HOUSE OF COMMONS

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 882

Wednesday 20 January 2021

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Watch the meeting

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

Questions 298-396

Witnesses

I: Glenn Collins, Head of Technical Advisory and Policy, Association of Chartered Certified Accountants (ACCA), Caroline Miskin, Technical Manager, Tax Practitioner Support and Private Clients, Institute of Chartered Accountants in England and Wales (ICAEW), and Richard Wild, Head of the Tax Technical Team, Chartered Institute of Taxation (CIOT).

II: Jonathan Athow, Deputy National Statistician and Director General, Economic Statistics Office, Office for National Statistics, and Ian Mulheirn, Chief Economist, Tony Blair Institute.

Examination of witnesses

Witnesses: Glenn Collins, Caroline Miskin and Richard Wild.

Q298 **Chair:** Good afternoon and welcome to this Treasury Committee witness session on the economic impact of coronavirus. We have two panels today. Our first panel is going to look at the gaps in support for those affected by coronavirus, and the second is going to look at the way in which economists and particularly the ONS have been analysing the economic consequences of the virus. I am going to start with our first panel by welcoming the three witnesses and asking them briefly to introduce themselves to the Committee for the public record, starting with Glenn, please.

Glenn Collins: Hello, I am Glenn Collins, head of policy and technical at ACCA. That is the Association of Chartered Certified Accountants. We are a community of 227,000 members and 544,000 future members in 176 countries around the world.

Caroline Miskin: My name is Caroline Miskin. I am a technical manager at the Institute of Chartered Accountants in England and Wales—the ICAEW.

Richard Wild: Good afternoon. My name is Richard Wild. I am head of tax technical at the Chartered Institute of Taxation.

Q299 **Chair:** Great. Welcome to each of you. Thank you for joining us. Members of the Committee will generally direct questions at a specific individual or individuals, but if you are not asked to comment and you wish to, please just raise a hand, and I will attempt to bring you in at that point.

Perhaps I can throw a question to all three of our panellists, but I will start with Richard, if I may. Around 1 million to—estimates vary—3 million people have fallen through the cracks when it comes to support from the Treasury; and of course, for many of those people, that has led to very significant hardship indeed. It is a very serious problem, which this Committee has recognised and, indeed, produced a report on.

We have self-assessment coming up or closing off at the end of this month, and that of course will provide a lot of additional information, particularly from those who are self-employed. Richard, can you tell us a little bit about what additional room for manoeuvre you think this could give the Treasury in terms of supporting some of the people who have fallen through the gaps before, not least on the argument that the Treasury has made that it just does not have sufficient data to hand to provide assistance?

Richard Wild: You are right: HMRC will be receiving around 12 million self-assessment returns by, hopefully, the end of January. That probably allows two main opportunities to either expand or refine the support that is available. First of all, the newly self-employed had obviously previously been excluded from the scheme. Those who started self-employment in 2019-20 and report self-employed income on their ’19-20 tax return may therefore—you could extend the eligibility to include those individuals. There are complexities and, obviously, risks around doing that, so you may not want to announce that before 31 January to prevent people from putting in returns that might qualify them for the scheme when they may not otherwise have qualified. So you may look back to the 5 October 2020 deadline for notifying self-employment as the trigger: if people had notified before that date, perhaps you could extend the scheme to those individuals.

For those who already qualify for the scheme, you might use 2019-20 data to refine the amounts that you pay to them. The scheme pays 80% of average profits over the previous three years on a quarterly basis, as it is worked out, and you may want to bring in 2019-20 to that and drop off the earlier year in order to have a more up-to-date reflection of what their business has been generating. Clearly, there will be lots of complexities in doing that—ensuring that tax returns are processed in time, for example, and that the self-assessment scheme system talks to the SEISS system, and all those sorts of things. Theoretically at least, the submission of a ’19-’20 self-assessment return by the end of this month should give some scope for manoeuvre.

Q300 **Chair:** That is very helpful. Do you have any estimate of how many newly self-employed might benefit if that were the approach that the Chancellor took?

Richard Wild: I don’t have those figures to hand. I know that other institutes have made estimates of those figures, but I don’t think we can reliably comment on whether they are accurate or not.

Q301 **Chair:** Okay. When you say that others have made estimates, could you share them with the Committee? You may or may not know, Richard. Don’t worry if you don’t.

Richard Wild: I think I may have seen estimates from IPSE and similar organisations of the population that falls into the various excluded categories, but we have not done any work to evaluate the accuracy of those.

Q302 **Chair:** Thank you. Caroline, did you want to come in?

Caroline Miskin: I agree in principle that there is no reason why the 2019-20 tax returns should not be taken into account when determining the conditions and eligibility for the fourth grant. There would be some work to be done on HMRC’s part, which might cause some delay. There would need to be some data cleansing, and there would also need to be some risk assessment of those returns, particularly the ones that were submitted late. Obviously, when the scheme was first announced, HMRC gave a grace period to allow people to get their tax returns in. If they were to do that again, that would be particularly risky, so that may not be something that they would do.

The other point to consider is that, while it would bring in newly self-employed people who started in 2019-20, depending on exactly how much is drafted, there could be winners and losers. If HMRC changes the years on which it is calculating the grant, that will obviously change the people who are eligible. By bringing in 2019-20 and dropping off 2016-17, some people might fail the 50% test and the £50,000 test. There would be some winners and losers, depending on exactly how the conditions are determined.

Q303 **Chair:** Yes, although I suppose the Chancellor could say that if this is your first SA—self-assessment—that would qualify you for the scheme, it would count; otherwise, it is all done on the basis that it has been done before.

Caroline Miskin: There are ways around it, but it is not automatic that you are bringing in new people.

Q304 **Chair:** You mentioned the complexities of cleaning the data and so on when HMRC receives all this information. Is that something that is likely to take a long time? Are these major hurdles to moving forward on this?

Caroline Miskin: It is not a major hurdle, but it was one of the reasons why the scheme was originally announced on 26 March—if I recall correctly—and the first grants were paid out in early May. It was one of the activities that HMRC had to undertake during that period. We are acutely conscious of how resource-constrained HMRC is at the moment. I am sure it is something that can be done, but it just needs to be considered.

Q305 **Chair:** Okay. Thank you very much, Caroline. Can I come to Glenn, please?

Glenn Collins: I very much agree with the comments made. Probably unlike my fellow speakers, I would target it at those groups that have been omitted from this and not necessarily look at the general tax population coming through, because I think that will be far more manageable by HMRC. I would look particularly at those who had notified of employment previously but had not yet submitted a tax return. That would be an important measure for one of those forgotten groups.

Q306 **Chair:** That would presumably also militate against fraudulent self-assessments, if the condition was that there had been previous notification of self-employment to HMRC.

Glenn Collins: Absolutely: there were many who were forgotten as part of that group who were self-employed and would have notified of self-employment through the period or through the year.

Q307 **Chair:** Apart from newly self-employed, is there any other category of individual out there who has fallen through gaps and for whom this new information coming through would be helpful? Or are we really just focusing on the newly self-employed?

Glenn Collins: For that information, mostly the newly self-employed, but obviously there are some large groups out there—I am particularly thinking of the directors who have been excluded—who would not necessarily be addressed by that information, or information already held. I daresay we will come on to some of that later.

Q308 **Chair:** In terms of targeting, it is really difficult for the Treasury, isn't it? They have to get a lot of support out very quickly to a vast number of people, and of course that kind of exercise has rough edges and a universal approach tends to be not targeted enough. It is difficult to target, because if you start to target, you slow everything down and it becomes complicated. However, should there have been more scope for targeting of some of this support across the board, given that this whole series of interventions started as long ago as March? Should HMRC and the Treasury, through time, have got better at targeting those who need the support by now? Paul Johnson pointed out to this Committee that for a lot of those who have received support, their income has not necessarily been affected by the crisis and, as we have just been discussing, there are many who have not received any support who have been very severely impacted. Could the Treasury have done any better overall, do you think? We will go in the same order and start with Richard, please.

Richard Wild: I agree with the points you made a few moments ago, in that there was a rush to get these schemes implemented extremely quickly and they inevitably gave rise to some hard edges. With the benefit of hindsight, it is easy to say that they should have been or could have been better targeted, but, again, that would have delayed their roll-out by trying to narrow them down to ensure they covered as many people as possible while mitigating the fraud risk.

It is difficult to be critical. I think the sense you got when the schemes were launched was that they were going to be quite short term—maybe three months, six months, that sort of thing. The self-employment scheme, for example, was launched for a three-month period, and then it was extended for a second and final grant, which was then payable towards the late summer. When you are looking at a short period of time, it is perhaps understandable, dare I say, to leave those gaps, because you think they will be fixed as we return to normal.

However, as we have carried on and, for some people by the time we get to March and April they will have been a year without support, it is quite surprising that we have not done more to fill those gaps, particularly when Scotland and Northern Ireland have set up their own newly self-employed schemes and what have you to try to plug them themselves. It is hard to be critical of the schemes that were rolled out, but clearly these gaps have existed for some time and proposals to fill those gaps were made as early as spring or summer last year, yet we have not seen much movement, certainly in England, to fill them.

Q309 **Chair:** I am conscious of time. Before I pass on to Alison, very quickly, Caroline, was there anything you wanted to add to this point about targeting?

Caroline Miskin: In terms of targeting the SEISS grants, I think HMT and HMRC have sought to target those grants, and the conditions were quite significantly tightened for the third scheme. It was made a condition that you had to have reduced profits and not just have incurred some additional PPE costs or something. So I think there has been a serious effort on behalf of HMT to try to target it, but in a way that does not undermine the simplicity of the scheme and allows HMRC to calculate the basic entitlement, with the taxpayer just being required to go through a fairly minimal process to confirm that they have complied with the conditions. They are qualitative tests, not quantitative tests, so it is already quite difficult for taxpayers to understand whether they are eligible or not. To make it even more so would make everything much more complex.

