

Public Accounts Committee

Oral evidence: COVID-19: Support for jobs, HC 962

Thursday 12 November 2020

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[Watch the meeting](#)

Members present: Meg Hillier (Chair); Olivia Blake; Dame Cheryl Gillan; Peter Grant; Mr Richard Holden; Sarah Olney; Nick Smith; James Wild.

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

Questions 1-104

Witnesses

[I](#): Jim Harra, First Permanent Secretary and Chief Executive, HMRC; Jo Rowland, Temporary Director General, COVID-19 Response Unit, HMRC; Beth Russell, Director General, Tax and Welfare, HM Treasury; and Sir Tom Scholar, Permanent Secretary, HM Treasury.



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Report by the Comptroller and Auditor General

Implementing employment schemes in response to the COVID-19 pandemic (HC 862)

Examination of witnesses

Witnesses: Jim Harra, Jo Rowland, Beth Russell and Sir Tom Scholar.

Chair: Welcome to the Public Accounts Committee on Thursday 12 November 2020. We are here today as part of our work looking at the Government's response to covid-19. It is #COVIDSpending if you are following us online or commenting; you might find that a useful way of doing things. Of course, if you have evidence or comments that you want to make in more detail to the Committee, please submit that through the normal route.

This hearing is focusing on the job support schemes implemented since the start of the pandemic. We acknowledge, and have said before, that the pace at which those were introduced was incredible. Hard work was done by the civil service, particularly HMRC, to make sure that that help got to people quickly.

What we want to find out today is whether those schemes reached their intended target, how much the schemes have been affected by fraud and error and whether sufficient protections were put in place. Of course, this is very timely, with the extension of furlough now till March. I thank the permanent secretary for his letter outlining some of those changes. I am assuming that since last night there have not been any more, but things are moving at quite a pace. Obviously, there is also the extension of the self-employed support schemes, so we will want to look a little at those and how they are going to work as well, to make sure that the lessons have been learned from the first time to improve future schemes.

I would like to welcome our witnesses. Two are with us physically in the room. They are Sir Tom Scholar, permanent secretary at Her Majesty's Treasury, and Jim Harra, first permanent secretary and chief executive of Her Majesty's Revenue and Customs. Joining us online is Jo Rowland, who is the temporary director general of the covid-19 response unit at HMRC, so welcome and congratulations on your role, Ms Rowland; it is a big job. Also joining us online is Beth Russell, director general for tax and welfare at Her Majesty's Treasury.

Before we get into the main session, I want to bring in James Wild to ask some questions of Sir Tom Scholar, permanent secretary at the Treasury.



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- Q1 **James Wild:** Good morning, Sir Tom. This time last week, I asked you about the state aid cap for businesses receiving support from the Chancellor's very welcome measures. Are you in a position to update the Committee on that issue?

Sir Tom Scholar: I promised last week to write to the Committee with a response to your question, which I have not yet done; my apologies for the delay there. After our hearing last week, I went back to the Department, and satisfied myself that the Department knew all about the issue and had received the representation that you referred to. A reply is being prepared and I will get that to you as soon as I can.

James Wild: Okay. That would be appreciated. Obviously, businesses are keen to know whether they can take advantage of these schemes. Thank you.

- Q2 **Chair:** I want to turn to Jim Harra on the knotty issue of leaving Europe. Obviously, we have a session on border preparedness with you coming up in the next couple of weeks. However, I was particularly concerned about how CDS is performing in relation to the Northern Ireland issues, where goods will have to be checked even though they are travelling within the UK. We are only weeks away from the end of December. Can you give us an update about how ready the system will be to cope with those changes?

Jim Harra: CDS is a live customs declaration system. It will be the main system that we use for ensuring that we comply with our obligations under the Northern Ireland protocol. We have had to do two things to CDS: first of all, to make sure that it is scaled to cope with the volume of declarations for GB-NI goods movements, which we have done; and, secondly, to make sure that it can accommodate the dual tariff that is possible under the Northern Ireland protocol, and the work to put that in place is on track. We have—

- Q3 **Chair:** When you say "on track", can I just check what that means? When will it actually be ready to be tested and run through? Have you been testing it?

Jim Harra: It is in test at the moment. It will be deployed in the middle of December; that is the current plan. We do not expect traders to have to deal directly with CDS. The Government have funded a free trader support service, which is run by Fujitsu, and traders will be able to engage with that, give it all their data, and that service will deal with CDS behind the scenes.

That portal for TSS is already up and running. About 5,500 traders have so far registered for it, and the key step that traders who move goods from Great Britain to Northern Ireland need to take is go to gov.uk and register for the trader support service. Then, on 23 November we will issue you with your reference number, which you need to move goods, and that trader support service will give you all the guidance, education and support you need to give it the data that enables you to comply with it. And you yourself will not have to worry about using the new CDS.



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Q4 **Chair:** So, 5,500 companies have registered so far. How many need to register?

Jim Harra: There is no firm number; we have an estimate. We think about 12,000 businesses in Northern Ireland bring goods in from Great Britain and therefore will need to register. It has only been open for a few weeks and I think that currently over 300 firms a day are registering for it, and we are ramping up the communications to make sure that everyone is aware of it. If I can, I will use today to say, "Register for that service", and then there is a support system there to help you to understand what you need to do, and it is ready to take your data and make sure then that the UK Government comply with their obligations.

Q5 **Chair:** What is the biggest risk to making sure that this actually happens? You are very confident that it is on track. Is that a veneer, Mr Harra? What is keeping you awake at night, worrying about this issue?

Jim Harra: Delivery for EU transition, both in relation to the Northern Ireland protocol and more generally, is very tight. The key risk is trader readiness. The Government have already taken a couple of contingency steps in recognition of the fact that not everyone is going to be ready. So, in the case of GB-EU movements, full import controls are being staged in. And in the case of the Northern Ireland protocol, the key step that we have taken is to put in place this free trader support service, so that traders can have their hands held and not incur the cost or the administrative burden of getting ready for that, because that service will support them.

Q6 **Chair:** I am tempted to go further, because we are obviously preparing for our session with you in about 10 days' time. We will come back to this issue then, when we will be even closer to the deadline, and we will have some more detailed questions that we will ask you at that point.

When you were in front of us only a few weeks ago, you talked about the furlough scheme and in this Committee you gave the estimate that around 10% of claims were fraudulent. Can you tell us how many prosecutions are under way for fraudulent claims under furlough?

Jim Harra: I think what I said was that we are planning on an assumption of between 5% and 10%—

Chair: Forgive me; I paraphrase too much.

Jim Harra: We do not have a firm estimate at this point. So far, there have been three arrests for suspected fraud in relation to the job retention scheme and we have other criminal investigations under way, although criminal investigation is not our main way of managing the compliance risks in the scheme, which I am sure we will get into in more detail. We have also made three arrests in relation to suspected fraud in the eat out to help out scheme.

Q7 **Chair:** The other concern was that people may have made mistakes and so you effectively—you might not want to call it an amnesty—did say to us that people had a period of time in which they could come to you. That



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time has now elapsed. How many businesses came to you and said we have made a mistake here?

Jim Harra: So far, we have recovered £382 million under the job retention scheme. That is largely from people either voluntarily entering the system wanting to correct their claim or reacting to a prompt from us.

Q8 **Chair:** Was that roughly what you expected or are you disappointed with that figure?

Jim Harra: I think that is not complete, particularly in relation to the self-employment scheme. We have given people extra time to respond and it will be another two weeks before that closes—so we will see how that goes. There are about 24,000 cases we have contacted where, at the point that we contacted them, we did not feel they had enough time to comply by the normal deadline. We think that is a good level of voluntarily stepping up. In the case of the CJRS, we have identified 27,000 high-risk cases where we have contacted them, told them we consider them to be high risk and that we want them to consider their claim. We expect that we will end up investigating about 10,000 of those. We currently have about 5,000 under investigation, but we will monitor that and plan further after that.

Chair: That will all lead into our main session. We will be coming to some of that in a moment.

Q9 **Dame Cheryl Gillan:** Sir Tom, good morning. Just a quickie— back in September you made two arrests. I think one in Romford and one in Walthamstow. You say now you have made three. Are you making a sufficient level of progress on that? Have you revised the estimate that you made in September that you were also looking into 27,000 high-risk cases? Have you updated that or is it the same?

Jim Harra: The number of arrests, as I said, for CJRS is currently three. That is in relation to two claims, so that is why I suspect that is a step on from what you saw. Criminal investigation is not our lead way of managing the compliance risks in these schemes. Of course, we do reserve it for the most serious cases and there will undoubtedly be more arrests. I am sure we will talk about this in more depth in the hearing, but we have a number of control stages to manage compliance risk. At this stage, post-payment, the main thing is to prompt people to look again at their claims and give them the time to correct it, with no questions asked.

Chair: Thank you. We are going to move into the main session. I thank the National Audit Office for their timely work on this issue which gives us a good baseline of the numbers, which have of course been agreed between the Treasury, HMRC and the NAO, so we know those figures are accurate. I remind people that we have a hashtag #COVIDSpending for people following. Without further ado, I ask Nick Smith to kick off.

Q10 **Nick Smith:** Good morning to our witnesses. First thing I want to say is, credit where it is due. I think your two Departments have shown great agility during this period, introducing these new schemes with new



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systems and refocusing of staff. Many people across the country are pleased to have received economic and financial support to keep their heads above water. It has been large-scale and expensive. Over 12 million people have benefited. About £55 billion-plus has been spent—this is a big deal. Having said that, there are some significant issues that we will try to address this morning, but I thought it was important to say that.

First question for Mr Harra and Mr Scholar—how did you implement these schemes so quickly and what lessons are there for the Government to apply to deliver future projects more rapidly?

Sir Tom Scholar: Let me start with reference to the policy, and then perhaps Jim would like to pick up with reference to the implementation. First, thank you very much for your kind words, which will be greatly appreciated by all the members of the joint HMRC-Treasury team who worked so hard on these schemes. Thank you for that.

On the policy front, as you know the UK did not previously have a job support scheme of the sort that some other countries have had, in some cases for 100 years or more, so we were developing the scheme from a standing start. We did that extremely quickly—in a matter of days. There were two things that helped us enormously in that. The first was that we had in fact done some contingency planning and initial policy work on what a job support scheme would look like and the possible ways of implementing it.

Secondly, and more importantly, we were able to build on the extremely close policy partnership that our two Departments have, which has been developed over a number of years. We work together on all the big policy issues. In this case, the team that was designing the scheme and advising the Chancellor on it was from the very beginning a joint team. That meant that we were able to draw on HMRC's huge experience and expertise in implementing, and were able to advise Ministers of a scheme that could be announced quickly and implemented quickly with a high degree of confidence. That is something that the Treasury certainly could not have done on its own. We very much relied on HMRC's expertise there. Perhaps I can hand over to Jim on the question of implementation.

Jim Harra: It was a herculean effort by our policy, digital and operational staff in HMRC. I agree with Tom that one reason that we were able to move fast is that we have a very tightly integrated Treasury and HMRC team with not just policy makers figuring out what to do, but operational and digital people in the room thinking about the art of the possible.

I would say that there are probably three key investments that HMRC has made in recent years that enabled us to move so fast. One was investing in technology that enabled our staff to be very flexible. They were able to work from home within a week. We had 64,000 people up and ready to work from home and move flexibly on to whatever we needed them to move on to.



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The second is that in recent years we have invested in a digital tax management platform, which we use to deliver the digital services for the new schemes. That was there, and it was therefore quite easy to add a new digital service on to that. I am probably underestimating the difficulty of that, but in terms of the architecture it was very modern and therefore very capable.

