guarantee. It is really important that adults who do not have A-levels should be able to put a foot back into the world of practical education. Taking off the cap at 23, and making it for all adults is, frankly, fantastic.

If the Committee will allow me to talk my own book for a second, may I draw its attention to the astonishing new higher education project we are building in Hereford called the New Model Institute for Technology and Engineering, which takes global best practice on how to educate young people? It has a 50:50 gender balance all the way up the institution. You learn in teams, you always work on problems and you end up with a portfolio of practical skills in engineering, as well as a deep theoretical understanding. We hope that will launch next year. If that becomes a model for a generation, frankly the sky is the limit.

Lord Skidelsky: That all sounds very promising and as though the deckchairs will be added to and not just rearranged, but why have the Government taken no steps to align their Covid-19 employment support packages with their training and skills commitments? For instance, could they not have attached conditions to grants, loans and furlough schemes to put them in alignment with their furlough and job retention plans?

Jesse Norman MP: That is very interesting. Thank you very much indeed for the thought. We have tried to remove conditions rather than add conditions, because of the necessity of getting economic activity moving and not putting any impediment on the jobs market. I can understand that over time, if we can get that engine of change developing and improving, there will be a case for more conditionality.

I am not sure where I would come out on the question. I suppose it would depend on the schemes. The need to address social inequity and the needs of a group of people at the lower end of the income spectrum, and the age spectrum, which I think is where you are coming from, Lord Skidelsky, is one we understand and share, and we want to act vigorously to improve.

The Chair: For the record, Lord Macpherson's quote was that "the one thing where we as a nation do not seem to have learned the lessons is around training and skills. In the last 100 years, every Government have noted that the skills system in this country is hopeless. They claim that they will do a radical reform of it. They rearrange the deckchairs, and skills remain precisely the same problem as they have always been. If the Government were to do anything in this period, creating a skills system that really makes a difference would be truly revolutionary. Sadly, I am not holding my breath". Should he start breathing again?

Jesse Norman MP: What should I say? I would say that baby breaths are appropriate, and I hope in due course large inhaled gusts.

The Chair: Very good. I am sure he will be delighted to hear that.

Q180 **Lord Stern of Brentford:** My question brings the longer-term labour skills issues back to the bridge between where we are now, the rescue phase, and the recovery phase we are entering into—at least we hope we are. Have the Government considered any proposals for schemes that would aim to help workers who are currently in sectors that are at particular risk into sectors that are more resilient?

Jesse Norman MP: We have not tried to pick sectors as such. As you will be aware, Lord Stern, we have been trying to take a neutral and agnostic approach. There are significant numbers of new jobs coming through public and private investment in areas such as green infrastructure, telecoms and the like, as I said. Those are very high-quality jobs.

The wider question is whether the different aspects of the economic response that I have described as regards skills will be enough to create a wider and faster set of changes. I do not think there is much appetite for us to, as it were, focus particularly on sectors, for the kinds of straightforward economic reasons that you would understand. A very short amount of reflection on the nature and history of economics would show that there are many jobs in existence now that would not even have been contemplated 10 years ago, and many jobs 10 years ago that would not have been contemplated 10 years before that. The idea that the Government should place bets on where the best jobs of the future will come is tenuous, and one for which the Government could very rightly be criticised.

Lord Stern of Brentford: That is why I phrased it as "help workers", because then the workers could make their own judgments, as individuals with knowledge of their local circumstances. For something

like that to work, you do not have to pick winners and losers on a sectoral basis. You are trying to help workers to invest in themselves. Other countries, particularly the Scandinavian countries, do exactly that. You hope that the skills they can acquire will have some relationship to what is coming down the track, and you think how best to do that. Surely, the key thing in these circumstances would be to help workers make their own judgments and investments in themselves.