Q310 **Chair:** Caroline, thank you. Very briefly, Glenn, do you have anything to add?

Glenn Collins: Only good support. It was designed as a short-term measure. There is some scope to evolve some of it, and there is probably some scope to help many of those businesses by involving advisers and agents more within some of those mechanisms.

Q311 **Alison Thewliss:** I have some questions on limited company directors and the gaps in support around them. I want to quickly ask the three witnesses whether they see a particular reason behind the reluctance on the part of HMRC and the Government to pay out to limited company directors. Is there a particular reason you can see as to why that has been the case?

Richard Wild: I can be very brief. We are not aware, or we have not seen any evidence, that this is a positive decision to exclude that category of individuals. In fact, on Monday I was watching the session with the Financial Secretary and he confirmed that there had been no intention to exclude anybody. As I say, we have not seen any evidence that this is an active decision at all. It is just a consequence of how the schemes have been set up.

Caroline Miskin: The gaps were identified by us and lots of others at a very early stage. I think a lot of the discussion looked at whether they could be incorporated into the CJRS and SEISS. It was always apparent to us that trying to fit company directors into those schemes was just never going to work, and they did need their own scheme. As to why that gap has not been filled, I am not aware of any particular reason on the part of the Treasury why they would not have done so. It is notable than when the Chancellor announced the self-employment income support scheme, he made remarks about national insurance contributions and the self-employed having to change, so the Treasury got over whatever reluctance it might have had there. It doesn’t seem to have done so on directors.

Q312 **Alison Thewliss:** Do you think there is a difficulty for the Government in identifying where dividend income has come from?

Caroline Miskin: Yes. I think that a lot of the reason why it has not happened is that it is just very difficult to come up with a scheme that works well to help company directors.

Q313 **Alison Thewliss:** Do you have any suggestions as to how they might go about rectifying that?

Caroline Miskin: That is not something that we have done any work on.

Glenn Collins: We have looked at this very closely. As you probably know, we have partnered with a number of organisations on that, including our friends at Forgotten and the FSB and with Rebecca Seeley Harris, and we came up with an alternative that was not based on dividends, but based around SEISS and looking at a grant that goes through, and making sure that that was based on company profit and directed at our most small and medium-sized enterprises. We have looked carefully at that scheme. We have taken that across and have spoken to HMRC and the Treasury about that. They have been positive in their review of those areas. I think it is important that anything is targeted across the directors. It is incredibly important that we consider some of the fraud aspects. We built in to some of our suggestions that directors have duties and directors have specific duties, laid down by company law, that there is an element of making something taxable in the company, and improved security. The information that we are suggesting is already with Government; the Government actually hold it already.

We have built it on the premise of self-assessment—actually the entire tax system is built around self-assessment and the fact that taxpayers make a declaration. The only declaration that we are suggesting is that declaration which is similar to SEISS within that. However, I am happy to go into more detail on that particular scheme.

Q314 **Alison Thewliss:** Yes, more detail on that would be useful, because I think the directors income support scheme is very useful in terms of what you and Rebecca Seeley Harris are proposing to cover this gap. Are there any practical difficulties in implementing a scheme of this kind?

Glenn Collins: There are always practical difficulties, because you will always have some businesses that fall in or outside it. We have based it around SEISS on purpose, because we know that SEISS is a developing scheme and actually has not fitted all the businesses that it could have. We know that SEISS in itself has income levels within it and a cut-off period, and some of those elements may need to be altered, so there are some practicalities around that, but we based it on information that is held by HMRC and also by Companies House.

Q315 **Alison Thewliss:** Okay. If the information is there, it certainly seems to make sense to me to make good use of it. Are there people who will still miss out under this scheme that you propose?

Glenn Collins: This is, as I said, a system based on SEISS, so there will be some of those who are forgotten around the SEISS implementation who would not meet that, particularly those businesses where people have made over the £50,000 income level. But actually, that is then a separate debate around how we should alter SEISS and how we level up the support that goes across all of our businesses and entrepreneurs, be they self-employed or be they running a particular company.

Q316 **Alison Thewliss:** That is useful. Thank you.

I understand that IPSE has proposed a kind of "pay now, clawback later" scheme for an element of company directors, on the premise of amending the furlough scheme to account for dividend income, and then clawing back any overpayments later on. How does that compare to the DISS scheme that you are proposing?

Glenn Collins: We have moved clearly away from dividends; we have moved it into company profits. That provides the opportunity for the directors of those companies to deem how they will use that support within the business. They may well use it to support their employees, to keep the business running, or actually to give themselves some pay, as within the SEISS scheme.

Any of the support schemes out there—including the Northern Ireland scheme, which is very welcome, and it is great to have it introduced now—will be welcome in stimulating further debate on this group, who we do not want to be left behind, because they are our entrepreneurs of now and actually they also inspire entrepreneurs of the future. That is partly why we have become involved in some of this, because entrepreneurs of the future are important people for the UK and for the economy running forward.

Q317 **Alison Thewliss:** I absolutely agree with that. Caroline?

Caroline Miskin: If there is the political will to fill this gap, which has been long identified, we will be very pleased to help the Government and HMRC to do so. I have obviously read the paper on the directors income support scheme and it is much the most interesting of the proposals that have been put forward so far. What I would say is that I do see it as being higher risk than SEISS. It has all the inherent risks that are inherent in SEISS, but there are quite a few more declarations that would be required. We do have some concerns. They may be surmountable; we will be happy to work with Government, but as it stands, we do have concerns.

Q318 **Alison Thewliss:** Okay. That is useful to know. Thank you. I wanted to get an idea of your views of what the advantages and disadvantages and the risks of not helping company directors might be. Is there a risk of limited company directors going bankrupt at this time, for example?

Glenn Collins: I think when you are looking at limited company directors, many of them—particularly small limited company directors, which is the group that we are looking at—have not had income coming through. Many are in some of our most vulnerable sectors, particularly areas such as hospitality. There is a difficulty that they are holding out, but many of them may go bankrupt or have to lay off employees. While there is hope, directors will generally keep businesses running or look forward to that, but there does come a cutting off point.

We have seen both in our welfare trackers and in our cashflow trackers, which we run with our members and some of the businesses they advise, some of that is worsening over time. So, there is some real concern there amongst those tracked groups.

Richard Wild: I agree with Glenn's comments, particularly because the directors fall between the two schemes. As a director, CJRS isn't really much help to you, because if it is your company, your business, you want to keep working, keep it running and make it viable, so you wouldn't be eligible to claim under CJRS anyway. A lot of directors pay themselves a nominal salary, but they wouldn't get even that under the existing rules. As Glenn says, there are risks of them going bust, losing employees and so on, so they are definitely in need of support.

Caroline Miskin: I agree. The ultimate fallback is universal credit, but the risk is that the company will go bankrupt, and that is their option.

Q319 **Harriett Baldwin:** I want to segue into self-employed people whose trading income was above £50,000 and freelancers. I will start with you, Caroline. In terms of the £50,000 cut-off, we understand that we are trying to support people with a floor in their income. Do you think it would have been feasible for the scheme to have less of a cliff edge and to have been implemented in a similar way to furlough, with a cap at, say, £2,500 a month? What are your thoughts?

Caroline Miskin: As far as I can see, that was a policy decision. There is no inherent reason why there had to be a cap of £50,000. It could have been designed with, as you say, a cap in the amount of the grant rather the amount of income. It could have been designed so that it tapered away above £50,000. There is no particular reason why £50,000 should have been chosen as the limit. My understanding is that it was intended to exclude very high-earning groups from support, but it has caught people who are not particularly high earning.

Q320 **Harriett Baldwin:** The Committee appreciates that, but we were wondering if there were a practical reason why it could not have been a capped amount, as with furlough?

Caroline Miskin: No, there is no practical reason. As I say, it was purely a policy decision designed to exclude some of the highest earning self-employed people from support.

Q321 **Harriett Baldwin:** Richard and Glenn, do you both agree with that?

Richard Wild: Yes, I do. I think the beauty of the SEISS scheme has always been that HMRC have calculated the grant for you. You would imagine they could have built the taper mechanism, or whatever it might have been, within the calculator, in order to cap it and still calculate the right amount. It wouldn't have introduced extra complexity for the claimant, because HMRC would have still worked out the value of the claim for you.

Q322 **Harriett Baldwin:** Now that we have gone on to a further tax year, presumably there will be people who were above that limit before and who will have been substantially below it this year. Will it be possible for HMRC to start including them now, Richard?

Richard Wild: That depends on whether HMRC will start using 2019-20 tax returns to calculate the average income across the qualifying period. If it stays with ’16-17, ’17-18, ’18-19, you will be in the same position regarding eligibility as you were for the first three grants.

Q323 **Harriett Baldwin:** So from a practical point of view, it would be feasible if HMRC decided to do that?

Richard Wild: Yes, it would.

Q324 **Harriett Baldwin:** Can I move on to your thoughts on the business owners support scheme, Richard? Can you explain to the Committee how it differs from the directors income support scheme?

Richard Wild: I have not seen a huge amount of detail about the business owners’ support scheme. It seems to try to bring within scope a lot more individuals than perhaps a newly employed grant does for SEISS or the limited company one does for company directors. It tries to look at your active income, if I can call it that, from employment, self-employment and dividends from your own company as a proportion of your total income. It then operates with a similar sort of mechanism, paying out 80% of that as a grant.

Again, it has similarities with the other schemes. I do think that BOSS in principle is probably at the complicated end, because of all the variables that you need to identify and because of tracking the amount of information that you and HMRC will hold; pulling all that together would be extremely difficult. None of those schemes is worthy of just parking and ignoring; they are all worth looking at in more detail, but I think that BOSS would be very difficult to implement, just because it tries to be as inclusive as possible.