The third was that six or so years ago, we invested in moving Pay As You Earn on to real-time information. That meant that we had some very current information about employments and employees, which was vital in enabling us to run the job retention scheme safely. Those are examples of investments in recent years that were critical to us being able to move fast when we needed to.

Q11 Nick Smith: Do you think you would be able to be as fleet of foot in the future on other projects that are coming up?

Jim Harra: First of all, in relation to the extension of the job retention scheme, we opened the claims services for that yesterday. I have not checked this morning, but I checked yesterday, and claims were flowing through it, so again we have been able to move fast.

In the future, I appreciate that money is tight—I am sure Tom will reiterate that—but investing in maintaining up-to-date technology platforms is what will keep us agile. Furthermore, investing in getting better and more current data in relation to our customers is what enables us to respond quickly and effectively to whatever urgent needs there are.

Q12 Nick Smith: I have read the NAO note. How did lack of pandemic contingency planning affect the scale of the challenge that you faced when you introduced the schemes? What contingency planning did you do to prepare for the second wave?

Sir Tom Scholar: We discussed in our last hearing the nature of contingency planning in general. In this case, as I say, we have done a certain amount of work already on what a job support scheme might look like, and my colleagues might want to say a bit more about that. When you look—and the Report bears this out—at the speed with which the scheme was designed, announced, implemented and then paid out, I find it very hard to see how it could have been done materially more quickly unless the country had had, as Germany has had for more than 100 years, a wage support scheme that was completely integrated into the welfare system. It is just a different approach. That is how they do it in Germany; it is not how, over the years, successive Governments in this country have chosen to do it.

Clearly, for a country like Germany that had an existing scheme and could just tweak a parameter, it was something that they could do very easily. From a situation where such a scheme did not exist, I do not really think that it would have been possible to implement and introduce it any more quickly than in practice we did.

Q13 Nick Smith: I have said that you did a great job, and you did. As you



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say, there is a different culture in Germany. It says in the Report that you consulted your German counterparts on how to do things. I suppose the question that is still in the air is why you did not do the contingency planning that other places have, and that clearly you, our civil servants, have not done this time.

Sir Tom Scholar: I think, in fact, the contingency planning in the UK Government compares completely favourably with the contingency planning in other countries. I do not think that any country was prepared for a public health response to a pandemic that would require the lockdown of the entire economy. I do not know of an example of any country in the world that had that in the top drawer, ready to go.

In the UK, we have had our share of economic difficulties in the last 12 years. As we discussed in the previous scheme, we did lots of both actual planning and contingency planning on a range of financial stability and business support schemes. As I said, in this case we had a look at job support schemes too.

One area, which I am sure we will come on to, where you can see how we could have been in a better position was in terms of the self-employed, where HMRC have—again, as a consequence of the structure of our tax system—both much less information on the income of self-employed people and much less timely information. The reason is that the tax system is designed to take in tax. Obviously, there was a proposal five years ago to implement the making tax digital programme. For all kinds of reasons, which we can discuss, that has been repeatedly postponed.

That is an example of a programme that, if implemented, would have meant that there was much more information in the system that would have helped with the self-employed, but I would not characterise that as contingency planning. That is, rather, a different set of policy choices related to a different set of considerations.

Q14 **Nick Smith:** We will come to the self-employed and making tax digital later, but thank you for that. Mr Harra, do you want to come in on contingency planning?

Jim Harra: From an operational point of view, clearly we did not have flat-packed schemes on the shelf that we could just flick on. I am not convinced that it would have been practical for us to have done so because the costs of maintaining those flat-packed applications, to keep them live with other infrastructure changes, would be quite prohibitive. Therefore the key lesson from this is to make sure that you have the core assets and capabilities on which you can build fast and flexibly, rather than having 20 different contingencies schemes, one of which you might take off the shelf and try to use. I think that would be the lesson.

Q15 **Nick Smith:** Mr Scholar, how much do you estimate the extended furlough scheme to March '21 and the SEISS to January '21 will cost on top of the at least £55 billion spent so far?



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Sir Tom Scholar: That is, of course, critically dependent on take-up, which in turn depends on a forecast of the labour market. We do not do those forecasts. The official estimate will be done by the Office for Budget Responsibility, and they will publish that in two weeks' time with their forecasts that will accompany the spending review. They will include their latest costings of all the different coronavirus interventions.

Q16 **Nick Smith:** So you have made major commitments through to January and March, and you haven't yet even got a back-of-the-envelope estimate of how much it will cost on top of the £55 billion so far.

Sir Tom Scholar: Very much in the way that we did at the time of introducing the scheme in the first place in March, we have got a really quite broad range of estimate, which obviously depends on take-up, so we have got a good sense of what the maximum might be and what the range might be.

Q17 **Nick Smith:** So what are they?

Sir Tom Scholar: I don't have the figures now, but it's a pretty broad range. In terms of the official costing—

Nick Smith: Ballpark?

Sir Tom Scholar: Perhaps my colleagues might have a number on what the scheme cost in the spring, which would give us a rough estimate. If take-up is similar in the next couple of months to what it was in the spring, that would give us a sense of that.

Q18 **Nick Smith:** Does anyone have that to hand?

Beth Russell: I can come in on this if it's helpful. As Tom said, it depends on take-up. We know that in the spring, at the height of the scheme, it was costing us about £10 billion a month, but that had reduced quite significantly over the period to October, although we do not know the exact take-up yet of either September or October because claims can still be submitted for those months until the end of this month.

Q19 **Nick Smith:** Could you repeat that? How many billions?

Beth Russell: At the height of the scheme in the spring it was around £10 billion a month, but that was, as I say, quite a short period of time when there were just below 9 million people on the scheme. It has reduced significantly since then. We don't know the take-up of the scheme in the most recent months, which would probably give us the best guide for what the future months might be, because we are still waiting for the claims to come in for those months. They can still be submitted until the end of November.

Q20 **Nick Smith:** So ballpark, you are talking about possibly £40 billion between now and March?

Beth Russell: We wouldn't expect it to be as high as that, considering the differences between the restrictions in the spring and the restrictions that



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we now expect for the next few months. We expect it to be quite a bit lower than that.

Q21 **Nick Smith:** How much lower?

Sir Tom Scholar: That will be for the OBR to estimate, because that depends on a forecast of the labour market, which we don't do. As Beth has said, there are a number of reasons to think that take-up will be lower. The restrictions are much less extensive than those in the spring. Schools are open. Many workplaces are covid-secure now and have reopened. So there are a number of reasons to think that take-up will be lower. That gives you, in a sense, a theoretical maximum, but the OBR, which forecasts the labour market, will give the official costing in two weeks' time.

Q22 **Nick Smith:** You have outlined all the things that would mitigate and reduce that bill. All that seems perfectly sensible, We had hoped to have an estimate today, but we look forward to the OBR's figures in a fortnight. Thanks. Mr Scholar, given the experience of running the schemes for over six months now, what lessons have you applied to the extended schemes coming up for December through to March?

Mr Scholar, given the experience of running the schemes for over six months now, what lessons have you applied to the extended schemes coming up for December through to March?

Sir Tom Scholar: On both schemes, we have been learning lessons as we go along. As you will have seen, the Chancellor has made a series of further announcements beyond the original March announcement to make changes to them. In particular, I would highlight, in the spring, the changes to the treatment of people on parental leave or reservists. There was the introduction of the ability for people to be furloughed flexibly. In the summer and into the autumn we developed, as you know, the job support scheme, which was particularly targeted at an economy and a labour market that at that point was anticipated to be opening more than it had been. On all these things we have looked at the circumstances and tried to adjust them as we go along.

Clearly, the circumstances have changed, so the Government decided that in those circumstances the correct thing to do would be to retain the furlough, rather than introduce the job support scheme. It incorporates some of the changes, including the balance between the support from the state and the support provided by the employer—we have incorporated all of that. HMRC, through its operations, has been learning the operational lessons, too, and I am sure we can talk about that as well.

Q23 **Nick Smith:** It seemed to me that you guys were working at speed in early autumn, when we had the Chancellor making three or four major announcements on this issue over the three or four weeks, as I think it was in the end. Given that things are moving so quickly, if there is not a third wave or a third lockdown, and there is a successful vaccination programme—big picture here—do you think that the schemes you have outlined as being in place until January or March will get halted, and



something else pulled out of the bag in December or early January?

Q24 **Sir Tom Scholar:** As the Chancellor said, the furlough scheme will remain in effect until the end of March. There is a review point in January to look at the employer contribution in the light of the prevailing economic circumstances then.

Q25 **Nick Smith:** I asked you in July whether you were absolutely sure that the furlough scheme would end in October, and you were categorical that it would not be continued. I am trying to tease out of you the level of risk here, and what will be happening in the new year proper.

Sir Tom Scholar: I was going on to say that there will be a Budget in March, and a lot will change between now and March—we will know a lot more about the path out of the pandemic. At that point, with that Budget, there will be a new economic forecast, and at that point the Chancellor will set out the economic strategy that will support the economy as it moves out of the pandemic. I cannot say now what that will be; it will be for the Budget in March.

Q26 **Nick Smith:** Mr Harra, do you want to add to that? You have to deal with the front end—you deal with business and you are trying to give people in our country enough time to change their working practices and their systems to deal with all these changes at speed. It is really confusing for lots of people when things chop and change. What do you think will happen? What advice will you give to Ministers?

Jim Harra: I appreciate that businesses had to cope with changes that then did not come in. We built into the scheme some flexibility to enable businesses to reverse some of the decisions that they might have made to enable that.

From an operational point of view, it is obviously advantageous that the job retention scheme has been extended basically on its August terms, because that is something employers and employees are familiar with. Certainly yesterday, as we opened the new claims service, we saw a very low level of contact on day one, which indicated that employers knew what they were doing, albeit there is potentially a new cohort of employers and employees in the scheme this time around, because we have been more flexible about who can enter it.

We have listened carefully to stakeholders during this period, in particular the payroll industry and the agents who support the self-employed. We have tweaked our guidance and everything to make it as easy as possible for people, although in the self-employed scheme we calculate the grant for you—you have to do nothing more than say you want to claim it.

We are also looking at the level of transparency that we can give about the scheme—in particular, in the job retention scheme, not only public transparency about who is claiming under the scheme, but transparency to employees about what their employer is claiming in relation to them. The NAO mentioned that in its Report.



That is for two reasons. The first is just because this is public money, so people have an interest in transparency about where it is going. Secondly, it might have a small positive effect on our ability to manage error and fraud. We know that we get a significant number of calls to our hotline from people reporting what they believe to be fraud in relation to these schemes. The more transparency there is, the better the public and employees will be able to help us in that.

Q27 Nick Smith: Following on from Mr Harra's comments, Beth Russell, are there any other things that you think ought to have been done differently, given your experience of the last six months?

Beth Russell: I do not have much to add to what Tom and Jim have said. Obviously, we have tried to iterate the schemes as they have gone along in response to feedback where we have got it. Tom mentioned some of the issues—I guess they were more second order, although important—that we had to resolve after the announcement, around things like the treatment of parental leave and some of the issues around the calculations of the grants. We tried to do that as quickly as possible and, indeed, we got guidance out within six days of the initial announcement.

Q28 Nick Smith: Before we move on, Sir Tom, you talked about the Germans having long-established systems and a different framework. Mr Harra was not sure that having off-the-shelf contingency planning was the way to deal with this, because it was so extraordinary and needed to be done at speed. I accept that, but is there anything that you could learn from other countries about implementing some of these employment schemes that you think would have been of value? It does sound a bit arrogant. Dealing with it on the chin and getting stuck in seems to be your approach, which has been successful, but I wonder if there are other places that you think may have done something a bit better or differently that it might be worth looking at.