Jesse Norman MP: You make a very good point. You put it much better than me, but I think we are broadly saying the same thing. The work coaches measure is very useful in that regard, precisely because it is a first point of call for people who might be unclear about their potential future, to help them make some potentially long-term decisions that wag a long tail of future income and future well-being.

The real question in supporting workers in the way you have described is not just keeping them in the jobs market now, to the extent we possibly can, because that maintains their skills and keeps them in good nick, but allowing the other measures we have touched on—traineeships and apprenticeships and the other longer-term lifetime skills guarantees and support—to come to the fore. That is all part of the picture.

It may be that as we go forward we need to target support to workers in the sector-neutral way you have described, and tweak and develop schemes further. We are very much open to that. I think you will have seen that there was a lot of quite sophisticated academic reflection sitting behind the Chancellor's plan for jobs over the summer, and that reflects quite a worthwhile view of the importance of skills and the importance of supporting workers in building skills of their own, and building jobs on the back of that.

Lord Stern of Brentford: Given that the judgments that individuals and firms and those providing skills might make are rather local to their own circumstances, and what is available where they are, would you see the devolved Administrations and local government having a strong role in active labour market policies?

Jesse Norman MP: I thought the testimony you received from Lord—not yet Lord, maybe soon—Steve Rotheram and Andy Burnham in that area was of great interest. I do not think it would be wise for any Government to rule out where those skills are developed. I went on briefly about NMITE in my own constituency, because it is designed to be a national institution with a local as well as a national catchment.

Of course, you want people to be able to raise their sights and to have information about the possibility of improving their own situation in different ways. If that means more local investment, whether by companies or public authorities, that would be welcome. As I think Andy Burnham said, the Treasury is no longer the high citadel of centralisation that it might ever have been thought to be. Certainly, when I was at the Department for Transport we did an awful lot through our Transforming Cities fund to enable and energise economic growth in cities, knowing

that this kind of revenue generation and job potential might be some of the things that come out of that.

Lord Stern of Brentford: Would you hope the skills that are on offer, however they are generated—through local institutions or local government or wherever—had some relation to where people thought the economy was going?

Jesse Norman MP: I do not see how it could be any other way. In their composition, they will reflect, for good Hayekian reasons, a colossal informational gathering across individuals and across organisations. I would worry if there were measures in public policy that dampened that awareness or understanding, because I do not think you would get quite the same level of dynamic response. That is a worry one may have about government policies in a pandemic environment. It slows change, for very good reasons, but it potentially slows very dynamic change.

Viscount Chandos: One of our witnesses last week advocated a portable furlough scheme that would move from job retention to job creation. Would that not be a good sector-neutral way of trying to stimulate employment?

Jesse Norman MP: I noted the name, but I did not really understand how the scheme would work. I would be very open, as I am sure my colleagues would be, to considering and thinking about how that would work. Again, we will run into the same problem, which is that until the raised long-term structural investment in information technology that we are making at the moment bears fruit, there may well be a constraint on the delivery of a scheme based on what information exists and what systems exist within HMRC. As the Committee has recognised, and as I have always held to be a principle, there is no policy without delivery, so we have to be absolutely clear that we understand how such a policy, which may sound fascinating and intriguing in principle, could be put into effect before we actually adopt it.

The Chair: It is of course a good example of helping workers to help themselves.

Q181 **Baroness Bowles of Berkhamsted:** Earlier in this session, you accepted praise from the IMF or welcomed its statements that the Treasury's Covid response had been one of the best, if not the best. Does the Treasury also accept the IMF view that Governments in advanced economies should engage in fiscal stimulus in response to a crisis? This is obviously not while within the crisis but subsequently.

Jesse Norman MP: I see, future financial stimulus.

Baroness Bowles of Berkhamsted: Financial stimulus when we are getting to the coming out. I think that is the implication of the IMF's comments.