Q325 **Harriett Baldwin:** Does the rest of the panel agree with that? Caroline?

Caroline Miskin: Yes, I do. It cannot be done by HMRC based on data that it holds; it would require a system for the taxpayer to provide data, which HMRC would then have to go away and verify. The data in that form is not held in HMRC’s systems.

Q326 **Harriett Baldwin:** Glenn, have you heard of any good proposals to help the category of people for whom income from self-employment turned out to be less than half their income, while the other part of their income was also very small, who seem to be really struggling at the moment? Are there any examples where you think that has been particularly unfair?

Glenn Collins: Sorry, I missed the very early part of that.

Harriett Baldwin: I am talking about the freelancers excluded from support because less than half their income comes from self-employment.

Glenn Collins: That goes back in particular to some of the structure around SEISS and the exclusion of certain types of income from that. The principle that sits there is actually that in your earnings and your income, you have one eligible type of report coming through, and you would make that application or a business would make that application on your behalf. That might be the job retention scheme; it might be self-assessment; but it should be built in so there is a safety net for those who operate, as many do at the moment, with the form of employment and self-employment running through.

Q327 **Harriett Baldwin:** Have you come across situations where that has been particularly unfair, as you see it?

Glenn Collins: Only a few cases have been reported. Where they impact on individuals, the impact is heavy, so yes, they are impacted, but I have not seen the volume that others may have seen.

Q328 **Harriett Baldwin:** Caroline, can you think of any way to help this particular group?

Caroline Miskin: I see the 50% test as another policy decision. There is no practical reason why there needs to be a 50% test. The reason for it, apart from to contain the cost of the scheme, is to target support to people whose major income source is self-employment. The idea is that if they have some other significant income source, perhaps they have other resources they can fall back on. We have seen cases—not a large volume—where it gives results that might be perceived to be unfair. For example, if somebody had some particular transaction, like a pension draw-down or something like that, that meant that their income was unusually large in one year, but that does not reflect their current circumstances, it can give results that might be perceived to be unfair.

Q329 **Harriett Baldwin:** Again, once a new set of accounts has been lodged with HMRC for this year, is that something that you think could be addressed quite easily?

Caroline Miskin: Essentially, what I think that means is that it will be a different group of people who fail the 50% test. There might be some people when you take 2019 into account who did not previously qualify and now qualify; equally, there might be people who fall out.

Q330 **Harriett Baldwin:** Anyone else want to respond on these questions? Are you all supportive of the approach that the Northern Ireland Executive has taken?

Richard Wild: I was just going to mention that, certainly in the newly self-employed scheme, they seem to recognise that, in your first year of trading, you might have gone from employment into self-employment and therefore might fail the 50% test. You are able to look beyond that in the initial year if you have moved from employment to self-employment. If we were to do something similar in England, that seems a good blueprint to try to adopt. We have had similar comments to what Caroline has mentioned, particularly around somebody with small self-employment income but a pension that tips the balance in the wrong direction as far as the 50% test is concerned.

Harriett Baldwin: Thank you, Richard. I am out of time.

Q331 **Rushanara Ali:** I am going to follow up on some of the questions that the Chair raised. The first is about the fact that we are heading to a year since the schemes were introduced and, as he pointed out, the IFS has described the way some people have been treated as "rough justice". We have seen the Northern Irish experience and the Scottish experience, and where there's a will, there's a way. Do you think the UK Government—the Chancellor, in particular—could be identifying ways of addressing those who are left out? If so, should we be doing similar things, or are there other things that we could be doing?

We have heard reports that 1 million people who are currently self-employed have said that they would consider leaving self-employment. Could all of you consider the question of what the wider economic implications are? One of you referred to this being damaging to entrepreneurship. What are the wider implications of people switching?

Richard Wild: Let me deal with your first question, if I may, about doing more in relation to those who are left out. I suppose I will repeat a bit of what I said. It was understandable in the first few periods, but now we have moved along, and we have seen the emergence of other schemes.

Preparing for this afternoon, I looked at the other support that is available to businesses and individuals. While there is a good tool on gov.uk, it is quite hard to track. If you have premises and have received a £9,000 grant, or if you ran a pub and you received a £1,000 Christmas bonus, for want of a better term, it is very hard to narrow down who is left out in the population who has not received anything or has not received a sufficient amount. Now that Scotland and Northern Ireland have moved with their newly self-employed schemes, it probably makes it more difficult to do something for the rest of the UK, because you then have to decide whether you're willing to give people funding twice or introduce a further complexity, which would be to have to deduct any other support that businesses have received from elsewhere.

When the Scottish newly self-employed grant scheme was launched in spring-summer last year, there was a long list of exclusions, which meant you couldn't claim the grant if you were eligible for any other Covid support. As time goes on, it becomes more difficult to target the scheme effectively.

In relation to the second question, I think the witnesses in the next session are probably better placed to answer that than we are.

Q332 **Rushanara Ali:** Caroline, did you want to come in?

Caroline Miskin: On the other schemes, we do now have a lot of different local schemes and grants across Northern Ireland, Scotland and even some English local authorities. There are a lot of different schemes and there is no one solution to this.

The people who miss out fall into a huge number of different categories. You potentially have to look at a new scheme. There is a limited amount you can do by tweaking the current schemes. Some of the local schemes, which are really targeted, may be the way to go. The one thing I would say about the Northern Irish and Scottish schemes is that I don't see them as being scalable. I don't see it as possible to do those on a—

Q333 **Rushanara Ali:** Really? Wouldn't some people argue that at least they are trying, at least they are doing something, whereas our Treasury is being very stubborn? This Committee published a report. The Chair has written time and again. We have all made representations, across the House and in different parties as well. Is it political will? Is there a way of at least offering some solution for some people that is not being considered but should be?

Caroline Miskin: What I'm saying is that they are by their nature local schemes. I don't believe they could be done on a national scale, because they require the taxpayers themselves to provide significant amounts of data and documentation in evidence. The authorities themselves are doing an awful lot of checking of that data.

Q334 **Rushanara Ali:** But these are national schemes—Scotland and Wales. What are they doing that we are not capable of doing? They are implemented locally.

Caroline Miskin: It's a question of scale and amount of resource required to check the very considerable amount of data and documentation that they are asking the claimants to provide. There is also a cap on the scheme, on the amount of funding.

Q335 **Rushanara Ali:** Okay. On the second point, did you have anything to say on the 1 million who are likely to leave self-employment? Do you have a view on what that might mean for the economy, if anything?

Caroline Miskin: I would echo what Richard said.

Q336 **Rushanara Ali:** Glenn, do you want to come in on this point? If not, I'll go on to the next question.

Glenn Collins: I think there are two aspects to this. As we have mentioned before, there are groups that have been quite clearly forgotten. There are also some amazing and brilliant initiatives out there. In Wales, the economic resilience fund was excellent, but was over-subscribed and ran out of money very quickly.

An awful lot of businesses that had looked at that and invested time and effort in preparing their case and documentation, found out they had done so for no benefit. There can also be some feelings around people being left out of something that has disappeared and gone. It was a great initiative, but it needed more funds and to be looked at on how it would be rolled out.

I go back to the fact that there are some core groups out there, directors being one of them, and the extension of SEISS should be looked at. In terms of entrepreneurs, we've seen some anecdotal evidence. I know there was one piece of research from a university, but I've been unable to find it. It showed that the number of students considering becoming entrepreneurs or business people had declined during part of this pandemic. Unfortunately, I wasn't able to find that for the Committee session, but that is a significant concern for all of us going forward.

Q337 **Rushanara Ali:** Historically, in a number of recessions, self-employment has been an important driver of recovery—through the '80s and '90s. Is that an area we should be looking into more closely, to see what in that experience, in particular in terms of a lack of support, might drive people to be wary of becoming self-employed? What could be done to ensure that—where self-employment is an important driver for economic recovery, and small businesses are of course crucial—the Treasury understands better how they can be incentivised?

Glenn Collins: I fully agree. I think you need the business leaders who show their entrepreneurial spirit and, actually, those who look at building their businesses going forward and employing more people. As an international organisation, you would expect me to say that for our growth internationally as well, looking at some of those business and export opportunities. If you are a small business owner, you may not be able to dedicate the time to that, so there is an awful lot around the opportunities out there that we can look at, to export further, for our businesses.

Q338 **Rushanara Ali:** I have another question. There are some reports, but one report from October last year suggested that £1.3 billion was handed out to workers who saw no loss of income—but were in the SEISS category—while half a million people were left with no support, having lost their jobs. Given that, and that everyone recognises the Government had to act speedily in the first wave, do you have a reaction? What can be done going forward to learn the lessons, to get Government interventions better targeted, so that those who need help get it, rather than those who do not need it? That figure is pretty concerning, because if your income has not gone down, there is no reason to be given taxpayers' money. Do you have a view? Caroline, will you start?

Caroline Miskin: This is where digitalisation comes in. There would have been considerable scope for Government to be much more targeted in how they provide support, in terms of both filling the gaps for people who do not have support but perhaps should, and avoiding giving support to people who perhaps did not need it. HMRC has made this point in its 10-year tax administration strategy document: that better and more up-to-date data would have enabled much more targeted support. We all hope that this will not need to happen again, but that is how you do it.

Rushanara Ali: Glenn, do you want to come in, then Richard? Then my time is up.

Glenn Collins: I would add to what Caroline said that there are some declarations there. HMRC asked those who are making those declarations to say that their business has been affected, but some of that is not clear in the record keeping—in terms of what a person needs to do going forward to say, or prove, that that is how they have been affected, running through there.