Sir Tom Scholar: We looked very carefully at other countries in those early days in March when we were trying to design the system, and we have continued to look at them. It is very interesting; there is a lot of economic policy innovation going on in lots of countries, so we certainly look at that.

You asked earlier about, in effect, the future of these various interventions. One policy question that a lot of people will look at once we are out of the pandemic is, what general economic policy lessons do we draw from that? We will obviously be looking at a labour market that—I do not know quite what the circumstances of it will be—will have had a very severe shock. It is having a severe shock now and it takes time to recover from that kind of shock.

I think there will be a lot of questions about what the correct Government policy is for the labour market. I imagine that since other countries have this sort of scheme, and we have now developed and introduced an emergency scheme—these would not be the features necessarily of a permanent scheme, but we are operating one and it will be, by the time

we get to the end of it, 12 months under this emergency scheme—people will look at that and say, “Are there features of that that we could build into a more general set of interventions?”.

I am not setting out a Government policy or Government position there; I am just speculating that that is a debate that commentators, think-tanks and economists—and, no doubt, parliamentarians—will have, and the Government will have to look at that. It is a striking feature, which perhaps we had not appreciated until this year, quite how many countries have some kind of arrangement of this sort, either in their welfare system or in their approach to the labour market. There were, in the end, rather few in our position of having to develop a completely new scheme.

Jim Harra: Certainly we look at, and I do envy, some of my colleagues around the world in relation to the self-employed and the quality of the data that they have. As I say, if we had had that quality of data, I think we could have helped more people and made the grants more refined on people’s individual circumstances as well. That is a journey we are on, but the UK is definitely moving slower than the best countries around the world in resolving that.

The other thing, which I guess is internal for HMRC, is in relation to the self-employed. Because we have not really reformed our data architecture or our technology architecture since the late ’90s, that meant we had a fair bit of data cleansing to do before we could launch the self-employed scheme. It did take us longer to launch than the job retention scheme, and the key reason was that even for the non-current data we hold, we had quite a lot of work to do internally to get that in a fit state to operate the scheme. If that had been better managed, I would have thought that we could have opened that scheme a couple of weeks earlier.

Q29 **Nick Smith:** I am glad you touched on the economic shock we have had. Certainly in my constituency, in Blaenau Gwent in south Wales, there is some trauma over this, and people are very afraid for the new year and the spring ahead. Various initiatives have been launched, so do you know how successful the kickstart programme has been for young people, trying to help them into employment? It has been very difficult for that younger age group. What is going on, and has it proved to be effective?

Sir Tom Scholar: I do not have information on the number of people who have found jobs through it, although I can certainly get that for you from DWP. Beth may have something to add, but it is certainly something we have discussed with DWP, both at the time of agreeing the funding to implement it and more recently. I have heard back from colleagues there that they feel it is going well. However, as you say, it is happening in an exceptionally difficult economic environment. If I may, perhaps I can look into that and write to you with further information.

Q30 **Chair:** Is there anything you want to add, Ms Russell?

Beth Russell: It is a DWP lead, and we have obviously been closely involved with them. It is right at the start of the programme at the moment, so at the current time they are getting bids in from employers



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and improving bids for jobs. As far as I am aware, that is going very well and there is a lot of interest in offering roles. However, that is being done now, so we are right at the start of the process there.

Q31 **Chair:** Thank you very much. I just want to go back to this issue of what it would cost. Sir Tom, you have repeatedly said that the OBR is the forecasting body, but did you have an idea about the number of people who would benefit, or who are expected to benefit, from introducing this major policy change of reintroducing furlough on 31 October?

Sir Tom Scholar: Yes, we did. First of all, I should say that the cost of the decision on 31 October is not the same as the cost of introducing the furlough in the first place.

Q32 **Chair:** No, because it was an addition to the halfway or two-thirds scheme.

Sir Tom Scholar: The plan was to move to the job support scheme.

Q33 **Chair:** So it was the differential.

Sir Tom Scholar: It is the marginal cost on top of that. We would have had, I guess, a range of that additional cost.

Q34 **Chair:** So you did know, roughly. You had an idea of the number of jobs that would be supported through the extension of the scheme.

Sir Tom Scholar: As we said earlier, we can look at how many jobs were supported in the spring, which was 9.6 million. We have good reasons to think it will be lower than that this time. In any case, the marginal cost is not the total cost of that, because quite a lot of the cost was already budgeted for through the job support scheme.

Q35 **Chair:** What I am driving at is that you had a rough idea. You are going through these numbers, doing this number crunching, but you could not give us a figure. As Mr Smith was saying, although the OBR does the forecasting, it is the Treasury that is handling taxpayers' money and making sure it is spent effectively. When you talk about this range, you must surely be able to give us those figures, whatever the OBR then says. They will do the detailed crunching, but before you implemented this policy, surely you were giving the Chancellor some ballpark figures at the very least.

Sir Tom Scholar: I can certainly write to you with ballpark figures. One thing I would say, however, is that the decision on 31 October about whether to extend the furlough scheme or stick with the job support scheme is not the kind of decision that is really susceptible to a standard value-for-money, cost-benefit analysis. The uncertainties in either direction are so great.

Q36 **Chair:** We recognise that. We could go into the known unknowns and stuff, but you know what you did know and the parameters, as you say. It would be very helpful if we could have the figures for the parameters that you are working within, because any Chancellor—or anybody, including you—making these difficult decisions needs to know the



potential upper limit and whether there is any way to manage that down without damaging the prospects of the people you are trying to help.

Sir Tom Scholar: We can certainly do that. I will just add two things. The decision was primarily taken on the grounds of the absolute need to support people in jobs and to support the economy in the short term, to avoid the short-term damage leading to medium-term scarring and long-term problems. That was the overriding policy intention. I should say that that judgment is absolutely in line with the judgment that other Governments have taken. Indeed, the IMF has been very clear that the short-term priority must be to support jobs and to support the economy. It is something that we can certainly fund. We look at that very carefully, but there is no issue there. That that was the motivation behind the decision. In my letter, I can certainly give you a sense of the scale of the numbers we are talking about.

Chair: We will come back a little later to the issues of viable jobs and support. I go now to Dame Cheryl Gillan.

Q37 **Dame Cheryl Gillan:** Following on from that, you must have been delighted this morning with the ONS figures showing GDP growth of 15.5%, Sir Tom, but that means that we are still 8.2% behind where we were before, and the pace of growth has certainly started to slow down. I just wonder whether you had the luxury, while implementing these schemes so rapidly, and in many ways so well, of looking at the value for money. Did you make any calculations along those lines?

Sir Tom Scholar: If you go back to the original decision in March to introduce the furlough scheme, as I have tried to suggest, that wasn't a decision that you could really base on the normal kind of policy cost-benefit analysis, because it was not a marginal change in policy. It was a major structural change in response, in effect, to a paradigm shift in the economy, where the Government, for public health reasons, were closing down a very large proportion of the economy. The only comparable kind of decision I can think of in recent history was the decision in 2008 to use the Government's balance sheet to prevent the banking system collapsing.

In that situation and in the situation in March, Ministers had to decide between intervening, where the cost inevitably could not be known with any certainty— At the time, we had a sort of rule of thumb: if the take-up of the scheme is this much, this is how much it will cost. We really had no way of predicting in March what the impact would be, not least because we didn't know in March how long the lockdown would last and the future course of the pandemic.

It is not a judgment that you can support with that kind of typical analysis, but you can look at the situation—this is what other Governments did—and think of not only the economic cost but the human cost of large-scale unemployment. That was not a cost that the Government thought the country should bear, and we had this scheme that was able to avert that. It was an expensive scheme, but the judgment was that the cost of not introducing it would ultimately be higher, even if that was basically unquantifiable.



Q38 Dame Cheryl Gillan: I understand that for March. However, we have seen a record amount of redundancies between July and September; I think it is 314,000, which is a record. Are you able now to do some sort of value-for-money calculation and quantification, because you are starting to get harder data than you had in March, obviously, when you were sticking your finger in the wind?

Sir Tom Scholar: We are getting more data all the time. By its nature, it is backward looking, but—Jim will correct me if I am wrong—we have the latest, very firm data on the very important question of what happens to people when they come off furlough. Where do they go? Do they stay in their job? Do they move to another job? Are they made redundant? The latest reliable information we have on that is from August, and it shows that of those people on furlough from April to July who then came off furlough, the very great majority, which is around 90%—in the 90s anyway—remained in their previous job. In other words, the scheme was achieving its effect: they were on furlough while the business was closed, and then, as their employer was able to reopen and re-employ them normally, they remained in their job. As I say, that is backward-looking data from August.

Q39 Dame Cheryl Gillan: What projections are you carrying out on this at the moment?

Sir Tom Scholar: It is not something you can really project, but as you say, the labour market data from a couple of days ago was quite worrying. As Mr Smith says, in your constituency and every constituency, people are facing serious difficulties in the labour market, and it was for that reason—in particular, with the very significant extension in the restriction measures announced nearly two weeks ago—that the Chancellor felt that what the country needed above all at this stage was the broader and more generous safety net provided by the furlough scheme, as opposed to the job support scheme.

Now, that does come at some marginal cost. We will never know the marginal cost, because we won't know the counterfactual, but we have a good sense that it is manageable, compared with some of the other sums that we have been talking about. It will help keep people in jobs. It will help reduce the long-term scarring effects of this short-term problem. On that judgment, it will represent value for money for the taxpayer, for the country and, above all, for the people it helps.

Q40 Dame Cheryl Gillan: That is the key thing. One understands the benefit to the individual, to the companies, and to the long-term health of the economy, but it is also very important to see that you are carrying out those calculations of value for money for the taxpayer who has to bear it—and of course taxpayers are going to face future tax increases. Therefore, I think it is important that you don't lose sight of that, even though there is this speedy delivery and complex system of intervention that you have brought in.

Can I just ask one more question on this front? Because you have brought this in so fast, the NAO Report acknowledged that you had found



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that there were difficulties such as record keeping of key documents, frontline staff being issued with little notice on delivery, and the roles and responsibilities for each tier of staff were not exactly clear. Have you sorted that out, and have you done any estimate of how dealing with these intervention schemes has taken your eye off the ordinary business of HMRC?

Jim Harra: Obviously, we had to move at great speed. In terms of the control documentation for projects, because we had effectively crashed together policy, digital and operation in an integrated team, the kind of project documentation that might normally be maintained for the hand-offs between those teams wasn't really necessary. The sheer speed at which we went meant that some of that documentation just could not be done, and I don't believe that had a material effect on the outcome.

In the case of operation staff, obviously they responded brilliantly, in terms of how flexible they were and how quickly they picked up on the training. That did improve over time, so we do know that, for example, in the initial stages of the job retention scheme and the self-employed income support scheme, we made some erroneous decisions, particularly where we were manually handling claims. In those circumstances, we acted in the interests of the customers who had acted in good faith on what we had told them to do. We can see that that has significantly reduced as the staff have become more proficient and as we have tweaked the quality of that.

Clearly, operating these schemes has had an impact on the Department's performance elsewhere. It is quite difficult to unpick that from simply the impact of the pandemic on our customers and therefore their ability to engage with us, but we have now published quarterly performance figures for our service levels and also for our compliance yield and our debt balance, so that you can see transparently what is going on in the tax system that HMRC is administering.