Jesse Norman MP: That gives it more teeth. I do not think it would be right to accept the praise of the IMF and then not take very seriously

anything it said that might have a conditioning effect on future policy. Certainly, as I think you would recognise, Baroness Bowles, there has been a lot of stimulus already through the existing schemes, and that is on top of the stimulus that occurs through what used to be referred to as the automatic stabilisers.

Of course, we also have new interventions. At the moment, we have three categories of stimulus going on. I should be getting a little ahead of myself if I were to contemplate whether we should be pitching ourselves into a Keynesian revolution in the post-Covid period. I do not think I can comment on that, but it is certainly well understood that the effect of a pandemic shock of this kind, perhaps even more than other shocks, of the kind we saw, for example, with the financial crisis when there was a relatively quick recovery, is likely to be more long term and to leave potentially, if it is not very carefully attended to, more scarring.

It is of small comfort to say that we have schemes in place now that we could not have dreamt of being able to implement 15 or 20 years ago, and, if we are lucky, we will escape with a minimum of scarring, but that does not mean to say that it will not be long term and require very careful attention as a policy matter. I cannot really comment on it. If there was something we could do in that area, I hope you will forgive me for saying that it would be only because, historically, Governments have taken quite a strong line on the importance of trying to reduce the deficit, and give ourselves a sane and sober fiscal platform from which to operate. That will obviously be a further consideration as we go forward, but we would not be in that position if measures had not been taken over the last decade to shore up the national finances.

Baroness Bowles of Berkhamsted: People get worried when they hear thoughts about what can be done with tax. I fully accept that the Treasury has to think up what it can do well down the track, but it makes people think that, instead of having a fiscal stimulus, before long we may have the opposite. The plan was, I think, to have an industrial strategy in the autumn that was going to have all kinds of interesting things in it. Are we on target still to get a new industrial strategy and those interesting things this autumn?

Jesse Norman MP: The way in which departmental responsibilities work is that the industrial strategy is led by my old shop, the Department for Business, Energy and Industrial Strategy, and, having done a lot of work on it there, I can testify that they are very actively engaged on it. They were when I was there, and I am sure they still are. From my point of view, the Treasury standpoint, the bit to look out for, and an area where I am directly responsible, is the national infrastructure strategy. That is a counterpart activity. It obviously ties into a national industrial strategy. They are not quite the same thing, but they need to work felicitously together, either at the same time or in sequence, to be part of a coherent and rational economic approach to the future.

Baroness Bowles of Berkhamsted: So we are expecting an economic plan that is geared towards achieving growth and investment in the near

future.

Jesse Norman MP: Baroness Bowles, you are leading me into treacherous territory. I am afraid I will not be able to go there. What I will say is that you can expect a national infrastructure strategy to come out, as I said, in the not too distant future.

Q182 **Lord Burns:** May I press you a little further on the question of a national infrastructure strategy, Financial Secretary? How would you balance the advantages and disadvantages of spending money on what has come to be known as social infrastructure, such as social care, universal credit or childcare provision, compared with other types of spending, such as fiscal infrastructure, which is what most people tend to think of when one talks of a national infrastructure strategy?

Jesse Norman MP: I have already talked about skills as being what you might call the infrastructure of the mind. If we were going to be poetic about it, we might talk about an infrastructure of the heart or the sensibilities. There is a very serious point sitting at the back of this, and I fully take the spirit in which you offer the question, Lord Burns.

I do not think any Government should, if they can possibly avoid it, allow themselves to be trapped in the artificiality of a purely economic view of infrastructure, or a purely social view or a purely skills view. They are very porous boundaries. That is the first point. Of course, that also goes for the Treasury's concern, which needs no reintroduction to you, my Lord, for the distinction between revenue spending and capital spending, and the way that is treated in the national accounts.