There is also a job for HMRC to make sure. It makes it clear that there is information that you need to keep, but not how they will use that. The declarations on its website can be rather vague—"You might need this, you might need that", or "such as"—and do not make it clear that, "We might require this information or proof from you."

We and our members will face that as professionals and professional bodies. Many cases might come through in which people have got a grant, which is obviously taxable, but from the initial evidence we cannot actually see any reason why they would have applied for that grant. That has some practical implications for all of us who provide support and advice going forward, so I think HMRC could do with some better declaration advice.

Richard Wild: There are probably two categories to consider: those who claimed and were not entitled to the grant, and those who claimed more than they needed, for want of a better term. For those who claimed and were not entitled, first of all, the eligibility checker that businesses went through sometimes got what you might call a false positive because it was based on information known to HMRC, so if somebody had ceased being self-employed, they would still potentially be told they were eligible to make a claim, even though they would fail that test. Also, the claims process itself was very affirmative in nature, in that it just took you through the steps without giving big red warnings that said, "Do you meet this test? Do you meet that test? If not, you are not entitled." I think that process could do with looking at.

On the financial impact, it was because the grant was all or nothing. Even if you had lost a few hundred pounds or something, you met the requirement of being financially affected, so you were entitled to whatever the system calculated you were entitled to claim, and you could not really say, "I don't need all that." You can make a voluntary repayment now, but some mechanism even to just limit how much you claim might have been helpful.

Rushanara Ali: It is interesting, because it is overly generous in this case, yet when it comes to welfare, £20 is being argued about when people are on the breadline. Certainly in my constituency, which has the highest child poverty rate in the country and people on the breadline, it seems incredibly unjust when £1.5 billion could have gone to those who are in greater need. I will stop there, but thank you very much for your contribution.

Q339 **Chair:** Thanks, Rushanara. I am going to go to Steve in a moment, but Caroline, could I very quickly come back to you? You mentioned something I meant to pick up on at the time. On the DISS, you said that there were some risks you had identified around that proposed scheme. Rather than go into it now for reasons of time, would you be able to drop a quick letter or note to the Committee with a follow-up on that? We would be interested in your thoughts on that.

Caroline Miskin: Of course.

Chair: Great, thank you so much. I will now go to Steve, please.

Q340 **Mr Baker:** Thank you very much, Chair. Earlier, one of my colleagues mentioned the excluded, and that this crisis has gone on for a year now when, at the time the schemes were designed, it might have been considered to be something that would only be needed for a few months. I am just conscious of how dependent those of us who have been in business are on our accountants, and just how important accountants are to our financial affairs. Are any of you in a position to give some kind of characterisation of just how serious being excluded has been in people's financial lives? It seems that, for some people, this will have been a financial calamity that will have changed the course of their lives, and I wondered whether your organisations had put you in a position to put some characterisation around that. I might put you on the spot first, Caroline.

Caroline Miskin: I think the case has been made eloquently by so many, through all sorts of different means. There are a huge number of case studies showing the impact of being excluded on people. As far as we are concerned, we have done everything we can to highlight our gaps. We are very conscious that our members have worked exceedingly hard to support people in obtaining whatever schemes are available: the two big ones are the CJRS and the EIS, but our members have sought to use all the various schemes, including local schemes and loans, and have done a lot of work—sometimes without actually charging—to try to find the reward. They are on the frontline, and our members do report back devastating case histories that are similar to the ones that are very publicly expressed.

Q341 **Mr Baker:** Is it too late to help people? Is it time for Ministers who tell us they hold all these things under constant review to change the schemes and actually help people who have been excluded, or should we not raise false hopes?

Caroline Miskin: Ultimately, that is a political decision. The gaps have been evident—right from the outset, we identified them. As to why the Government have not taken action, one does to some extent feel that a lot of the impact may already have been helped. I am not entirely sure to what extent providing additional support now would retrieve the situation for some people, but one imagines that it would help a lot of people.

Q342 **Mr Baker:** Okay. I need to move on to how we exit the schemes. Richard or Glenn, is there anything that you would like to add on the excluded? Is there anything you would like to say to the excluded or to Ministers?

Glenn Collins: I would reiterate the wellbeing side. We have seen some major deterioration there. Our members report back deteriorating wellbeing among some of those directors, and continued stress—continued stress for a lot of their employees. Some of that has been heightened recently by the further lockdown and home schooling. Many are actually spending six hours a day home schooling and then looking at running their business or working in their firm. That is also something that we have had reported back from a number of our members and is why we have also made a call for the self-assessment deadline to be moved and extended as a temporary measure to provide some relief.

Q343 **Mr Baker:** Richard, you are not looking desperate to come in on this point so I will move on.

Has HMRC ended up in the possession of any new information or capabilities as a result of running the self-employment income support scheme or the CJRS—information that it could use in future? Glenn, I can see you nodding. Is there any new information or capability that HMRC has gained through this?

Glenn Collins: One of the capabilities that HMRC has performed very well on is its ability to turn around and provide support. Yes, we have all talked about some of it being flawed, but the speed of some of that has been very important.

The flaws, perhaps, within some of the digital information that they keep and use, and in data held elsewhere within the Government, have also come to the fore. I think, if you were designing any of those systems, they would have been designed differently with different digital information and data that are available. They have learned a lot around some of those data management issues.

They have also learned a lot around guidance. The early iterations of a lot of the guidance did cause confusion, but they have settled down into a really good form of issuing guidance now. It comes out at a regular time. Generally, the updates are highlighted, so people are aware of the changes. There are a few flaws in there, but generally it is an awful lot better in their nimbleness and openness around the scheme of measures.

Q344 **Mr Baker:** Richard, would you like to come in on that point—new capabilities and information?

Richard Wild: Perhaps slightly related to that is that I think HMRC have found new friends, if I can call them that, in the professional bodies. We have worked extremely well with HMRC through the roll-out of these. It has really helped our relationship and we should build on that going forward.

I do think that they should really see us as we are, which is—well, not that we are on their side, but that we are on the side of the tax system and trying to make things work. Hopefully, this engagement will continue more and they will reach out to us more in other areas. That is something important that we should take from all this.

Q345 **Mr Baker:** Is there anything new that should be collected regularly on tax returns? I will look to see if anybody jumps in to answer that one.

You are all searching your memories. Okay, I'll move on.

Caroline, can I ask you how much longer you think all these schemes of support should last before the Government attempt to exit them?

Caroline Miskin: That is almost an impossible question, because we don't know how the pandemic is going to play out, much as we would all like certainty for business—we always say we would, and we would.

The original objective was to get support out there quickly, for what we thought was for a short period. It has been necessary to do the schemes step by step, but I don't really think that there is any alternative to that.

The one area where things got a bit confusing was at the point at which the CJRS might have been replaced by the job support scheme. I think we were all relieved that that didn't go ahead and that we stuck with a scheme that we knew and that could be adapted, rather than coming up with a totally new scheme. What HMRC has achieved in getting these schemes out, whatever their limitations and rough edges, has been absolutely phenomenal. I would echo what Richard said about working together with us, once the policy has been decided, in helping to deliver it. That engagement has been excellent, but at some point the schemes will have to stop. That is going to be very hard for a lot of people, in the same way that it has been hard for those without support.

Q346 **Mr Baker:** Okay. Let me try to put this question in a more abstract sense. It seems to me that after the vulnerable are vaccinated, we will have some kind of step-wise progress down the tiers until, hopefully, we get to a point—I would like to see it happen fast, assuming that vaccination has worked and is safe—at which we have no restrictions. I wonder whether the point at which most of the country is in tier 1 or faces no restrictions will be the criterion under which the support schemes should be wound down. What is the trigger? It is a hard question, which is why no one is answering.

Richard Wild: It is a difficult question. I suppose it depends on the extent to which we would have regional variations, because they would be very difficult to apply to a grant system or the tax system, however that was to play. We would still see run-off issues with the Scottish rate of income tax, where people are resident and similar problems. The key is—it is very easy to say this in an uncertain pandemic—to give businesses as much notice as possible. I was going to make a similar point to Caroline's point about the job support scheme. It was literally on the eve of its going live that it was scrapped and we decided to carry on with the CJRS, which was a good decision but one that took even HMRC by surprise. The more we can plan ahead, and the more that businesses know how much support they will get going forward, the better the position we are going to be in.

Q347 **Mr Baker:** I have at this moment noticed that I am really running out of time, but I have a question for all three of you. Isn't the crucial point here that businesses know the environment in which they will be operating—that they know they are going to have a predictable environment in which to conduct business, and that if there are restrictions in that environment, they have a predictable sense of what help they will get? Isn't that the point—to enable them to plan? Isn't that what they need more than anything else—the capacity to plan forwards how they are going to make a living?

Glenn Collins: That is probably the most important aspect for cash flow and working that through, and for, when we come to it, any tax deferral and repayment to the Exchequer of tax that has been deferred. It is, as you rightly say, hard to plan ahead and do that necessary planning, which many businesses do, without an element of certainty. One important element that needs to be built in there, quite clearly, is tax deferrals—be it VAT or some of the loan systems running through that have been provided— and how they will repay over time, so that businesses can plan for that in a proper manner and that their day-to-day running while they recover remains sustainable. They can make the investment that they need to, but they can also pay back the taxes that are due. That is an incredibly important piece, which sits around something that is fundamental for all of us as professional bodies: good business planning, which we probably do not do enough of in the UK.

Mr Baker: I really do want to press this point about certainty, but I am afraid that I have run out of time. With apologies to my colleagues, I must say thank you and draw stumps there.