On service levels, the kinds of staff we needed to deploy to the helplines for these schemes were, generally speaking, staff who are very proficient in pay-as-you-earn and self-assessment, and therefore we did have to remove those staff from the helplines and we did see a reduction in the performance of those helplines as a result. There was a particular period when, in effect, our key priority was getting employers able to cope with CJRS. That was why we did that. We called for patience from our customers, which I am glad to say we received.

We also had to redeploy compliance staff in two ways—first, to supplement the service staff on the helplines initially, and secondly, to manage the compliance risks in these schemes. That will have had an opportunity cost on the compliance yield that we can collect this year and potentially going forward.

We have received some additional funding from the Treasury to backfill for that, to reduce the opportunity cost going forward, but there already has been some.



Q41 **Dame Cheryl Gillan:** How much?

Jim Harra: If you look at the stats that we published last week, you can see that our compliance yield in the first two quarters was significantly lower than last year. It is impossible for me to identify how much of that is as a result of redeploying staff versus how much is down to the loss of capacity in our customers to engage with us, because we did temporarily suspend some of our compliance activity if customers told us that they could not engage with us. We have also had to reduce our estimate of future revenue benefit of some of our compliance interventions because of the state of the economy and what we expect to lose.

I think over time we will get more analysis of that, but in the meantime what we have is that headline figure.

Chair: Of course, we have the excellent opportunity to quiz Mr Harra about this on Monday, although that is about last year's annual report and accounts—it is a hat-trick for you in the next week or so in front of the Committee, Mr Harra. It is always a pleasure. Thank you, Dame Cheryl. I am going to pass over to Olivia Blake.

Q42 **Olivia Blake:** My first questions relate to the original schemes. We note from the Report that 6 million people seem to have dropped off the furlough scheme. Do you mind me asking why that might have happened? That is probably one for Jo Rowland.

Jo Rowland: Can I just clarify that I do not recognise the figure of 6 million for dropping off the furlough scheme? If you are referring to the fact that the furlough scheme had a reduced take-up over the months, Treasury colleagues would be best to answer that question, because that is indeed the policy intent and very much what we anticipated—as the lockdown and coronavirus restrictions eased and the economy began to open up, fewer people would be subject to furlough arrangements with their employer.

Q43 **Olivia Blake:** Why did some employers and self-employed individuals not claim the support on offer, even though they appeared to be entitled to it?

Jo Rowland: As you say, we proactively invited the self-employed who were eligible, based on the records of trading income that we held within HMRC. However, there was a second part to that eligibility, which was for the self-employed to determine whether they had been impacted by coronavirus. The guidance gave them some examples of what being impacted may have entailed. Reduced trading profits would be the most obvious, but others might have had increased costs or other circumstances. The ones that did not claim the self-employment scheme would have been because they assessed themselves as not being suitable under that criteria.

Q44 **Olivia Blake:** Mr Harra, do you have an estimate of the number



Q45 **Olivia Blake:** Mr Harra, do you have an estimate of the number of people deemed ineligible for the schemes based on the data held by HMRC?

Jim Harra: First, in relation to the self-employment scheme, we originally estimated that about 3.4 million people were potentially eligible for the scheme. Ultimately, about 2.7 million claimed, and we are satisfied that there was a very high level of awareness of the scheme. So that will not be as a result of people being unaware that they could claim; we think that that data is because, as Jo mentioned, people felt, "I have not been so adversely affected that I should claim this," or some of them may have ceased trading, and that information would not have been known to us at the time.

As the National Audit Office Report sets out, there are a number of eligibility criteria, which some people will not have satisfied. For example, there were rules in the self-employment scheme that said, "You do not qualify for this if your income is greater than £50,000 or if your income from other sources is greater than your income from self-employment." Those people were therefore just not eligible. We also know that there will be people who were not trading in 2018-2019—the last tax year for which we held data—but who subsequently became self-employed. They, too, were not eligible.

Q46 **Olivia Blake:** There seems to be quite a lot of regional disparity between the two schemes, which I will come to later. I have quite a lot of ground to cover, so could witnesses be a bit speedier in their answers? What contingency planning did you do to prepare for the second wave? I know you mentioned that a bit earlier, but are you currently undertaking any more in anticipation of a third wave?

Jim Harra: HMRC already had the schemes in place. We have been able to make rapid changes. The job support scheme was up from yesterday for claims; the new self-employment scheme will be up from the end of this month for the next claims. We have been able to adapt those quite quickly. Obviously, we work closely with Treasury colleagues in terms of any changes that will be made to those schemes from January, to ensure that we are ready to implement whatever is required.

Q47 **Olivia Blake:** I would like to probe a bit more why the decision was taken so late. Sir Tom, why was there only a matter of hours between the decision to extend the furlough scheme and its announcement?

Throughout the period, there were a number of changes to the schemes that were announced over a period of months. Do you think that the Treasury could have been clearer and made some of those decisions a bit earlier to give more stability to employers and employees?



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Sir Tom Scholar: It was a response to the decision of the Government to introduce new restrictions, which was announced on 31 October. It was an immediate response to that change of national policy on the pandemic response

There were two reasons for the various changes to the schemes. First, we were incorporating feedback from employers, trade unions and people affected by the schemes, whether in employment or self-employment. As we went along, in consultation with all those people, we were learning the lessons, incorporating the feedback and adjusting the schemes

Secondly, they were changed to respond to the changing economic situation as the path of the pandemic changed. First, we introduced the possibility to be furloughed flexibly; secondly, we prepared the job support scheme, designed for an economy that was opening; and thirdly, as the path of the pandemic changed course, we returned to the furlough scheme.

- Q48 **Olivia Blake:** Throughout the period, there were a number of changes to the schemes that were announced over a period of months. Do you think that the Treasury could have been clearer and made some of those decisions a bit earlier to give more stability to employers and employees?

Sir Tom Scholar: There were two reasons for the various changes to the schemes. First, we were incorporating feedback from employers, trade unions and people affected by the schemes, whether in employment or self-employment. As we went along, in consultation with all those people, we were learning the lessons, incorporating the feedback and adjusting the schemes.

Secondly, they were changed to respond to the changing economic situation as the path of the pandemic changed. First, we introduced the possibility of working part-time while on furlough; secondly, we prepared the job support scheme, designed for an economy that was opening; and thirdly, as the path of the pandemic changed course, we returned to the original furlough. At all stages, it was an attempt to be ready to respond to changing circumstances.

- Q49 **Olivia Blake:** Do you think there is a point of no return for when these policy changes happen?

Sir Tom Scholar: This is partly a question of operations for employers. Obviously, it would have been better to give employers more notice of the retention of the furlough, but our policy decision on the pandemic response was almost instantaneous—there was no way of doing it quicker. As Jim said, in practice, because employers are very familiar with how that scheme operates, and because HMRC had done the contingency planning, so that they were able to extend it, there has been, in effect, no interruption in service at all, and everyone has managed perfectly okay.

Chair: Mr Smith wanted to come in quickly on the back of that.



Q50 Nick Smith: Mr Scholar referred to feedback mechanisms and responding to different industries and sectors. Last night, I looked at the Musician's Union's website. Their biggest beef at the moment is set out in their telling report, "Coronavirus Presses Mute Button on Music Industry". The survey they have done of their membership says that "a third... didn't even qualify for any of the support available. As a result, nine in 10... believe the Government has not done enough to support musicians during the pandemic." As a constituency MP, I have had similar complaints from other sectors, like supply teachers and taxi drivers. How good were your response mechanisms to important sectors like those that say they have not been heard?

Sir Tom Scholar: Taking the example of the representations from the Musician's Union, I am guessing that quite a large proportion of the people concerned there will be freelancers. This is a difficult case but one of the examples where the lack of data held by HMRC, because the system is not designed for this purpose, made it difficult to find a way of bringing people into the scheme, while being able to have a proper degree of protection to the taxpayer against the risk of fraud, error and so on. I am sure my HMRC colleagues can expand on that. We are well aware of the particular problem of freelancers, but we do have this serious constraint of a lack of information as to who they are and their tax affairs, or at least the lack of time—

Chair: We will come on to this a bit later, so we will pause it there and go back to Ms Blake.

Q51 Olivia Blake: I am referring right back to the beginning of the pandemic, around March, and the well-publicised discussions held with the TUC and business leaders. You alluded to this in an answer to my colleague earlier, but I just want to clarify comments by the Chancellor that those who have been made redundant due to uncertainty could be rehired and put back on furlough. Can you confirm the dates for this new extension and the likely numbers affected?

Sir Tom Scholar: I might look to Beth to say a little bit more about this, but I think we have been working very collaboratively throughout. Indeed, the original announcement of the job support scheme was on 23 September, well ahead of the time it was intended to be implemented. That was in part specifically to allow for that process of consultation. As you will have seen, we made some changes in response to that. So I do not think there has been any change in the approach; it has been one of partnership throughout.

Q52 Olivia Blake: I am referring right back to the beginning of the pandemic, around March, and the well-publicised discussions held with the TUC and business leaders. You alluded to this in an answer to my colleague earlier, but I just want to clarify comments by the Chancellor that those who have been made redundant due to uncertainty could be rehired and put back on furlough. Can you confirm the dates for this new extension and the likely numbers affected ?



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Beth Russell: In terms of the extension, if an employee was on payroll and notified to HMRC on 23 September—that is, five weeks before the furlough extension was announced—but was subsequently made redundant, they could be rehired and have eligibility for the scheme. It is similar to what we did when the furlough was first introduced in March, looking back to 28 February.

Q53 **Olivia Blake:** How many people do you think it will affect?

Beth Russell: I am afraid I don't think we have an estimate of that at this point. I am sure that is something we will be looking at, but I do not have an estimate now.

Q54 **Olivia Blake:** It would be useful for the Committee to get that when it is available.

May I ask Sir Tom Scholar, moving on to some of the regional issues that have come about from the tiering strategy, where the funding negotiated for tier 3 stands for those local authorities?

Sir Tom Scholar: It is not something I have looked at in the past few days, but my understanding, looking at England, since we now have a single policy covering the whole of England, is that the tiering system is not currently in operation. The Government have said that when the current restrictions end on 2 December, the country will return to some kind of tiering system, and I am sure more will be said about that over the course of the next few weeks, but for the moment it is a nationwide policy that has been adopted, since the same rules apply everywhere.

Q55 **Olivia Blake:** Sorry, I should have been clearer. The funding that was going to be provided to businesses that were closing was very different from the furlough scheme, because there was no anticipation of the furlough scheme's continuing—as you said to the Committee, you were very firm about that. Why was there such a difference between the funding that would have been available from one scheme to the other?
Chair: I want to be clear: the point is that tier 3 is very similar to national lockdown.

Chair: We are talking about tier 3 effects.

Sir Tom Scholar: As a consequence of the change of policy on 31 October, the furlough scheme has been in continuous effect since March and has been the same scheme for any firm or any employee, wherever they are in the country, across the whole United Kingdom. It is a UK-wide scheme that treats every part of the country exactly the same.

Q56 **Olivia Blake:** Sorry, I should have been clearer. The funding that was going to be provided to businesses that were closing was very different from the furlough scheme, because there was no anticipation of the furlough scheme's continuing—as you said to the Committee, you were very firm about that. Why was there such a difference between the funding that would have been available from one scheme to the other?

Chair: I want to be clear: the point is that tier 3 is very similar to national



lockdown.