Having said that, there are real constraints, and we need to work on them. This Government have been very active in this area, and it is quite important to remember that. In 2019-20, the Government spent almost £6 billion on childcare. Local government spent another £1.4 billion to £1.5 billion. There is a lot of work on trying to promote social care jobs to jobseekers. There is a recognition that social care is a big piece of unfinished business that successive Governments have not properly engaged with. It is fair to say that in this year the Government are providing councils with an additional £1.5 billion to support adult and children's social care, on top of maintaining £2.5 billion in social care grants, to meet the rising demand and stabilise the system. Eligibility for childcare has been maintained for people who are in the schemes. It is a serious matter. It is hard to say more in the lee of a spending review, but the point about the importance of the area is well made, and certainly well taken.

Lord Burns: Perhaps I could put a case for the Committee. The Committee has taken the view that the crisis has thrown up a number of longer-term questions that the Committee has itself looked at in recent times, particularly on universal credit and long-term social care. We would like to think that they will be given quite a lot of attention as we move through the next phase. Do we have any reason to be hopeful that some of the recommendations we have made, with regard to both

universal credit and long-term social care, might bear fruit?

Jesse Norman MP: Having been Chair of a Committee myself, I can tell you that there is nothing more frustrating, as you know, than either not having one's views in carefully cogitated reports attended to, or, possibly even worse, having them attended to and announced independently, just before publication, or separately.

I do not think it would be appropriate for me to comment on the extent to which colleagues have absorbed the lessons of the reports the Committee has put out, but I will say that this is a Committee that the Treasury institutionally and individually pays enormous attention to. That does not just go for Ministers; it also goes for civil servants. You will recall from your time in the Treasury the rabbinical trawling through and the attention that goes to any parliamentary appearance by a Minister or a civil servant, and the same goes for reflection on the follow-up. The same would be true of the Treasury Committee in the Commons, or indeed the Public Accounts Committee. It is one of the big three, and we pay very careful attention to its deliberations and its conclusions. I think that is probably about as far as I can go.

The Chair: Flattery will get you everywhere.

Q183 **Viscount Chandos:** Before I ask my next question, I repeat the declaration of interest I made at our first evidence session. I am chair of the Credit Services Association. That was in relation to the supplementary question I asked after Lord Stern's question.

The Government have long-term policy objectives relating to net zero carbon emissions and levelling up underperforming regions. Do the Government have plans to bring forward capital investment in those two areas?

Jesse Norman MP: If the Committee can rush out a report in the next five days, it is conceivable that it might be able to claim credit for some aspects of the national infrastructure strategy. It is well known that we take very seriously the issue of green infrastructure investment and levelling up. I will not talk about the strategy itself, or its contents; all will be revealed. We have looked at it very closely, and worked very closely with a wide range of groups, and attended to an enormous array of inputs in thinking about what the country's infrastructure strategic posture should be. Of course, central in that is the National Infrastructure Commission, which we set up a few years ago. It has a very distinguished group of commissioners and a very high-quality group of civil servants staffing it. It issues a document that is its own assessment of infrastructure, which puts certain demands on government, and we are under an obligation to respond. We will be doing so alongside the publication of the national infrastructure strategy.

Alongside that, we have made some very significant, but I think largely unnoticed, changes in the way in which we manage the delivery of projects. Of course, you will appreciate that for infrastructure, broadly speaking, the numbers we are contemplating in the next few years are of

the order of £600 billion. About half of that is public and about half is private. It is by no means just a matter of public spending. It is also a matter of what the regulatory frameworks are, and the other incentives—social, economic, political, risk assessments, et cetera—that investors have to consider when they make an investment. Of course, there are parts of the country where there are enormous embedded skills and expertise in given areas that we want to be able to feed and derive benefit from. Those two sides of skills and existing capabilities and new private and public investment go together.