Chair: Steve, thank you very much. That brings us to the end of this session with this panel, so may I thank our witnesses very much for joining us today? The gaps in support are an issue of deep concern to every member of this Committee—in fact, it is one of the issues that has united the Committee across party more than perhaps any other. As those viewing may know, one of the early reports we produced was on the gaps in support. We have been very active in lobbying the Treasury, HMRC and others and in taking evidence, and we will continue to do so. I thank you as witnesses particularly, because there was a certain amount of new thinking that has happened in this session, or a bringing together of some of the latest thinking on how some of these issues might be resolved, and that has been especially valuable. Let us hope that some of it translates into additional support in the future. Thank you very much indeed for joining us today.

Examination of witnesses

Witnesses: Jonathan Athow and Ian Mulheirn.

Q348 **Chair:** I am delighted now to move on to our second panel of two witnesses. We will be looking at the economic analysis and how that is being conducted around the crisis. I will ask Jonathan from the ONS to briefly introduce himself to the Committee, please.

Jonathan Athow: I am Jonathan Athow, deputy national statistician for economic statistics at the Office for National Statistics.

Chair: Thank you very much, Jonathan. Ian?

Ian Mulheirn: Good afternoon, Chair. I am Ian Mulheirn, the executive director for UK policy at the Tony Blair Institute.

Q349 **Chair:** Welcome and thank you both for joining us. As with the previous panel, if you have not been asked a question and you want to come in on the answer, then please raise your hand and I will attempt to bring you in. I am looking in front of me at a rather dispiriting chart, drawn from the OBR's "Economic and fiscal outlook—November 2020", which shows the estimated contraction in GDP between Q4 of 2019 and Q2 of 2020. It shows us being way down the pack, particularly compared with countries such as Japan, the United States and Germany. Yet many economists say that all is not as it seems and that in fact, because of some of the way that the ONS computes GDP data—particularly around healthcare, where we have had a great slump in the "business as usual" activities of the health service and a significant increase in expenditure, particularly on PPE and treatments for Covid—and because of the methodology and the approach to GDP, we have overstated the amount by which the economy has shrunk in that chart. Jonathan, I know this is a slightly technical area, but I think it is important. Are we in a situation where things are actually not as bad compared with other countries as it seems? Could you walk us through the reasons why that might be the case?

Jonathan Athow: Certainly. The focus of a lot of this has been on public sector output and health—we will talk mainly about health, but it also applies to other parts of the public sector. The approach we use for measuring the output of the public sector is to count the amount of activity that goes on. In the health service, we look at the number of elective procedures, the number of GP visits, attendances at accident and emergency and emergency care—Covid treatments would often fall into that category.

That is how we measure the contributions to what you would call real GDP, and we saw a really big fall in activity in both health and education at the start of the pandemic. Many schools were closed and it was a while before online learning got off the ground, and in the NHS we saw a big reduction in elective procedures and A&E visits, either as hospitals and health providers changed what they were doing or as people themselves stayed away from hospitals. We measure it that way. That is the international advice; that is what the guidance says. it is something we have been doing broadly for 20 or so years. The question that people have raised is: are other countries doing it in this way?

The alternative approach—I am over-simplifying here—is to assume that the outputs are equal to the inputs. If you increase the funding on the NHS by 1%, the outputs in the NHS go up by 1%. If you take that approach in the UK, you would not have seen the big falls in activity that we have seen. There is a question about whether other countries are doing it at all, or if they are doing it to the same extent as we are.

Q350 **Chair:** Can I ask for your specific view on that point? I mentioned Japan, Germany and the US. Are they doing it differently or are they following our methodology?

Jonathan Athow: At the moment, we have a piece of work with the OECD to undertake that analysis. It is not obvious exactly what other countries are doing. We know that some other countries have been interested in this approach and maybe applied it to a certain degree. But the other complexity here, and one of the other issues that is a challenge, is that different countries experience waves of this at different times, and those different times do not fit neatly into the calendar quarters of economic activity. Sometimes what you see is the fact that the incidence for some countries might have spread across a couple of quarters, and for other countries it might have been concentrated in a particular quarter. So there is an extra degree of uncertainty here, particularly in these short-term comparisons. Different countries experience this in different times. Restrictions came and went at different periods. So that is an added complication, even if you are all working on the same methodology.

Q351 **Chair:** What would you estimate the effect to be had you adopted the "spend a pound and get a pound in output" approach? How much would it have softened the drop in GDP?

Jonathan Athow: We have not done exactly that. We have done a couple of things to look at this. One is to ignore this idea of real output and just look at money spent. It is not quite the same because we do this across the whole economy. If you take that approach, our economic performance looks broadly similar to other countries. The alternative approach is to say, "What did the rest of the economy do, excluding health and education?" We know that health and education are measured in this particular way, but what if we looked at the UK economy without those? You get a bit of a better picture, but we are still weaker than many other comparable countries.

We are trying to work through it at the moment and understand how you best understand this. I am afraid there is no single way at the moment that we can quickly identify that says, "This is a way of comparing us with other countries," partly because we do not know what we are adjusting for, because we would need to understand other countries' approaches. You get a better economic picture with these adjustments. As I said, if you go the whole hog and don't worry about real GDP, but nominal or current price GDP, we are broadly comparable.

Q352 **Chair:** Jonathan, thank you very much. I will come to Ian now and put the same question. Also, how might you contextualise any effects that there might be due to the approach being taken here to measure GDP? What other things are going on that might have caused us to have a worse contraction than other countries? People often point to consumer expenditure and household spending and so on.

Ian Mulheirn: I would probably defer to Jonathan on most of this. He has given a pretty good rundown on that. Clearly, there have been different restrictions in different countries, and they have been put in place at different times. It is very hard for us to really get a handle on what exactly it has been in some countries that has caused the virus to be controlled better than in other countries, and also, to some extent, how stringent different restrictions have been. It is one thing to read the regulations; it is another thing to really understand what impact that is having on the ground in terms of economic performance. There is a lot of uncertainty. There are a lot of steps in the chain, from what is happening with the virus to what kind of measures are being taken, that will have different impacts in different societies.

And of course there is the question of how economies are structured. The degree to which GDP is very contact-intensive in some countries will mean that this kind of pandemic is going to hit those countries harder. I suppose that at the highest level—the 30,000-feet view—we have a bigger service sector than many comparable countries, and you could argue that that means we get hit harder. So there are lots of different steps in the chain and it is quite unclear what we might expect, even if countries have the same types of restrictions in place. The fact that they have not had the same ones just adds to the complexity of the picture.

Q353 **Chair:** Thank you very much, Ian. I will put a final question to you, Jonathan. If the assumption here is that the approach taken to GDP measurement is making it look worse than it really is, in terms of contractions, would the reverse apply when restrictions are off and the health service starts to get back to doing what it normally does and lots of money is not being thrown at PPE and the other areas where it has had to be brought into play? Does that mean that we might expect a virtuous uptick in the economy purely as a consequence of the methodology employed?

Jonathan Athow: Yes, compared with other methods, you would expect a stronger rebound. In many ways, the sort of long-term impact is not going to be a particular issue. Unless there is some long-term—*[Inaudible]*—of the NHS that damages its ability to undertake activity, you would expect this to wash out in the long term. So in many ways, while these areas have been affected in the short term, it is unlikely to have a longer-term impact, either on health or on education. But that is not to say that that will be the case for other areas of the economy. In the commercial side of the economy, there might well be some long-term impacts.

Q354 **Dame Angela Eagle:** I want to stick with the GDP figures, Jonathan, because isn't it the case that GDP only measures what it measures? Many people would say, for example, that women's unpaid work is never measured in GDP. It gives a certain measurement of stuff, but it does not tell the whole story.

Jonathan Athow: Yes, that is certainly true. I am a bit of a fan of GDP, because I think it brings much insight into what is going on with the economy. But there are a number of things that it does not include. It does not include environmental effects. It does not include unpaid work, volunteering and those sorts of things, which add to what is going on in the country. Also, it is an aggregate figure; it does not tell us the distribution of that income and—to go back to your previous session—who might be protected and who might be struggling with an economic downturn or the pandemic. So you are absolutely right that there are some limitations to it.

Q355 **Dame Angela Eagle:** I just wanted to check precisely what the ONS was adding into health service costs. I am presuming that it has added the £10 billion-plus—or whatever it is now—cost of PPE into health costs.

Jonathan Athow: Yes. We take data directly from the Department of Health, and they have been very supportive in this, so we will be taking that PPE cost. We are also taking the cost of Test and Trace. We are also adding in the—

Q356 **Dame Angela Eagle:** I just want to get this right. The £22 billion, and rising, cost of Serco Test and Trace is actually added into the health service costs.

Jonathan Athow: It is, as long as that is how it is being paid for. If it is being paid for by the Department of Health, Public Health England or other public health bodies, it will be captured in that health spending.

Q357 **Dame Angela Eagle:** And presumably it is the same for the vaccines?

Jonathan Athow: Yes, indeed; the vaccines will be in there. The activity related to Test and Trace—so the number of contacts being made—and the number of vaccines are going to be counted as part of that activity as well. So we count both the spending and the activity.

Q358 **Dame Angela Eagle:** I just want to be absolutely certain. Test and Trace does some stuff. It then passes stuff on to local authority public health people; there is a growth of a lot of localised test and trace going on that isn't the official stuff but is being done at local authority level. Does that go into the health costs or is that counted in local authority—

Jonathan Athow: That would be counted in local authority spending. Where the spending is local authority spending, it would be counted with local authorities. Obviously, we count the money as it is spent, so the whole-life cost of the contract could be however many billions it is, but we count it as it is being spent, or as best we can, we allocate it to the time period in which it is spent.

Q359 **Dame Angela Eagle:** I will come on to Ian in a minute, but isn't it right that the very, very unusual circumstances in which the entire globe has found itself will lead to some instability, if I can put it that way, in the way in which our statistics are compiled, and that there will be some pretty peculiar things going on in terms of national statistics generally until normality returns?