Sir Tom Scholar: The job support scheme was developed in August and September and announced in September, and that was at a time when the hope was that the economy would be largely open and recovering, but with particular temporary restrictions in particular areas. The purpose of the scheme was to move from the furlough scheme, which in effect supported people to stay at home, to a job support scheme, which was designed to support people back into work. It had different levels of support depending on whether a business was open—maybe able to operate below the normal capacity, but still operating in some way—or closed. That was designed for that kind of world and economy. Over the subsequent five or six weeks, as you all know, the transmission rate of the virus increased significantly in pretty well all regions. As a consequence, we moved back to a national policy. At that point, the Chancellor felt that the furlough scheme was best suited to that changing circumstance.

Q57 **Olivia Blake:** That does not seem very logical to me, given that the impact on individual businesses is almost identical for tier 3 and the national lockdown.

Beth Russell: May I come in on this point as well quickly? From the perspective of the employer, the difference between the job support scheme, as we planned it, and the extension of the furlough scheme is not actually that great for an employer of a business that has been told to close. In both cases, all that they need to pay is the cost of national insurance and pension contributions. So, actually, the difference from an employer's perspective between the job support scheme and the extension of the furlough scheme in a tier 3 area if you are a business told to close is not that great.

Q58 **Olivia Blake:** But the impact on employees is. To Beth Russell again, how are you using the data on take-up to understand the regional response that is going to be needed in response to the pandemic?

Beth Russell: We have some regional data from the furlough scheme over the last few months. It shows some difference between different areas. For example, there has been more take-up in London than other areas of the country. The average take-up rate is about 11%, but it is 13% in London, for example, and a bit lower in other areas of the country on a region-by-region basis.

As Tom said, the furlough scheme is UK-wide. The Chancellor has made a commitment for that to continue until March. Obviously, we will continue to look at, as well already have done, contingency planning, looking at different ways you could target the scheme differently. But that is not currently the position—it is UK-wide.

Q59 **Olivia Blake:** I just want to finish off that regional idea. Have you done any evaluation or tracking of unemployment regionally to see what the impact of the schemes is? Unemployment in Sheffield has doubled, for example. Have you done any evaluation on regional differences and what this might mean for future recovery?



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Beth Russell: As I said, we are looking at the management information of the furlough scheme itself and its use. As you say, there is also data alongside that that we can look at from the ONS and others on the regional impact of unemployment. It is something we are continuing to look at.

In terms of evaluation, we are going to be doing a proper evaluation of the furlough scheme, and we will be announcing more details of that shortly. That is more of a longer-term project, but in the meantime we will continue to monitor and look at both usage of the furlough scheme and the broader unemployment picture.

Chair: I am going to bring in Mr Richard Holden MP on this point.

Mr Holden: Thank you, Chair—*[Inaudible.]*

Chair: Mr Holden, I am afraid the sound is very stilted. We will have to cut you off for now.

Mr Holden: Are you concerned—*[Inaudible.]*

Chair: We have completely lost Mr Holden, so I'll go back to Ms Blake, and we will bring Mr Holden back in if he can sort his sound out. Back to you, Ms Olivia Blake.

Q60 **Olivia Blake:** This is to Jo Rowland. What research and evaluation are you doing to understand the take-up and experience for both of these schemes by groups with protected characteristics?

Jo Rowland: We are doing a lot of evaluation, some of which is first of all informal, which helps us to make sure that our communications are reaching. Indeed, we have done a lot of tailoring of our communications to communities by geography to make sure that our messages get through. Surveys conducted by the Cabinet Office have reassured us that indeed our communications have been effective. More widely, I think the intent of your question is about whether the scheme is reaching the right people. Together with colleagues in the Treasury, we are planning a full evaluation of all our schemes. That will come later next year, and will obviously be made public. That evaluation will cover all aspects of the value-for-money points that have already been raised, but also protected characteristics and how a scheme met the needs of different communities.

Q61 **Olivia Blake:** This question is probably better answered by Beth Russell. We touched on it last time, but what has take-up of the £500 for isolating and universal credit top-up looked like? Have you looked at the protected characteristics of those who have been claiming them?

Beth Russell: On the £500, which is still at quite an early stage, I am afraid I do not have the latest numbers. Obviously, that is scheme administered by local authorities, and I presume that they are tracking that data. Similarly, on universal credit, DWP has a lot of data on the characteristics of universal credit claimants. I am afraid I do not have that with me, but I know we have that data and could provide it, if that is helpful.



- Q62 **Olivia Blake:** Finally, I have a question for Sir Tom Scholar. To what extent do you think the job retention scheme has simply deferred the move of millions of jobs into unemployment? How many jobs do you estimate that your extension of the scheme will save over the next six months? I know you did not answer this earlier, but I want to get an estimate, if that is possible.

Sir Tom Scholar: To your first question, we will not know the answer to that until later. You will have seen that there is a great deal of commentary and speculation about major structural changes to the economy as a result of this. In particular, are very large numbers of people not going to travel to city centres anymore and instead work much more from home? There has been a lot of discussion about that. We just do not know the answer to that, so we will not until later whether we are looking at a short-term, cyclical impact on the labour market, which will then pass through and unwind, or whether there is a structural change. We just don't know, but in either case, the Government feel that this very extended and comprehensive short-term support is the correct thing to do. If it is just a temporary, cyclical thing, we will have supported the economy through that short-term thing. If it is a longer-term, structural thing, we will also be helping people to adjust over a longer time frame, rather than a very sharp adjustment. I cannot answer your question directly, but in either case, the intention is that it is the right policy, whichever of those it turns out to be.

- Q63 **Peter Grant:** Sir Tom, you mentioned that the reason why the announcement was made so quickly was to extend the job retention scheme: because England was going into national lockdown. Why was it not extended when Wales went into national lockdown, over a week earlier?

Sir Tom Scholar: I think the Chancellor answered that question on a number of occasions last week when making his announcement. The furlough scheme was designed for a situation where, substantially, all of the country was in lockdown. The job support scheme was designed to be a bit more flexible, to allow for a situation where most of the economy and most of the country was coming out of that—albeit there would be areas or regions that would be under some kind of temporary restriction, so there was a differing level of support for that. At the point on 31 October when the decision was taken, it was obviously an England decision, but that basically put the clock back to a position where, substantially, all of the country was in a very similar state. At that point, he felt that that had tipped the balance from being a reasonable expectation of largely open but with restrictions, to one of largely closed. For that reason he felt the furlough was the correct response to that.

- Q64 **Peter Grant:** With respect, for people in Wales, the entire country of Wales had been in lockdown for more than a week with no guarantee that the furlough scheme would be extended. Does that mean that if a situation arose where Scotland or Wales, or both, had to be in an extended period of tighter restrictions than England, the furlough scheme would still be tailored to the needs of the economy in England, and that



Scotland and Wales would be left behind?

Sir Tom Scholar: I will go back to what the Chancellor said. He has explained it. The furlough scheme is a UK-wide scheme. It has been in operation throughout. There was an intention, UK-wide, to move to a different scheme—the job support scheme—which would allow for different levels of support, depending on the local circumstances. That was the plan, but once it was clear that in effect the clock was being turned back—not quite to March, but to the restrictions of possibly looking more at the late spring—at that point the balance of argument shifted. But he has been at pains, also, to stress that the furlough scheme has continued to operate throughout on a completely equivalent basis across the UK.

Q65 **Peter Grant:** It is not operating equivalently. It operates in England when England is in lockdown; it does not operate in Wales when Wales is in lockdown. Can he understand why people in Wales right now maybe feel that Wales is not such an equal partner in the Union as it is supposed to be?

Sir Tom Scholar: I think that takes me a long way out of my responsibility, which is as a policy official advising and supporting, on schemes. In terms of explaining Government policy, again, I would refer to what the Chancellor said last week in his explanation of the decision to revert to the original furlough scheme in terms of the economic situation facing the entire country.

Q66 **Peter Grant:** Did you have any discussions, either with the Chancellor, or indeed with the Secretary of State for Wales, about the need for greater financial support for Wales while they were on lockdown and nobody else was?

Sir Tom Scholar: I think discussions with the devolved Administrations have been held mostly by the Cabinet Office under the Chancellor of the Duchy of Lancaster, and those supporting there. I do know that our own Treasury officials have been fully involved in supporting that process, but I think that is where those discussions have happened, to the best of my knowledge.

Q67 **Peter Grant:** Thank you. Has any consideration been given to giving the devolved Administrations greater borrowing powers to allow them to borrow and fund their own furlough schemes, or similar?

Sir Tom Scholar: That is something, obviously, that has been discussed extensively over the years. I do not think the Government have got any plan to change the well-established system that has been, indeed, legislated for—I think 2016 in the case of Scotland, 2017 in the case of Wales.

Q68 **Chair:** Sir Tom, you wrote to us yesterday about the funding guarantee for the devolved Administrations this year, which I am sure Mr Grant will pick up on. It was originally set at £12.7 billion on 24 July and then increased over time, eventually, to £16 billion on 5 November. Can you just explain: does that give more freedoms to the devolved Administrations than the normal Barnett formula?



Sir Tom Scholar: The effect of that is up-front certainty: the money allocated to England—the Barnett formula has been applied, and the consequential allocations to Scotland, Wales and Northern Ireland as a result. It is quite technical but I think that sometimes the Administrations do not know the precise number that they will get until a bit later on, once it has been possible for various statistics to be worked through. What we have done there, or what the Chancellor has announced there, is to give certainty to the Administrations earlier than they would otherwise have had it, of what their allocation would be under the Barnett formula.

Q69 **Chair:** So they still could get more. That is a guarantee, but if the Barnett formula turns out a bigger figure they could potentially get more.

Sir Tom Scholar: That is the logical inference. I would have to check the detail.

Chair: That is what I am inferring from what you are saying, but it would be helpful, and I am sure Mr Grant will pick this up.

Peter Grant: Going back to the letter that you sent yesterday, Sir Tom—we do look forward to getting letters from civil servants on the morning they are due to appear before the Committee; it has become a bit of a tradition—the letter mentions an additional £1.1 billion being allocated to local authorities in England. From your answer to the Chair just now, I take it that the devolved Administrations do not yet know what the Barnett consequentials for that £1.1 billion will be. If they don't know now, when will they know?

Sir Tom Scholar: I think they do know. That is what the figure in the last sentence of that paragraph refers to—the increase of the funding guarantee to £16 billion, of which, if my memory serves me correctly, £8 billion is for the Scottish Government. I think that is the right figure. The guarantee that the Chancellor announced on 5 November takes into account the previous funding decisions, including the £1.1 billion to English local authorities.

Chair: It would be very helpful to have a full, detailed breakdown. Perhaps you could write to us.

Sir Tom Scholar: Certainly. I will be happy to do that.

Q70 **Peter Grant:** That leads on to a more general question that I was going to ask the permanent secretary. Is there a clear and agreed understanding between the Treasury and the devolved Administrations as to which of the plethora of UK Government funding announcements are included in the guaranteed sum that you have already mentioned, and which of them will have additional Barnett consequentials over and above that £16 billion? Is there a clearly agreed position between the four Governments as to what is included in that £16 billion and what is not?

Sir Tom Scholar: I will cover this in the letter that I am going to write, but I believe there is clarity on that. It is something I have occasionally discussed with my counterpart in the Scottish Government. More

importantly, our spending team that looks at the devolved Administrations is in regular contact with its counterparts in Edinburgh, Belfast and Cardiff.

Q71 Peter Grant: Thank you. It would certainly be helpful if we can get a breakdown as to which of the announcements are included in that and which of them may have additional Barnett consequentials. Clearly, for any of the devolved Governments who are in the process now of having to set their budgets for next year, if they don't know how much money they are going to have, it becomes very difficult for them to set their budgets.