Something that may amuse the Committee is one of the very small things I will be able to claim as a genuine achievement in government. After some years of trying, we now have, administered by the Infrastructure and Projects Authority, a ministerial training programme designed to make Ministers into better clients; better able to interrogate major projects and ask questions about them, and put senior responsible owners—a regime we have also drastically and significantly changed—under pressure, and able, in due course, to hold contractors to greater account. That is now in its second iteration and is going extremely well. It is delivered by the IPA with the Oxford Saïd Business School. It is just the beginning, because it is absolutely essential that every part of the chain of commissioning and managing projects on the public side is as effective and joined-up as it possibly can be.

Viscount Chandos: We look forward to the announcement in five days' time. I hope it leads to immediate action and commitment to projects. Is there a shortlist of projects that have been analysed that would be able to combine the short-term benefit of investment in a good Keynesian way with the longer-term objectives that we have been talking about?

Jesse Norman MP: I should clarify that my five days was a suggestion for the time the Committee might take to file its report, rather than a prediction of when the infrastructure strategy will be published, in strict point of fact.

As regards what you might call shovel-ready schemes and the like, the point of a strategy is to think hard about what the medium and longer term brings. It sits quite well alongside the normal kinds of announcements of projects that may provide stimulus to the economy. A hardy perennial in that area is road investment, and it has been seen in the past that the Government have drawn attention to their own road investment through the publication of the road investment strategy and through more support for local road investment. I would say that is a public *douceur* in relation to the considerable body of further work that we are doing.

The Chair: Financial Secretary, you are far too modest in saying that your only achievement is setting up a training course for Ministers to ask questions. My plea would be that perhaps you could follow it up with a training course for Ministers on how to answer questions, although you are doing very well with us today, I have to say.

Jesse Norman MP: Thank you very much, my Lord.

Q184 **Baroness Kingsmill:** On that point and following on from the mention of projects, Project Birch, Project Defend and the Future Fund seem to suggest that the Government are taking quite an interventionist approach to support different key sectors. How are the key sectors chosen? Are they chosen for employment reasons? What are the bases on which you choose these sectors? Is it to select winners? What are they meant to produce?

Jesse Norman MP: They are different projects designed to tackle different issues. I would not say that any of them is sector based in the sense that we have described. There may be companies that come forward seeking support from the Government, and it has historically been the case that the Government will look at, and might consider, supporting industries that are strategically important, either for the nation as a whole or for a particular region. That is one thing, but it is not specifically sector based. Strategic importance counts and that is how it is evaluated.

Of course, the Government have placed a very big bet on science and technology more generally through the extra funding they have given through Innovate UK and others. There is a very strong appetite within government to improve what you might call the STEM component of our industrial national capability over time. There is also a tremendous desire to maintain the country's cutting edge, or competitive edge, relative to other countries around the world, in areas such as support for entrepreneurship, innovation and the like. That is the context in which the Future Fund finds itself. It is a coherent set of policies, but not one driven by a single governing principle.

Baroness Kingsmill: Presumably, during the course of a pandemic the provision of employment is quite important. What impact have any of these projects had on increasing employment or supporting employment during the pandemic?

Jesse Norman MP: The approach we have taken to employment, almost without exception, has been through the major schemes. The schemes that you describe are not focused on national employment. Of course, there may be, and these are the subject of some confidentiality, cases where a company comes forward and seeks to have a relationship with government that involves public support. I think one has been published so far. The Government will always consider local employment and local impact in that context, for all the reasons you might imagine. Again, I do not think there is a single one-size-fits-all approach that we can take. The issue of impact has several different dimensions, but that is the one that—

Baroness Kingsmill: Indeed, but surely the impact on employment in these current circumstances must be very important.

Jesse Norman MP: I have no doubt that that is true. I suppose the question is whether the schemes will be the principal means to manage what is, after all, a national set of issues. As I have said, in some cases, for example, where a company requires particular support from government, the local impact may involve an impact on employment; that is right.

Baroness Kingsmill: Presumably, that would be a priority.

Jesse Norman MP: It is hard to say it is a priority. Of course it is a priority to respond to the needs and interests of the company concerned, and in many cases those will be about preserving employment.