Jonathan Athow: That is certainly the case. There was an American academic who said that many of the statistical systems were not designed to capture large parts of the economy shutting down, which is what has happened. We have had to measure inflation when there are goods and services that are not available—

Q360 **Dame Angela Eagle:** I was going to mention inflation. Clearly, that is one of the more obvious measures that has been affected. You are actually assuming, then, what prices would have been, rather than measuring what they are?

Jonathan Athow: If a good is not available, we are assuming essentially that it would rise in accordance with the average of other prices. So if prices of other things are not rising, that is the method we have got to, unless there is a really obvious close substitute.

However, all these things mean that there is a bit more uncertainty in our statistics than there normally is. We are relying on businesses to complete surveys. Many businesses are very hard-pressed at the moment. We have actually seen response rates hold up reasonably well, but we know that some businesses will struggle to return those surveys. So there is more uncertainty than there would be normally.

Also, it is not just when we go into these restrictions but, as you imply, as we get out of the restrictions and the economy starts to recover, that there will be some unwinding of the temporary measures that we have had to put in place. So there will be some uncertainty for some time to come.

Q361 **Dame Angela Eagle:** Ian, I wondered whether you had done any work from where you are based on how we could measure or change the way we think about output and measurement of public services.

Ian Mulheirn: That is not something that we have specifically looked at. I think there are some interesting things—I mean, there are all sorts of challenges that Jonathan is much more across than I am about measuring the output of the public services.

However, the key thing is that across-country comparisons are going to be all over the place during this temporary period and, as you have implied, these measurements will move around a lot, but they will come out in the wash. So if we get a bigger fall now because of the way we measure things and because of the way that we have treated, say, home schooling, which is largely treated as outside GDP, that will come back quicker when we release restrictions. So the time series will be messy for a while, but the point-to-point comparisons with when we get back to normality and before should allow things to carry on.

The point is that this is not a very good system for measuring changes comparatively across countries in such unusual times, but I do not think that invalidates most of the approach to measuring GDP in the longer term, with the obvious caveat that there are always limitations on what GDP is there to do for us. But I do not think that in the long run this makes the case that it is any worse than we may have thought of it as being before.

Q362 **Dame Angela Eagle:** Do you think there is merit in having a measurement—a GDP-like measurement—that incorporates more of the things that are missed out, to give us more of a view of, say, environmental despoliation, unpaid work and how equal a society is, rather than relying so much on GDP, because it misses out more than it contains?

Ian Mulheirn: I think there is a case for that. The ONS produces—Jonathan will be able to say more—

Q363 **Dame Angela Eagle:** I will ask Jonathan in a minute.

Ian Mulheirn: The ONS produces more satellite accounts—for things like production in the home. If you want to take account of those things, you can easily get a fuller picture by looking at those satellite accounts.

The important thing is that, in a sense, GDP is often used as some kind of measure of wellbeing, or some kind of proxy for it, and that is not really what it is there to do for us. To the extent that you want to know about wellbeing in a broader sense, there are a number of ways that you could look at it. You could take into account the satellite accounts and look at broader measures of wellbeing and the subjective wellbeing measures that the ONS has also developed. You can broaden it in that direction, but the important thing is not to confuse GDP with a measure of welfare, because that is not really what it is designed to do.

Q364 **Dame Angela Eagle:** Jonathan, could you give us any brief insights into the work that the ONS might be doing to give more meaning to public sector activity?

Jonathan Athow: Yes. We look at a lot at public sector activity. Around half of the public sector in on this output—direct volume measure is the jargon—so we look at actually what is happening there. We are also thinking about whether we can add other measures into this. We look, for example, at not just the quantity but the quality of services, so in the NHS we look not just at the number of procedures done but at whether those procedures are actually improving people's quality of life. We have developed methods that allow us to look at quality as well, because we think ultimately that it is not just about the number of operations performed but whether the operation or procedure addressed the underlying health issue. We are starting to look at that.

Ian characterised it very well. Sometimes people look at GDP and assume it is a measure of welfare. We have an active programme to think about what are the things that we do not currently include and how we develop them. We are working on something called natural capital, which is the value of nature around us—whether it is woodlands, farmland or the marine ecosystem. We are trying to do a lot more of that.

The challenge is that GDP has a 70-year head start. It is widely used and very well developed, so it is a bit of a challenge sometimes to make certain people see that rounder picture. People sometimes want just one number, and given the complexity of our economies and societies, the idea that you can summarise it with one single number—although it would be nice—is not really feasible.

Q365 **Dame Angela Eagle:** You are right that quantitative measurement of throughput through a hospital doesn't tell you whether the patient emerged alive or dead. That seems to me to be quite an important consideration.

Jonathan Athow: Indeed.

Q366 **Siobhain McDonagh:** This is a question to Jonathan. What difference does the closure of schools make to GDP, in terms both of how remote learning is measured and how the closure of schools could impact on parents' ability to work?

Jonathan Athow: I will deal with those separately. The first question is how we directly measure education in GDP. Before the pandemic, we used to measure it essentially by the number of pupil hours taught in schools—again, that seems fairly straightforward—but we realised that, early on in the pandemic when schools were closing, we needed to do something different. We introduced a method that captured children in school—there were still a small number of children in school—and remote learning. That is something that we put in place last year, so we now capture remote learning where that is provided by a teacher. We have done a survey, working with a company that surveys teachers, to look at how many hours of online learning they are doing. We now count both the learning in the classroom and the online learning.

We still saw a fall in the output of education, partly because the online learning took a while to get up and running, and because the logistics of running online learning was a bit challenging. We saw fewer hours of online courses or online teaching than we did in the classroom.

The knock-on impacts on the rest of the economy are much harder to ascertain. We have tried to measure where people are away from work for Covid reasons, but there can be many different causes. If people are not working, that is a business without an employee. Many people will have lost people because of self-isolation or caring responsibilities. It will be a drag on the economy, but it is quite difficult to separately identify that, given everything else that was going on.

Q367 **Siobhain McDonagh:** My next question is for Ian and Jonathan. The Government has pledged up to 1.3 million devices to support remote learning but distributed approximately half a million in the first lockdown, and just 54,000 routers so far. With Ofcom estimating that there are up to 1.78 million children without an adequate service, and even more without connectivity, many of the most disadvantaged children are still unable to continue learning from home and will return to school even further behind. What short and long-term impacts will this cause for the children themselves, and the economy?

Jonathan Athow: I am not an expert on education, but I have seen work, for example, by the Institute for Fiscal Studies, which has looked at the patterns, such as less schooling. If the learning is not made up, that potentially has knock-on consequences for later in life. I have seen some IFS evidence that suggests that children from lower income or lower socio-economic backgrounds are struggling more with that. In the UK, we already have evidence of differential performance in schools by different socio-economic backgrounds. There is a concern that if this damages children's education, it could exacerbate that current degree of unequalness. Again, it is difficult to get a picture of what is going on because trying to measure exactly what has been lost is tricky. We saw lower levels of teaching earlier in the pandemic, but I have not seen more recent data on whether this is continuing.

Q368 **Siobhain McDonagh:** Anything from Ian?

Ian Mulheirn: Just to say—and again I am not an expert in education—it is clear that the disparity between some children and others in lockdown is big and there are lots of aspects to that, only one of which is the technological divide. As Jonathan mentioned, there are things driven by parents' circumstances—their resources, the time they have got and their need to work—that are causing a big gulf to open up, which is very concerning indeed. Of course, if you do not have the technology, you do not even have a chance of keeping up, so it is a major concern.

Q369 **Siobhain McDonagh:** This afternoon my hon. Friend the Member for Bristol North West (Darren Jones) presented a Bill to the House calling on the Government to use existing statutory powers to bring forward a social tariff for broadband and to extend eligibility to include every household with a child on free school meals. It is long overdue, given the Science and Technology Committee report from 2016-17 that highlighted that the digital skills gap is costing the UK economy £63 billion a year in the lost potential for additional GDP. In the remote world that we now live in, how much higher do you think this figure could now be and what do you estimate the lack of connectivity costs the economy?

Jonathan Athow: That's not a piece of work we have done. What we have seen through the pandemic is the growing importance of being able to access online services. While there have clearly been some big upheavals and some people have been left in difficult circumstances, the economy has adapted. I will link this back to your point in a moment, but retail sales, for example, are back to the levels they were at before the pandemic. A lot of that is because people have had access to online services. This has shown how important online services are.

When we look at parts of the economy that don't rely on social interaction, many of those have continued at quite high levels, again because of the ability of online services. This has shown how important access to those online services is for the economy. If that continues, even after we return to a slightly more normal situation, that probably means that access to online services has become more important, in terms not just of everyday life but of resilience.

If we come out of this, one of the things we will be thinking about is how resilient is our economy. The online services provide that resilience. If people cannot access online services, that must be a concern.

Q370 **Siobhain McDonagh:** Ian, anything you'd like to add?

Ian Mulheirn: Nothing really. I would observe that the connectivity issue obviously reduces GDP today, but we have to accept that there are temporary problems all over the place at the moment. The really troubling thing, if we come back to the education point, is the extent to which the lack of online connectivity reduces our investment in the next generation. That will have permanent effects. That is the thing we should perhaps worry about most.

Siobhain McDonagh: And we know that 20% of children entitled to free school meals did less than one hour's schoolwork a day in the first lockdown. And we know that the poorer you are, the less likely you are to have any internet connection at home or to have access to a device. Thank you very much to you both. Those are my questions, Chair.

Q371 **Felicity Buchan:** Thank you, panel, for the very interesting discussion on GDP. I found that fascinating. My questions are on Government analysis of the pros and cons of the lockdown, so most of my questions will be to Jonathan, but I will bring Ian in at the end.