I have a final question on the devolved Administrations for Sir Tom. Given the way that some of the funding schemes operate, how do you make sure there is not a perverse incentive on any of the devolved Governments to go into lockdown when it is not really on public health grounds, simply because significantly greater Government funding comes as a result?

Jim Harra: The position as we have it now is that we have some UK-wide schemes, including the two that we are discussing this morning, but also the loan schemes that we discussed last week. We also have some UK-wide welfare payments, for example. It is a familiar position when looking at devolved Administrations that there is always a patchwork of UK-wide things and reserved things and devolved things. We then have certain streams of funding primarily through local authorities, which, in England, are obviously allocated to England and then through the formula and to the block for the devolved Administrations. We have sought to give those Administrations certainty on that through the guarantee. Then of course it is for each Government in Scotland, Wales and Northern Ireland to allocate that as they see fit, and of course also public health is devolved. I guess it is inevitable that at the border there are people on either side and, because of the decisions made by the Government where they live, there can be differences, but that is inherent in a system of quite extensive devolution.

From the Treasury, our intention and our responsibility is to have, first of all, the UK-wide schemes operating correctly, and then a good understanding with the devolved Administrations of what their entitlement is for the consequences of decisions on devolved matters taken in England. That is always the case. The current circumstances obviously put a premium on that. On the greater need for up-front certainty, you mentioned the very important question of budgeting for next year. We have that very much in mind. To achieve that, earlier in the year we gave the up-front funding guarantee in July, and then increased it first in October and then again last week.

Q72 Peter Grant: The NAO Report included a diagram—figure 11 on page 38—that gave an indication of the prevalence of furlough funding in each constituency in the UK. I notice that one constituency is pretty far down the line on that. Would you expect that map to change during the period in which part of the United Kingdom is under complete lockdown and other parts are not? Would you expect to see more of the furlough



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funding, relatively speaking, going to those areas that are in deep lockdown, compared to places, such as my own constituency, where businesses are able to stay open?

Sir Tom Scholar: It is very hard to say with any certainty. It will obviously depend on the extent to which people are able to work normally, or partly normally, and the extent to which they are on furlough. I do not think it is possible to predict that. To make a more general point—people sometimes ask, if the scientific and medical news on vaccines, and so on, continues to be very positive and the country comes out of this more quickly than expected, what would the consequence of that be? I think the consequence would be a much lower take-up of the furlough than we are expecting, and that would be a good thing. That would be a good thing for the public purse and the people involved because they would be getting back to work and normality, which is what everyone wants. That is certainly the case at a national level. We might see—already, as the chart says, we do see some regional and quite significant variations by constituency. I guess that will change over time, but I could not predict what it would be.

Q73 **Olivia Blake:** I wanted to ask if you could confirm in writing what you outlined around extra tier 3 funding for local authorities. It sounded like you said that money would not be coming to local authorities, so I would like that verified in writing, if that is okay?

Sir Tom Scholar: Certainly. The letter I sent yesterday is just confirming something that has already been announced—£1.1 billion allocated to local authorities—but I can expand on that and explain precisely what it is in respect of and how it is to be allocated.

Q74 **Chair:** I think Ms Blake is partly referring to a spat we have had with the Ministry of Housing, Communities and Local Government, which repeatedly does not give us a detailed list of what it will backfill with covid, so your top-line figure feeds into that. It will be helpful if we can have an understanding of the Treasury's view of what that money is for, and then we can pursue it with your colleagues at the Ministry.

Before we bring Mr Grant back in, I pick up on the point Mr Smith raised about excluded musicians. I was looking back through the transcripts of the exchanges we have had about those people who were not in the scheme before. Beth Russell, Sir Tom, and in fact the Minister in the House have talked about listening, changing the scheme and that we moved quickly, and that was a reason people were left out. There are still people in my constituency—as Mr Smith and others have highlighted—who have tax records but, despite the challenges you had to deal with at the beginning with some of the self-employed, Mr Harra, are still not included in the scheme. First of all, Mr Harra, can you tell us what the practical issues are, from HMRC's information end, as a result of which these people cannot receive some of this support? Then I will ask Sir Tom about the policy side of it.

Jim Harra: I will start with the scheme that I suspect is a bit easier—the job retention scheme, where there was a cut-off date on the payroll.



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People had to be on the payroll by that date and notified to us in order for them to be included. That was 19 March for the original job retention scheme but is 30 October for the current one, so a new cohort of employees who may not have been eligible under the first scheme could come under this.

The other scheme is the self-employed scheme. The last data that we hold for who is self-employed and their income is the 2018-19 tax returns, which should all have been in before the self-employed scheme opened, although we did allow a short window until the 23 April for people to make late returns. We had as complete a database as possible before we ran the scheme. That remains the case. The 2019-20 tax returns are gradually coming in, but the end date for that is 31 January.

So, we continue to operate the self-employed scheme based on 2018-19 tax returns and the two previous years. That means that if you have constituents who started in self-employment after the end of the 2018-19 tax year, then they cannot claim under this scheme. They may benefit under some of the other Government support schemes, whether that be loans, local authority grants or universal credit or tax credits, but this scheme continues to operate based on 2018-19 tax returns.

Q75 Chair: Did you look at anything around allowing interim declarations by people who had been earning money and keeping records but just did not have the mechanism to put that return in? The whole principle of things like Making Tax Digital and real-time information is about more real time. Did you give any consideration to how you could adapt systems to allow people to put in real-time information about their recent self-employed income?

Jim Harra: I will let Beth or Jo come in to talk about this in a bit more detail. Certainly, when we were looking at the design of the scheme, we looked at all the options and the risks associated with them. Clearly, in relation to this, the benefit for us in the way we currently operate the scheme is that it is operated by reference to data that we already held before the scheme was announced.

Chair: I can understand that at the first piece that was logical.

Jim Harra: If we had opened up the scheme to self-declaration beyond that, there would have been two issues. One is that we would have had to build something to capture that data and then manage the error or fraud risk that naturally arises.

Q76 Chair: You say that you would have to build something to capture that data, but as someone who puts all my stuff online, obviously as I'm PAYE that self-populates, but there are other bits I would potentially have to put in. Surely if you are self-employed, you can enter data at any point in the year. You do not finalise it until the end of the financial year and submit it then. Did you look at anything enabling you to submit something without submitting the final return?

Jim Harra: We don't have any existing service that enables people to do that, other than a pilot scheme for Making Tax Digital for income tax, which is due to come in in 2023. This would collect data much more frequently from self-employed people—on at least a quarterly basis. Therefore, if it had been in operation, it would have given us more up-to-date data. But there is no existing system, other than that pilot, that would currently enable people to submit that. Beth and Jo can tell you more about how we weighed those things up as we designed the scheme.

Beth Russell: I will just add one thing to that. As Jim said, the two issues are building a system to collect the data and then being able to check the data. The second of those issues is particularly pertinent here, in the sense that using 2018-19 returns meant that HMRC would be assured that the announcement of this scheme had not meant that that data was manipulated in any way to get higher payments or eligibility for this scheme.

The issue with asking people to submit data after a scheme has been announced to get eligibility for it is that the risk is much higher. Short of HMRC manually checking every claim, it is much harder to determine whether you are paying out anything that is fraudulent. That is a very big consideration of ours here, which is why the principle behind both of these schemes was being able to match in almost real time the information submitted with information already held on HMRC's system before the date of the announcement of these schemes. This meant that, as far as possible, we were reassured that that data and those claims were valid.

Q77 **Chair:** Ms Rowland, you can put a tax return in at any point after the end of the financial year. Some people could have submitted their 2019-20 tax returns while we were still in lockdown in April. Is that something you considered looking at?

Jo Rowland: We considered this in some detail. We took a very systematic approach to every scheme, looking at how we could get maximum eligibility, but obviously protect taxpayers' money. As Beth highlights, the No. 1 reason for having this cut-off was that the 2018-19 tax returns were the ones that had been filed to us before anybody knew of a potential scheme, and therefore the incentive to file was all about paying tax, not to receive a grant. While most of our taxpayers would have been perfectly legitimate in their approach, we know how attractive these schemes are to organised criminals, who would not hesitate to put in fictitious records for the sole purposes of claiming a grant.

Q78 **Chair:** When you were looking at options, did you estimate or analyse how many fraudulent, serious criminal claims such as that you would expect? What percentage?

Jo Rowland: The estimate we have publicised for the self-employed income support scheme is between 1% and 2%, but that is after we have put these controls in.

Q79 **Chair:** Can I just be clear: that is the self-employed income support scheme that has run? Did you have an estimate for what would happen if



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you had extended it to those self-employed in the 2019-20 tax year, who would have learnt about it only after the scheme was introduced?

Jo Rowland: I am not aware of a stated estimate, but what we did have was extensive experience of running the self-employed, or the self-assessment, regime, which is under constant threat of criminal attack. It is through our very experienced and competent compliance teams—as you know, we have our own risk and intelligence service—that we knew the risk we could open up if we did not take robust action.

Jim Harra: I can give you a bit of data from our experience on late returns. We decided to take a calculated risk in relation to taxpayers who we already knew—they were on our books—had declared as self-employed, but we had not yet received their 2018-19 tax returns. We gave them until 23 April to do that. We appreciated that that meant some risk that those returns would not reflect the correct position. We received 46,000 of those claims up to 23 April. When we risk-assessed them, we decided to reject just over 3,000 because we did not believe that they were eligible. There were about 7,300 in total that we regard as high risk, where, while we have admitted the claim, they are in our hopper, to be looked at afterwards. That is the bit of hard data we have, in terms of risk assessment about what kind of behaviours you can expect to see.

I appreciate this means that the NAO has identified potentially 200,000 people who started in self-employment after the end of the 2018-19 tax year who have not been able to benefit from this scheme, who are genuinely self-employed. There are layers of support for people; the self-employed income support scheme is not the only one, and I hope that those people have managed to get support from one of the other schemes.

Chair: Some of the other schemes such as universal credit are far less generous. We recognise the challenges, but there are still a lot of people without support. I am just going to bring in Nick Smith, and then go back to Mr Grant.

Q80 **Nick Smith:** We recognise that you had little headspace to think about all these different sets of people; we understand the compliance risks, and we understand that you were working on a really big scale. However, wasn't there an opportunity to do a specific pilot in this area to try and understand it more, and to see if you could help with groups, such as musicians, that I have talked about? It seems to me that it is a task that is worth trying, and something you could have done that would have made a difference and then would have allowed you to reconfigure your approach?

Jim Harra: In relation to the sectors you have mentioned such as musicians and taxi drivers, if they are self-employed and they were on our books for the 2018-19 tax year, then they would qualify for the self-employment income support scheme. I am sure many taxi drivers, for example, are on that scheme, or if they were in employment and they were on the payroll at 19 March, they would have qualified for the furlough scheme. What we do not have here is a sectoral scheme; it is a



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scheme of general application. I appreciate that people who have more casual working patterns will have found it more difficult to qualify for these schemes than people who have more regular working patterns.

Chair: We will talk a bit more about making tax digital on Monday, but I think that is clearly one of the longer-term solutions. I am going to go back to Mr Peter Grant.

Q81 **Peter Grant:** Mr Harra, you acknowledged that people who set up a business after the end of the 2018-19 tax year would be excluded. Do you accept that a significant number of self-employed people who set up in business two or three years previously—very often beginning to build up a business at the same time as running down their employment in preparation for retirement—submitted returns for 2018-19 that would have shown a level of trading far less than they would have expected to have just now? Do you accept that, as well as those who were completely excluded, a significant number of self-employed people received support based on significantly lower earnings than they would now have if they had not been forced to shut down?