Q185 **Lord Livingston of Parkhead:** Crossing over from measures to help with the Covid crisis to one of the Committee's favourite topics—universal credit—the Committee welcomed the extra £20 a week applied to universal credit. I have a couple of questions on that.

First, it was applied to universal credit but there was no similar increase for people who were on legacy benefits. Can you give us some background or explanation of the thought processes as to why they missed out?

Jesse Norman MP: Let me talk a little about the overall policy that we have taken, and then I will bring in Lindsey on the detail of the legacy benefit question.

On the overall policy, as you will be aware, there is a tremendous body of appetite for us to continue the increase in the standard allowance that we have made. As a Committee, you have received a lot of attention on that area, and we recognise the concern. We have put it in place until March for the reasons we have described—that is to say, to give a degree of stability without necessarily prejudging the future—and we are not going to rule anything out. That is the overall picture.

On the legacy benefit side, the judgment has been made that we have struck the right balance between the two of them, but I do not know if Lindsey wants to come through on some of the more specific detail on that.

Lindsey Whyte: Thank you. The £20 a week increase for UC and tax credit was implemented in very quick time, in March, as part of the immediate response. We were constrained by what it was possible for DWP to deliver, because we were operating on an emergency basis, which is why we came to the policy option that we did.

It is worth saying that at the time DWP was stepping up to a response to a very significant increase in volumes in benefit payments, which it was able to do, while ensuring that it was still able to make payments right across the system in a timely way.

Lord Livingston of Parkhead: Are you saying that it was a matter of practical capability rather than policy, and if you had been able to do it,

you would have done it for legacy benefits? Can I read through that that is what those comments mean?

Lindsey Whyte: Primarily, yes, it is about the practicalities of what it is possible to deliver. That is because we are dealing with legacy systems that are very difficult to amend at short notice.

Lord Livingston of Parkhead: We recognise that universal credit and the way it was set up as a digital-first system has helped in a number of ways. The positive sides of universal credit have definitely come through.

While I would love the Financial Secretary to tell me whether you intend to increase the £20 beyond March, I do not really expect the training for Ministers in answering questions to include that, so I will ask a marginally different question. Has an assessment been done of all the positive benefits of providing that £20—for example, in relation to poverty, et cetera—or, conversely, of the impact of taking it away? Is that something the Government have looked at?

Jesse Norman MP: I would say that the Government are continuing to look at it. It is part of a significant package of measures and it is not a single thing on its own. It is possible to look at one and target that, because it is such a large benefit and it has been such a large intervention. Of course, we continue to look at it. We are not going to rule anything out, but, equally, I am afraid, we are not going to make a commitment at this point. We will leave that to the Chancellor in a fiscal event.

Lord Livingston of Parkhead: I look forward to hearing it.

Q186 **The Chair:** Following up on that, Financial Secretary, in the response from the department to our report on universal credit, it said that discussions were continuing with the Treasury. We had some evidence where it was pointed out to us that there were now more food banks in this country than McDonald's. I wonder whether, in the Treasury, you think about the stress there must be for families at the prospect of losing £1,000 a year and living on the breadline and having to go to food banks to feed their children. This must be causing enormous stress, and we are getting lots of evidence that the Covid outbreak, lockdown and everything else all add to mental health problems. Is this not something that should be dealt with rather quickly?

Our report pointed out that people who moved on to universal credit from legacy benefits suddenly found that debts they did not know they had, arising from previous errors—up to 25%, I think, of their benefit, which is not insubstantial—can be deducted to pay back the debt. Where have you got to in writing off the debt, which I understand is something that has some sympathy in the department but which, again, the Treasury is sitting on? I cannot imagine what it must be like in these circumstances, worrying about losing that £20 in March and having money taken from your benefit for a debt that you never knew you had taken on as a result of the failure of the administration of the previous system.