Jonathan, the ONS has published a paper, "Direct and indirect impacts of COVID-19 on excess deaths and morbidity." I believe that the ONS worked with the Department of Health and the Home Office on that. Can you, for the Committee and for the general public, talk through the parameters of that report? What were your conclusions?

Jonathan Athow: I am happy to do that. I think you are referring to the paper that was prepared for SAGE. The final version of that report is not yet published; it needs to be updated and I will come on to that. Essentially, it looked at four mechanisms through which the pandemic could affect mortality.

First, there is the direct effect of the disease. If you catch the disease you have a probability of dying from it, so that is relatively straightforward. We then looked at other mechanisms. The first mechanism was essentially a capacity constraint concern. Critical care, as we know from watching the news in recent weeks, is key to hospitals, and there was a concern that, depending on how the pandemic played out, that capacity could be overrun and there would be deaths that would have been avoided if there had been capacity in critical care. That was the second part of it.

The third part is a bit more difficult to capture in a pithy phrase, but it was the idea that priorities may have shifted. One example could be that people were shifting activities within the health service to deal with Covid and the consequences of that, which led to less focus on cancer, for example—on screening or treatment. That was the third element.

The fourth element was essentially the issue that the pandemic has affected the economy, either directly or indirectly, through some of the restrictions, and that economic effect will damage people's prosperity. What we already observe across the country is that people with lower prosperity have lower life expectancy, so if we assume that there are more people with that lower level of prosperity and we know the gradient of how mortality increases as incomes fall, you can apply that. That is the work that has been done. There was a version done early in the pandemic, and that is being updated, because much has happened since then and currently that work is in preparation. The challenge now is simply getting it published: it is a SAGE paper, and it is for them to publish.

Those are the broad parameters, and when that paper is published, we will make certain that we send a copy on to you. I have not seen the final numbers; I think they are still being worked and checked through. Obviously, we need a lot of input from a lot of different Departments on this, particularly the Department of Health's input on issues such as capacity and those sorts of things, so I am afraid I cannot give you the bottom line on that, but those were the mechanisms, and we will find excess mortality from all those different drivers; it is just a question of how much, and what the balance is on the basis of our latest understanding.

Q372 **Felicity Buchan:** Are you assessing the conclusions in terms of excess deaths, or in terms of QALYs—quality-adjusted life years?

Jonathan Athow: We are trying to look at both, because obviously excess deaths are important, but if this is somebody who was towards the end of their life, that is quite a different proposition from somebody who may be in the prime of life. We were going to try and look at those different measures. QALYs would give you a better, more economic measure, but we also wanted to talk about mortality, because obviously every death here is regrettable, no matter who they are.

Q373 **Felicity Buchan:** This is very much focused on health, rather than the effect on the economy, so it is not taking into account the effect on GDP. That is only being taken into account if it affects health outcomes.

Jonathan Athow: Yes, indeed. We have not done a systematic analysis of this. Much of the analysis we have done looks at what the effects of the pandemic are: we have been quite keen to draw out particular industries that have been affected and how it has played out for different parts of the economy, because within this, there have been some parts of the economy that have won and grown. If you are a post courier, that part of the economy has grown; if you are an online seller, you have probably done quite well. We also know that hospitality has struggled, so we have brought out the effects, but we have not done a detailed analysis—a sort of counterfactual analysis—of those different elements, and that is quite hard to do.

My final point here is that we have also seen the economy adjust over time. The first set of restrictions in spring had a huge effect on the economy: in April, we saw GDP fall in one month by nearly 20%. As a result of the restrictions in November, the economy fell by about 2.5%, so much less, and part of that is because sometimes, the economy has adjusted—sometimes, not for particularly good reasons. Airlines did not recover from the first lockdown, so there was not much further for them to fall, but in other areas, businesses have found ways of working with social distancing. Construction fell quite dramatically in the spring, but not in

November, so you also have to be aware that the economy and businesses have adapted to what is going on to some degree. It is also quite a moving picture here, so it is quite challenging sometimes to isolate exactly what those effects are, because businesses have learned and adapted—to some extent, anyway.

Q374 **Felicity Buchan:** Do you think that you are potentially missing a few inputs here? I am thinking, for instance, of education. If you look at deprived children who have missed out on a lot of education, you could argue that that will affect not only their ability to earn money, but their ability to get a job, and hence their health outcomes and their life expectancy. I am also thinking of potential domestic violence, which could lead to death.

Jonathan Athow: There are a whole number of mechanisms here. Future work will need to be done to understand that. As I said, we have seen less education and fewer hours. One of your colleagues brought out some quite stark figures, but we do not necessarily know yet what the long-term effects of those things will be. I am certain that there are many people working away on those particular issues. Over time, we will get a more complete picture. We will be able to follow the children who have lost that education through the system and understand what their later outcomes will be, and whether that has limited their life chances in some way. There will be opportunities to do that. We may have inadvertently captured some of that, but not explicitly so.

Q375 **Felicity Buchan:** I know that you said that it is in SAGE's hands to publish the report, but can you give us a flavour at this stage of where your analysis has come out? Does lockdown make sense in terms of preventing more deaths?

Jonathan Athow: It is very difficult. For example, on the economy side, it is very difficult to disentangle what is the effect of the restrictions and what otherwise might have happened. We have made some broad assumptions in there, but those will be difficult to do. That gives you a bit of a framework for trying to get into that question. It is very difficult to attach something to a particular restriction when we do not know. We have seen some evidence that even when restrictions were lifted, people did not go back into restaurants in the same way that they did before. It is very difficult to know how much of this is restrictions versus the wider impacts of the pandemic. As I said, we are hoping to publish this as soon as we can.

Q376 **Felicity Buchan:** When you say, "as soon as we can"—I know it is SAGE's decision—are we talking about a few days, a few weeks or a few months?

Jonathan Athow: I think it would be a few weeks. We are partly dependent on the Department of Health for this. It also includes the Home Office and the Government Actuary's Department. There are a number of players here, because we need expertise from across the piece. Obviously, the actuaries are very important in this analysis. I hope it will be weeks, but we will make certain that the Clerk is aware the moment it is published.

Q377 **Felicity Buchan:** The Government's next review of restrictions will be in mid-February. Parliament voted for them to be extended until 31 March. Do you think that this analysis, assuming it has been published, could be useful come mid-February and the end of March, for Government and parliamentarians to make decisions about future lockdowns?

Jonathan Athow: I think it will give us a sense of what the effects of the pandemic would be without mitigations, but I think it is difficult. Some people have tried to neatly label things: "This is an effect of the lockdown or restrictions", or "This is an effect of the pandemic." Actually, it is not that clear. As I said, some of the issues around re-prioritisation in the NHS have nothing to do with the restrictions; they are primarily issues of how you respond to those particular issues. With the economic effects, it is very difficult to separate out what might be a natural reaction to quite a scary time for many people from the actual restrictions on businesses. I think this requires a degree of nuance and subtlety in interpretation.

Q378 **Felicity Buchan:** Thank you. That is very clear. I am being told my time is up, but I just want to quickly bring in Ian, if you have any comments on what we have discussed.

Ian Mulheirn: I think there are two things here. As Jonathan has mentioned, there is uncertainty about how you allocate out what is the effect of restrictions versus voluntary social distancing, or voluntary changes of behaviour. That is pretty important. The other thing is that for many of these issues, in assessing the importance of lockdown for health or economic reasons, the other issues that we need to consider are, what is the counterfactual path of the disease? Without lockdown, what do you expect would happen to cases? And, in turn, what would that level of cases then do to these things you are trying to measure in a static sense? Without that view across time, a single-point-in-time measure does not really tell you very much. You need to look at the counterfactual going forward, as well, for both health and economy.

Q379 **Julie Marson:** My questions very closely follow up on the previous one. Could you go into a bit more detail, Ian, in what you are saying about the counterfactual? You did write to the Committee saying that that kind of assessment—looking at the social, economic and health outcomes of not doing anything to control the virus—was really important. That was a really important analysis for the Treasury to do. Could you talk a bit more about why it is so important for the Treasury to do that analysis and about the difficulties it would have in producing that, and how difficult that is generally to produce?

Ian Mulheirn: I think a lot of the analyses that were done in the early phases of the pandemic, which tried to look at the impact of lockdown measures on the economy, tried to make a judgment about what proportion of the reduction in economic activity is due to the organic behaviour of people who are worried about the virus, and which part was down to the restrictions the Government put in place, but most of them did not really look at how these things feed back on one another. This is not a simple framework, where the lockdown causes a reduction in GDP and that is the end of it. In turn, it causes the virus to be reduced, which in turn reduces the level of fear. I think it is fairly intuitive for most of us that there is this kind of behavioural effect that people get worried about the disease, especially when it is more prevalent and the number of deaths is rising every day, and we see terrible stories on the news.

There is this effect where people will reduce their contact, and that will in turn reduce economic activity, in the absence of any restrictions to control the virus. So we need to think about the health and the economics and the lockdown measures as all feeding back on one another, and to make some kind of judgment, therefore, about what would happen not just if there were no restrictions—what would happen to the economy assuming the virus didn't do anything—but what would happen to the virus if you took the restrictions off and then, in turn, what the knock-on effects to the economy would be. We have to consider all these moving parts together, and that is obviously extremely challenging, because any relationship, as Jonathan alluded to a moment ago, that we see in the data from the spring, say, might be different by now, and therefore these things are changing very rapidly. Nevertheless, those relationships do underpin any policy decision that is being made, so it is really important, I think, that the assumptions that are underpinning that are made transparent.

Q380 **Julie Marson:** What evidence have you seen about the effect of, say, voluntary social distancing and what the difference is in risk, and people's appetite for risk, and how they might have modified their behaviour in terms of that risk between the first lockdown and the second lockdown?