Jim Harra: I am sure that that is the case. I know that when people set up in self-employment they often build up their business over time. It simply would not have been feasible for us to come up with a scheme that forecast what people's profits might have been in the current tax year and made grants based on that. It had to be based on data that we held. There may well have been people who started a business in 2018-19 and expected to be much more profitable today than they were in that first year of trading, but that first year was the only data we had on which to operate the scheme.

Beth Russell: May I add one thing? Although people had to have a 2018-19 tax return, when determining the level of the grant we looked back over three years—2016-17, 2017-18 and 2018-19. So if people had a dip in income in the last year but higher income in the previous year, the averaging would have helped people with more fluctuating incomes.

Q82 **Peter Grant:** Thank you very much for that. I appreciate that there is a bit of protection built in for someone whose business hit a downturn. There is no similar protection for people who could reasonably have expected their business to have a significant upturn and were working towards that.

We have previously spoken in Committee, Mr Harra, about the situation of seafarers, whose employment and taxation status is, as far I know, different from any other group of workers in the UK. Is there a practical difficulty in creating a scheme that would allow seafarers to be included in some kind of support?

Jim Harra: After the last Committee I think I wrote to you about this. I am not aware of any particular issues that we would need to address, but I would be happy to look at it. Clearly, these schemes apply equally to seafarers as to other people. I am not aware that there is a particular



situation in relation to seafarers that causes them as a sector not to be able to access support as much as others.

Q83 Peter Grant: I do not remember the official name of the seafarers union these days, but I understand that it has raised the case directly with HMRC and Ministers on a number of occasions.

May I move on to the position of one of the biggest groups of excluded workers, which is owner-directors or shareholder directors? You previously said, Mr Harra, that it was not possible within the time available to distinguish between a person who owns their own company and holds most of the shares in it but also works in that company full time as a director and someone who invests in a company, takes dividends and has nothing to do with its management. As you gave that answer before, can you tell me what HMRC has done to try and find a way to provide for people who are employees of a company in which they are also the main shareholder?

Jim Harra: First of all, it is important to say that the owner-manager of a company can benefit from the furlough scheme in respect of the salary that they draw from the business if they qualify like any other employee for it. When the Government set up the support schemes, they aimed to support employment and the self-employed. The schemes were not aimed at supporting investors for the loss of investment income through dividends on their shareholdings.

I appreciate that owner-managers of companies often pay themselves a relatively low salary and top it up with dividend income. There is a whole range of tax and NICs benefits that come from organising things in that way. It is extremely difficult to define which dividend payments you might want to treat as being in lieu of salary. On top of the difficulty of coming up with that definition, frankly we do not have any data to enable us to identify which dividend payments that people receive fall into that category. That position has not changed, and we still do not have any such data, and therefore whilst we have, of course, looked hard at this, we have not been able to make any change to the schemes.

Q84 Peter Grant: HMRC may not have that information, but Companies House has, and it puts it on its website for anybody to go and look at, free of charge. I can look at a company in my constituency or in anyone else's and I can tell whether it is a small business, whether it has a very small number of shareholders, and whether that small number of shareholders are also registered as directors of the company. That is enough to tell me whether they take their earnings by way of salary or by way of dividends and that these are people who are drawing money from the wealth that they have created through their company. If I can do that slowly by doing it manually on the Companies House database, surely in the last eight months it should have been possible to put together an automated way of comparing Companies House records with HMRC records—not necessarily with the expectation of identifying everybody, but couldn't that have been used to identify a significant number of people who should be getting support, but who are not?



Jim Harra: I think any definition that you came up with that was targeted at the type of income that you would be trying to relieve here would have to distinguish between distributions of retained profits from previous years versus distributions of this year's earnings, and also distributions which are actually a return on capital invested in the business compared with distributions which are being, in reality, paid as a salary, but not described as a salary. I am not aware that there is data that enables you to do that or, indeed, an agreed definition of how you would actually define which dividends you wanted to catch here.

Quite frankly, this is an area, as you would expect, that HMRC has looked at quite closely over the years from a tax point of view, because there are considerable tax advantages gained from structuring in this way. If we had been able to come up with a definition of this type of dividend income, that is something that we might well have done before now.

Q85 **Peter Grant:** Just to be clear, because you mentioned a couple of times the fact that there can be financial tax advantages for someone to set up a business in that way, are you happy to go on the record as saying that the vast majority of these people are acting perfectly legally? In fact, my understanding is that a number of them set up with limited companies because either a previous Prime Minister or a previous Chancellor of the Exchequer actively encouraged them to do so. You are not suggesting that the majority of these people are in any way doing anything wrong by taking their earnings in dividends rather than a salary.

Jim Harra: First of all, I completely acknowledge that people incorporate their businesses for a whole range of reasons, some of which may be tax motivated and some of which may be for other commercial or financial reasons. This type of planning and structuring clearly is of long standing and is legitimate, and no one is in breach of their tax compliance obligations by structuring things in this way. However, the fact that the practice, despite the tax loss that is associated with it, has continued for such a long time is an indication of how difficult it actually is to define and capture it. If it was straightforward, you could have expected some Government before now to have proposed to do so. I was merely pointing to it as evidence or an illustration that it is not straightforward for us to identify these dividends. But I totally appreciate that these people are, as a result, receiving or are eligible for less under the job retention scheme than they would have been had they paid all of this money in salary.

Q86 **Peter Grant:** I want to move on quickly to the part of the NAO Report that looked at the vulnerabilities in the scheme to fraud and error and the action that has been taken to prevent that. I appreciate that we are running very short on time.

Can I come to Ms Rowland first of all? Ms Rowland, can you tell me whether you have identified additional potential fraud risks in the furlough scheme or equivalents from the fact that employers can now back-claim funding for people who are no longer on their payroll? Is that something



that creates an additional risk? What are you doing to mitigate or prevent it?

Jo Rowland: We have carefully set the date so that we minimise that risk while continuing to make the scheme as flexible as possible. As you know, the Chancellor was keen to make sure any businesses that had made decisions about redundancy and are now in a position to alter those decisions because of the extension should be given the opportunity to do so—hence the cut-off date is set at 23 September, as Beth said earlier. If they do not appear on our data systems on a payroll after that date, they would not be accepted. That is where our control of that risk comes in.

Q87 **Peter Grant:** Very often, the fact that a business is continuing to have its employees working is spotted by the papers, members of the public and so on. If a constituent reports to me that somebody is working when they are on furlough, I can't confirm whether or not the firm has people on furlough. Does HMRC have any plans to publish details of which firms have applied for and received furlough funding and how much funding they have received, or even what percentage of the workforce has been covered by it?

Jo Rowland: On Tuesday, we issued up-to-date guidance on the terms of the extended CJRS scheme. Within that, we have intimated our intention to make public businesses that make claims under the scheme from December onwards. We are now looking to find a way to securely give employees direct notification if they themselves have been subject to a claim. As you can imagine, there is quite a delicate balance with data protection rights and making sure we are lawfully using any data that we release. At the same time—I know the Committee agrees, and the NAO Report suggests this—we feel it is right to create that transparency.

Q88 **Peter Grant:** For clarity, does that apply only to the extended scheme, or do you intend to apply it to the scheme as originally introduced, which operated over the summer?

Jo Rowland: At the moment, it is the extended scheme. We need to understand what kind of demand it generates. We are conscious that, whenever we put out a service, we want to fully support any of our customers who might have queries as a result of that information. For now, it will be for the extended scheme.

Q89 **Peter Grant:** Finally, are you able to tell us on what percentage of applications you are able to carry out detailed checks before coming to a decision, as opposed to having to check up on them after you have started making a payment?

Jo Rowland: We do a range of checks. The service itself has a number of automated checks built in, which happen without anybody realising it while they are making the application. Obviously, those checks apply to every claim that comes in.

Our risk and intelligence team, to which I have already referred, then uses the 72-hour window between claims being received and payments being



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released to make sure we are identifying high-risk claims. Where there is clear evidence of high risk, we might stop the payment there and then. Where there is suspected evidence, we might flag that as a high-risk claim for later downstream investigation. I do have a figure—from memory, I think that about 11 million risk and intelligence checks have been conducted across the schemes, but I would welcome the ability to check that and correct it if I have got it wrong.

Jim Harra: I can clarify that. Yes, we risk-assessed 11 million claims across the schemes before payment. In the case of the job retention scheme, we identified 139,000 that required verification checks to be carried out on them before any payment was released. That is on the basis of what we can control. In total across the schemes we rejected, there were just shy of 16,000 claims before payment, and we prevented about £63 million being paid out on those schemes. So that is money that we protected on top of the £382 million that we subsequently recovered from claims that we paid.

Chair: Better to prevent, clearly, but yes. Mr Grant, back to you.

Peter Grant: Nothing more from me just now, Chair, thank you.

Dame Cheryl Gillan: May I first of all identify myself with the remarks that my colleagues have made about the excluded groups? I think I reflect all of those in my constituency, but I am glad my colleagues asked the questions. Ms Rowland, what are you doing about whistleblowing? What mechanisms do you have in place to pick up on people whistleblowing?

Jo Rowland: We welcome anyone getting in touch with us if they have any suspicion that an employer or self-employed person may have claimed fraudulently. As you know, we have a fraud line and we have received a number of reports on that line that have helped us to look into whether there is a case for us to investigate.

We take every call to the fraud line seriously. We make sure that we risk it appropriately. Unfortunately, in some instances we might not have enough information. There are also some instances in which we do not hold the corresponding records, so it might be a bit of misinformation, but where there is evidence on the back of that to warrant investigation, we do and we can take investigations forward.

Q90 **Dame Cheryl Gillan:** A piece of research has just been done by Protect that says that 41% of employees who raised covid-19 cases have been ignored by their employers and 20% of whistleblowers have already been dismissed. Do you have anything that backs that up? Are you aware of this?

Jo Rowland: I am not aware of that personally. Part of our research and evaluation plans is a random inquiry programme. That is where we will undertake random investigation and it will include looking for behaviours such as that so that we can get a more accurate assessment of whether they have been a prevalent aspect of the scheme. It is true to say that not



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every whistleblowing call that comes into HMRC will have the merits that allow for full investigation.

- Q91 **Dame Cheryl Gillan:** The research also showed that 76% of fraud reports were from small organisations with fewer than 49 employees. Is that going to give you a problem in terms of investigating—because it falls into this much larger number of organisations?

Jo Rowland: We will investigate where there are suspicions, and we are well used to working with smaller employers and businesses.

Jim Harra: I want to reassure anyone who has information that they would like to give us that they can do so confidentially; they do not have to reveal their identity. If they do reveal their identity, we will always protect it, so there is no question of our putting them in a position in which their employer could victimise them in any way. Our hotline has so far received about 13,500 calls from people and we have reviewed all of them. We have packaged up cases that we think are worthy of investigation. Of the CJRS investigations that are currently under way, about 2,000 come from calls to the hotline.

- Q92 **Dame Cheryl Gillan:** I was going to say that we do not want to put anyone off whistleblowing. That was going to be my next question. How effective is the legislation under which you are working to identify fraud? As I understand it, you can be charged with fraud under the Fraud Act 2006 with false accounting, conspiracy to defraud, cheating the public revenue, money laundering, failing to prevent the facilitation of tax evasion under the Criminal Finances Act 2017. Isn't this a very complex area and shouldn't it be simplified for this time?

Chair: I think Dame Cheryl is bidding for a job.

Jim Harra: I am always in favour of simplification.

Dame Cheryl Gillan: Me too.