Jesse Norman MP: Thank you for the question. I am not sure that it was necessarily in every case a result of the failure of the previous system, but we know that, in some cases where people transferred, it crystallised a debt situation, which has to be humanely worked through and supported.

I want to come back on the point you make. The tenor of many of your questions, Lord Forsyth, is to go to the emotional aspects of a policy. It is very important for you and the Committee to understand that there is no absence of concern. There is no flinty hard-heartedness in the Treasury. That is not the question at all. We absolutely recognise the concerns. We spend our lives thinking about them. That is not the question.

The question is: what is the right thing to do, all things considered, and when and how should the policy be announced or implemented? We have an approach, which is that we think hard about these things and then we put them out in a structured and planned way through fiscal events. That is how we will handle this issue, as we would other things. It does not come from any absence of feeling or care, or the like.

Frankly, I think you might reflect on whether this is an appropriate line of questioning. After you have been asked a question about your feelings for the third or fourth time, a human being might ask: what is the point of asking these questions, because we are not actually differing in any emotional aspect? We are trying to do the right thing, just like you.

The Chair: Actually, Financial Secretary, I am responding to the evidence we have heard, which is truly shocking, as to the circumstances in which people find themselves. It is not about emotions; it is about where the Government's priorities lie. We have taken evidence. This is an all-party Committee. We have submitted our report, which pointed out why these changes are necessary. We had a response from the department that basically said, "We are waiting on the Treasury", and which did not deal with the answers, so it is perfectly reasonable for me to put these points to you. If we are emotional about it, it is because we are dealing with real people and real hardship.

Jesse Norman MP: As am I, Lord Forsyth; as am I. We will respond in the appropriate and proper way, as we do. We have taken many decisions that have protected millions of jobs in this country and millions of livelihoods in the last few months, precisely because we tried to do the right thing. That has been recognised and we will continue to try to do the right thing.

Lord Monks: On the previous question, which is in the same area that I was going to ask about, I take some umbrage at the fact that you are talking about emotion. I am thinking about empathy. The feeling that we are looking for in the Government is that they really feel the pain that so many people in the country are feeling.

We would all say that there was a muck-up on the Marcus Rashford initiative, and we are in danger of doing it again on the universal credit

report, whether it is on debt, on keeping the £20, or on one or two other changes. It seems to me very important that, if the Government are to show their sense of sympathy and empathy with people who are struggling, they need to act on those particular matters.

Jesse Norman MP: I thank you very much indeed for your input, Lord Monks. I think we are on the same page. When I talk about emotions, I am talking about the emotion of empathy. We feel it just as strongly as you do, and we will be making announcements, when we make them, in the usual way. There is nothing between us on that. I have read the testimony that you received; I also see it in my job and in my work as an MP. It is good to know that we are on the same page.

Q187 **Lord Skidelsky:** I would like to raise a question about statutory sick pay. As I understand it, and please correct me if I am wrong, this is not just pay for people who are sick, but for people who are prevented in one way or another from working because they have to isolate themselves. At the moment, it is £95 a week. The Resolution Foundation has advocated raising it to £160 a week. Have the Government given thought to that proposal, and what is their thinking about it?

Jesse Norman MP: The first thing we did in response to Covid was to introduce the statutory sickness pay rebate scheme precisely so that people could recover the costs of statutory sickness pay for those who were self-isolating. We also reduced the waiting time from four days to one day. Again, we are well aware of the problem and the concern. It is worth adding that anyone who is on a working age means-tested benefit can apply to a local authority for a one-off £500 additional payment on top of the weekly statutory sickness pay.

The key point that is worth adding to the picture you have touched on and that I have described is that statutory sickness pay is a statutory minimum within an overall picture. More than half of UK employees benefit from more generous company schemes. It is an employer benefit and, in the balancing act that we have talked about in our previous discussions, it is important to balance the effect of the support that it would give to individuals and the effect that it would have on companies that might be burdened additionally at a time of particular precariousness. Those are the kinds of concerns that will go through our minds as we reflect on policy in this area.

There is plenty of other support within the Covid packages for people for whom statutory sickness pay might be the only alternative. People who have shielded have hugely benefited in many cases from the CJRS and the self-employed scheme. It is a more complex picture than one might imagine at first glance.

Lord Skidelsky: I want to raise a more general point—one might say a more hard-headed point and not a sentimental one. Have the Government considered that if they raise the general level of social benefits during the pandemic, they are maintaining aggregate demand, strengthening aggregate demand, and therefore strengthening the

automatic stabilisers that will be required even more in the next period than they are now?

Jesse Norman MP: The point was well made by one of your witnesses that people on modest incomes have a high propensity to spend marginal income received, as we know. That is a reflection in a more theoretical context of the point you are making, and it is absolutely a point that we understand in the Treasury.

Lord Skidelsky: You understand it, but are you going to act on it?

Jesse Norman MP: We keep coming back to this question. I am not going to anticipate the Chancellor's policy decisions, but I can give you some assurance that it is a point we have reflected on and are continuing to reflect on.

Q188 **The Chair:** I have one last question, Financial Secretary. What proposals do you have to deal with rising child poverty? What is being considered by the Government?

Jesse Norman MP: The situation, as you will be aware, is that there is a concern about rising child poverty. The distributional analysis that we have done so far suggests that the decisions taken in the context of Covid have actually mitigated relatively more of the impact of the pandemic on the poorest households. That is both because of the benefit schemes and because more low-income jobs fall in the key sectors that the Government have supported.

Of course, there have been lots of particular measures designed to support families that may be at risk of child poverty. We have talked about the universal credit uplift, the increased local housing allowance, rent support, the welfare assistance fund, and a lot of support in other forms for local authorities. That is the context we are operating in, and we will continue to look at the distributional analysis so that we can think about how to continue to support and address the problem.

Overall, the biggest way to solve the problem is to keep the country at work. Work is the best route out of poverty, and poverty is heavily geared to income support. All the work we are doing to support families and jobs, and support incomes, has a next-tier impact on poverty. The Resolution Foundation published some stuff today, which we need to think about, but it is quite interesting that some work they did earlier in the year suggested that relative poverty had slightly decreased after housing costs. Of course, it is an evolving picture and we need to continue to work very hard on it from a policy standpoint.

The Chair: Do you accept that the motivation and the whole purpose behind universal credit was to encourage people to get into work? In circumstances where we will have scarring and a lot of jobs have been destroyed as a result of Covid, perhaps the view of universal credit and the theory behind it need to be adjusted, because there are not the jobs for people to go to.

Jesse Norman MP: We need to look at the situation. The economy has had a tremendous shock. We hope it will come roaring out of the shock next year, but I agree with you. The original governing rationale for universal credit, which is a system that has performed extraordinarily well overall in very testing circumstances, was very much to support people in work and to change the marginal effects of benefits on work. It was also to simplify the benefit system and make it easier to navigate. We do not know the full impact yet. It is not my department, it is the DWP of course; but the civil servants responsible would say that while we will not properly know the full impact of these changes for a good while yet, it has done well and we need to continue to reflect on it as we emerge from the recession. The point that we need to do so is well made, and, again, I thank the Committee for it.

The Chair: On that note, we thank you. We have managed to cover a lot of ground in 18 questions. We are very grateful to you for having provided the answers, and to Lindsey Whyte for providing back-up and support on the technical issues. I feel that it is a bit like "Mastermind". You did not pass on any questions, so we are very grateful to you, Financial Secretary. We look forward to producing our report. We will hold you to the seriousness with which you take it when it is published later next month.

Jesse Norman MP: Thank you, Magnus Magnusson, or should I say Lord Forsyth? I thank the Committee, and I also thank Lindsey for joining me at this meeting. Thank you very much indeed.