Jim Harra: In the case of criminality, if anyone behaves dishonestly there will be an offence under which we can investigate them. However, given the sheer scale of what we are dealing with, criminal investigation of very large numbers of people is not a practical way of managing this across the piece so it needs to be used selectively to send a message in the most serious and egregious cases. As I said, we have arrested six people so far on suspicion of fraud. What is important to us—

- Q93 **Dame Cheryl Gillan:** Six? Sorry—I thought you said it was three.

Jim Harra: Three for the CJRS and three for the eat out to help out scheme, so six in total across those schemes.

What is important to us is that we have good intel, both within our organisation and from third-party data sources and whistleblowers, that we can use to target responses. However, our first line is, broadly speaking, to invite claimants to check their claims and adjust them, and that is a pretty effective nudging technique, but it has to be backed up by investigation. Broadly speaking, we will use civil investigation powers, and



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we have got those powers under the Finance Act and an ability to charge tax, to recover all of this money, plus a penalty.

Chair: That is a good advert for the strong arm of HMRC, Mr Harra. Back to Dame Cheryl.

Q94 **Dame Cheryl Gillan:** Can I just ask one last question on penalties? Is it right that the maximum penalty is 100% of the claim?

Jim Harra: Yes, I think that is correct. We can recover the whole of the claim, plus a 100% penalty.

Q95 **Mr Holden:** A question to you, Sir Tom. In the last session we had, you highlighted the figures that are on page 47, figure 16—only a 5% to 10% potential fraud rate for the furlough scheme. I am wondering with the new furlough scheme if you are expecting those figures to go down, go up, or stay broadly the same?

Sir Tom Scholar: Perhaps I can pass this one to Jim.

Jim Harra: Yes. As I said to the Committee earlier, that is a planning assumption that we made, for the purposes of planning our compliance work. Normally we would seek to forecast error and fraud from past experience. We can't do that in these schemes, so it is based on a review of a range of different schemes and our experience of what is in them. Since we did that, I think we have had, first of all, some pretty reassuring experience about the criminal attack, particularly on the furlough scheme, where we had built in an assumption that it could be as high as 2.5%. In fact, we now think that the highest it would be is about 0.6% and it could well have been negligible, and that is because of the controls that we put in place.

Having said that, we also see emerging views about the extent to which real employers may have abused the scheme. For example, the Committee heard earlier that some reviews have been done about the level of abuse, by claiming where employees are not really furloughed. We have not changed our planning assumption at the moment, because we will learn more as we carry out these investigations, and complete them, about whether that is actually coming through, but the reassuring part of this is that it does look like the organised criminal attack on this was much lower than we had feared it could be.

Q96 **Mr Holden:** So what you have gained from the organised crime, you have lost—potentially—to employers slightly fiddling the system?

Jim Harra: We are just not in a position to revise the assumption on that other part, because until we carry out both targeted and random inquiries to get to the bottom of what has gone on, it is best to stick with that planning assumption.

Q97 **Mr Holden:** There is a concern, which I think Ms Blake alluded to earlier, around funding for tiers, and it looks like we will go back into the tiered system at some point as well. Do you know, in terms of the tier 2 finance that has come forward for people affected between August and



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November, which affects my constituency and other large parts of the country, if that money has gone through yet, and the fraud rates around that, and what you are expecting?

Sir Tom Scholar: On the first part of the question, as you know, the Government said that when the current period of restrictions ends in England on 2 December, England will go back to a tiered system; I am sure the Government will say more about that as we get closer to that point.

We discussed last time—in fact, two hearings ago—that obviously there was a lot of discussion between the Westminster Government and local authorities across England during the course of September and October about funding to be agreed between different levels. I think those discussions have continued and the Government have said that whatever has been agreed will be backdated for the period during which those authorities were in that position. Obviously, as of today, all parts of England are in exactly the same position. The same law applies across England, so it is not a current issue for November, but—

Q98 **Mr Holden:** But, Sir Tom, businesses in many parts of the country have not been able to operate normally since August. Has that money now been agreed, and is it going to get out to those councils?

Sir Tom Scholar: I think it is agreed, and the Government said it would be backdated. Quite where it is in the system and whether it has been paid out yet, I do not know—that is a MHCLG matter—but I can certainly find out and write back.

Chair: I think that would be helpful. If it is either you or MHCLG, we can write to them and get the details.

Q99 **Mr Holden:** It would be very helpful, because a lot of businesses in tier 2 areas, both in London and the north of England, have really been suffering because of this. They have seen their businesses curtailed for a long period of time. We know the support is coming, but we need to get that over the line. I know that support for the national stuff is coming through, but it is really important that we get that money out to them as quickly as possible.

Sir Tom Scholar: I will check with the local government Department and write back on that.

Q100 **Mr Holden:** Thank you very much. Are you concerned that there is any form of perverse incentive for local authorities, or even national devolved Administrations? When we go out of the national lockdown in England, or in Scotland—obviously, the situation there is slightly different—will people want to go to higher tiers in order to get cash, rather than stay at lower tiers and keep businesses open?

Sir Tom Scholar: I should say that this is not something the Treasury is directly involved in—this is a public health matter—but the sense I have got from all of the discussions I have heard is that people are very keen to avoid the restrictions on normal life and economic activity that go with



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higher levels. They see the damage that higher levels do to jobs, livelihoods and wellbeing and, if anything, they would like to see more support in relation to that, not less. From the state of the public debate, I do not really see that as an incentive.

Q101 Mr Holden: Finally, in terms of grants—this one is probably for Ms Rowland—some businesses in my constituency, and I am sure in other parts of the country as well, ended up getting grants paid early due to local authorities doing a really good job at getting the money out. That means that that money entered their accounts in the last financial year, even though it is for support for this financial year, and those people are now being hit, some of them really significantly. I have recently had a constituency case where somebody has had to pay tax on the money that arrived last year, and has lost their working tax credit from last year and is now losing their working tax credit from this year, due to assessments having been based on the idea that this grant money was income last year.

What work are you doing with the DWP to ensure that this grant money is considered as income for this tax year, so that these sorts of very difficult situations do not arise? I have constituents who are losing hundreds of pounds a month because of the early payment of these grants. What are you doing to make sure that this is ironed out, and that all grant money is considered for this tax year and not last tax year?

Jo Rowland: I have not been directly involved in the grants, so I will either open up to my colleagues, or offer to write to the Committee subsequently on that topic.

Jim Harra: It is something I am very happy to look at. Actually, Mr Holden, I would invite you to write to me if you have some real examples, so that I can research that issue. We have made easements wherever we have felt it necessary—for example, around working tax credits and universal credit—to make sure temporary situations do not affect people's entitlement during the lockdown. However, the problem you describe about early payment of grants by local authorities and its impact is not one I am familiar with.

Mr Holden: I will certainly write to you, Mr Harra, because I am sure it is not just people in my constituency who have been affected, but people across the country. It is clearly a pretty ridiculous situation if people were given grants to help support them and then, because of their family income more broadly, they are being perversely hit.

Q102 Chair: I have a couple of quick questions to finish up with. Sir Tom, how much money has been set aside for the retention bonus—the £1,000 that would have been paid in January? Has that been completely cancelled, or is it deferred? I have read two different things, and I would be keen to clear up first, what is happening to it, and secondly, what money has been set aside for spending on it.

Sir Tom Scholar: The Chancellor said last week that that has been deferred. It would not make sense to pay it at the same time as the full



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furlough scheme is extended, and he said he will come back to that next year.

Chair: So it is still in the mix—that's good.

Sir Tom Scholar: It is not really the case that money was set aside for it. We had to make some assessment of how much we thought might get claimed in the end. Although, like all these assessments, it is difficult, because it is based, in effect, on a forecast of the labour market. As and when that comes back in, it will need to be costed in the normal way by the OBR. I imagine that this will all end up being wrapped up in the Budget since, on current expectations, the Budget would be in March, the furlough scheme is due to end at the end of March, and all of the science suggests we will have a clearer idea of the path out of the pandemic by then. I guess that at that point the Chancellor will want to bring all of these things together and set it out in the Budget.

Q103 **Chair:** Let's hope we have a path out of the pandemic by next March, which will be the one-year anniversary. I want to pick up on the data issues from HMRC's end. We have talked about the fraud risk and the data on those left out. We have talked about the costs and the impacts. I want to be clear, some of the evaluation talk was about much later down the line—you will know about this a long way after. Can we just be clear about the timetable? What can you capture in real time that makes a difference and what will have to be a post hoc evaluation? By what date will you have a full analysis of that?

Jim Harra: Beth and Jo might want to come in on the detailed plans. If you take the job retention scheme, our intention is that next month we will set out an approach to how we will evaluate that. My view is that different aspects will be capable of being evaluated at different speeds. To come up with a measure of error and fraud will require us to come up with a random investigation programme. It will take time for us to do those investigations and get an answer from them. We must be able to evaluate other aspects in a quicker time. I think you will see a rolling ability to evaluate different aspects. Beth and Jo may wish to add more.

Beth Russell: On information before then, we are already collecting data on the furlough scheme. As I said earlier, that has a bit of a time lag. We have data up to the end of August, although some of that is still provisional. We have asked all employers using the furlough scheme before the extension to submit their claims by the end of this month. After that, we should have a richer picture of what has happened over the past few months of the furlough scheme, broken down by region and other aspects in more detail.

Jo Rowland: I will add only that every month we publicise a range of statistics on the schemes. That gives a wealth of information from sectoral to geographical. The last set was published on 22 October. We also undertake qualitative surveys. As and when those come to conclusion, we will periodically release the results of qualitative surveys that we have undertaken.



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Chair: We are nearly done. I want to be clear, Sir Tom, that you have agreed to write to us about the Barnett consequentials of that £16 billion. Thank you for your letter, but we would like more detail on that. It would be helpful, Mr Harra, when you do this evaluation and set the timetable, if you could keep us informed as it is happening. You are a frequent flyer to us. Without the benefit of the National Audit Office's work, it would be helpful for us to keep tabs on it, and it is critical to public policy making, which is not a responsibility of this Committee, but we think it is important to keep on top of that. I ask you both to commit to that. I take your nod as agreement. We have a few final questions from Mr Nick Smith and Mr Richard Holden.

Q104 **Nick Smith:** Mr Scholar, clearly the system is still in some turmoil. You said that there is going to be a Budget in March. Are you 100% sure that it will occur?

Sir Tom Scholar: There has to be a Budget before the end of the financial year because otherwise the Government cannot continue to raise income tax. There will certainly be a Budget. I said March, but no date has been announced. Typically, spring Budgets end up being in March. I can't confirm that it is March and not February, or indeed the very beginning of April, but there has to be a Budget before the end of the financial year.

Q105 **Mr Holden:** Mr Harra, you mentioned in your late submission stats that you had 45,000 late submissions, 3,000 of which you have rejected and 7,300 that you are looking at in more depth and you consider highly problematic. That is around 20% to 25% of the total. Is that the working assumption on which you based your decision not to extend more support to the excluded groups that had not submitted tax returns previously?

Jim Harra: First of all, I should clarify that the 3,100 claims that we rejected are part of the 7,000 high-risk ones; they are not added on top. That was just by way of illustration, if we were to rely on self-declaration rather than using data that we already held, of the kind of challenge that we face, the risks that we might have to manage and therefore the resources that we might have to deploy. That is something that we have learned since; it is not something that we used to justify our decision.

Chair: Thank you very much indeed. I thank our witnesses—Mr Harra and Sir Tom Scholar in the room, and Beth Russell and Jo Rowland, who are joining us virtually.