Ian Mulheirn: In terms of the general question about voluntary social distancing, there is a quite a large body of work now, almost all of which finds some significant effects of voluntary social distancing. For example, the IMF has suggested that in advanced economies almost two thirds of the reduction in mobility is attributable to people voluntarily reducing their social contact in the first lockdown. There are other studies from the US suggesting that a third of the reduction might have been voluntary. There is a very broad range of estimates, and of course they vary by country and other things. We can say that a very large part of the reduction in activity—certainly in the spring—was down to something voluntary. Putting exact numbers on that is extremely difficult, but we know it was substantial.

In terms of how that has changed, again, as the GDP figures show, by April the economy was essentially running at 25% below its level at the start of the year. Meanwhile, in the November lockdown, the economy was running at only about 9% below its level at the start of the year. That suggests two things, really. One is that perhaps the degree of fear has reduced or people have become inured to it; you have to remember of course that the level of deaths and the scariness of the disease was probably significantly less in November than it was in April, when deaths were running at almost 1,000 a day. Secondly, it also suggests that the economy has changed in terms of how activity occurs and has become less contact intensive. It is hard to know which of those is dominant in terms of the smaller effect we saw in November, but it is nevertheless pretty clear that the fear factor remains a big factor that stalks this debate. You cannot really set a decent policy agenda without taking a view on what that is, and that should inform the direction that policy takes.

Q381 **Julie Marson:** I would like to get Jonathan's take on this as well, but before I bring him in, Ian, how feasible is it—you mentioned this when answering Felicity's questions—to undertake that cost-benefit analysis of Government restrictions on those specific sectors? Closing nurseries, schools, pubs and retail, for instance? How feasible is that, because it is vital for policy making, isn't it?

Ian Mulheirn: Yes, it is. The cost-benefit analysis of restrictions on the whole economy is one thing, and I think it is possible to do that. At TBI we have done work to try to start putting together how you would do that kind of dynamic cost-benefit analysis. When it comes to individual restrictions, it is not impossible, but it is somewhat meaningless, I think, because although you can assess the costs of shutting nurseries or schools, in terms of lost education, lost GDP and so on, the benefits are rather more difficult, because if you shut schools, you could estimate what impact that might have on the R number, but whether it is worth doing depends largely on what else you are doing to get the R number under control.

If you shut schools but do not do any other restrictions in the economy, for example, the virus will still rip through society so the benefits of having made that move are negligible, whereas if the decision gets the R number below 1 and ends the epidemic, the benefits are substantially higher. So you have to ask, in any specific intervention, what the costs and benefits of that extra measure are in the context of what we already have, and the critical thing is always whether what we are doing is enough to get the R number below 1 and keep it there.

Q382 **Julie Marson:** Jonathan, is there anything you would like to add on any of those points?

Jonathan Athow: I think Ian has set out the logic very well. The challenge is that sometimes there are certain things we can measure quite easily—sometimes the direct effect of closing a particular part of the economy—but often the real consequences come through the indirect effects, which are much harder to observe. We know that nurseries are a certain percentage of the economy, but we do not know what the consequences of that are necessarily. We can try to have estimates of what the consequences are in terms of knock-on effects because people cannot work and what that does to employers.

It is quite challenging. There is a lot of data out there, but as Ian has pointed out, that data has changed as we have gone through the pandemic, as attitudes have changed. Again, with the current set of restrictions, the indicators of mobility that we have published suggest that this set of restrictions look a little more severe than the November ones in terms of mobility. It is a very shifting picture, but I think you can follow through the logic and think about it in that way. However, again, you will not get neat answers out of this sort of analysis. It will be broadbrush, because of all the interactions that Ian was talking about.

Q383 **Julie Marson:** That is really interesting, thank you. May I go back to Ian? Is there any economic modelling that you would have expected the Government to do and that they have not? If you can identify something that they have not done, what would be the impact on policy?

Ian Mulheirn: Just before Christmas—I think in November—the Government published a document setting out their analysis. In that—I think at the Committee's behest, in fact—they explained clearly the counterfactual, as they saw it, of what would happen to the health service if restrictions were not taken to control the virus. The document alluded to there being an effect, but it did not really consider what the economic impacts would be in the absence of any controls on the virus.

The Government have really not sought to set out what they think that relationship is, but they have alluded to the fact that such an impact exists. That is really the thing we would benefit from seeing from the Government—some sort of explanation of how they see the spread of the virus and the economics interacting. Notwithstanding the difficulties of putting firm numbers on that, there is now sufficient evidence at least to have a stab at that. As I said before, any restriction measures that are adopted are based on some kind of assumption or belief set about what those relationships are, so it is reasonable to expect that those could be set out.

Part of your question was about what sort of impact that might have had. Let us look back to September, as a thought experiment. In early September, we had cases running at around 3,000 a day. At that point, the R number went above 1. Later in the month, we had the Whitty-Vallance press conference, which caused a few waves because it projected potentially very rapid increases in case numbers. Then, at the end of September, a new variant was identified, which is largely what has landed us in this third lockdown now. If you think through those events and what was happening in September, and then the very high case numbers that persisted through October and into November, we could replay that part of the developments with a different approach.

If we had put that high R number into any estimate of the impact of the virus on the economy, you would probably have seen that the economic consequences of not acting would have ended up being larger, either because we needed a bigger lockdown for longer—which is what we are now in—or because we did not act at all and therefore the fear factor got bigger and bigger. Either way, the consequences of late action were always likely to be significant—and there was the unexpected additional problem of a more virulent strain of the virus. Put those two things together and that thought experiment gives a sense of how decisions might have been different had the Government established what their view of the relationship between economic activity and the spread of the virus had been.

Julie Marson: That is very helpful, but I am out of time, so thank you very much.

Q384 **Anthony Browne:** First, I want to ask one follow-up to Jonathan Athow about your comments on GDP, which the Chair asked you about at the beginning. If we used what we think is the more standard international methodology, that £1 input is £1 output in the public sector, you said that our fall in GDP would be roughly in line with the international average. Can you put an actual figure on that? You said you had done estimates for it; can you tell us what those estimates are?

Jonathan Athow: I do not have the figures to hand, but it has been done by external commentators as well. We can certainly get those—

Q385 **Anthony Browne:** Would you be able to write to us with those figures? I think there would be a lot of interest in what the fall would have been had we used that other methodology.

Jonathan Athow: We would have done; as I say, that applied that methodology across the whole economy, not just health and education, but we can certainly provide you with that. We are planning to publish more work on this in February and we can certainly do those calculations and send them on to you. As I said, there are a number of different ways that you might look at this, but we can certainly send that one on.

Q386 **Anthony Browne:** Thank you. We will wait for that with great interest. You have just been talking about modelling the lockdown; my questions are about modelling the end of the lockdown. We have the vaccination programme rolling out at rapid pace, to everyone's relief, and obviously the debate now is how quickly we lift the restrictions. Do we go more quickly, as soon as the more vulnerable are vaccinated? Do we do it more slowly? Do we do it in some sectors or others? The Government have said they will do it on a tiered basis, as we went into the national lockdown. My question is about what modelling needs to be done to inform that, on the way and the speed of lifting restrictions. I think most of my questions will have to be to Ian Mulheirn. How would you lift the restrictions and what modelling would you use to inform that in a way that reduces the economic damage while limiting the health damage?

Ian Mulheirn: The challenge here, if you were to conceptualise it, is that the Government should try to move in a way that keeps the R number below 1 and relieves restrictions as quickly as possible, subject to that being the case—obviously, once the prevalence of the virus is sufficiently low after this lockdown has proceeded. That is the challenge they face, and if you go back to September, we had an R number above 1 for a significant period, and that is the thing to avoid once we have come out of this lockdown: throwing it away again by releasing too early. That needs to govern the pace of progress.

We have some modelling in a paper out tomorrow that attempts to do some of that, but essentially there are lots of challenges in here: not just the interaction between the economy and the virus, but uncertainties around the degree to which vaccination prevents transmission and those kinds of things. We will only get a sense of that in the coming weeks, and some of that will dictate the pace of easing. The Government could, from where they are now, put out some plans contingent on a set of assumptions and say, "This is what we would expect to happen, and of course if the R number does go above 1 or the thresholds for virus prevalence are met, this will be delayed." It should be possible to set out some contingent plans at this point for how they should proceed.

Q387 **Anthony Browne:** I want to follow up with questions on those contingent plans, but before I do, you emphasise the R number and the total number of infections, and clearly that has generally been guiding Government policy so far, but the real harm from Covid is the hospitalisations and deaths. What we might well find, as those most at risk in the country are vaccinated, is that deaths and hospitalisations fall quite rapidly but that the infection number could stay quite high among the younger, unvaccinated population. Is there not a risk that if the Government just focus on the infection numbers rather than on the death and hospitalisation numbers, we would have the restrictions for longer than we otherwise would and the cost-benefit analysis would end up being far more costly in economic terms than need be in terms of reducing health harm?

Ian Mulheirn: We are entering a really difficult phase. We have seen already how people's behaviour has probably changed since spring last year, and how the fear factor has probably changed, and now that will change radically again. Hopefully, we can largely eliminate most deaths among the most vulnerable groups, which is going to change things, but what we don't know is the extent to which the fear factor in the wider economy and among working-age people and consumers is contingent on the fear of other people dying versus the fear of getting the virus themselves and the nasty effects it can have.

I would caution against assuming that once the mortality rates had fallen, the economy would just get back to normal if you let the virus go. I think that is probably unlikely. I think lots of people who are particularly thinking about engaging in social consumption are going to balk at that idea, if prevalence is not kept under control. That is key.

To go back to the premise of your point, there has been a focus on the R number and prevalence rate, but a lot of past decisions have been made primarily on prevalence rates. Really, the R number tells you what the prevalence is going to be in future. Once we come out of this lockdown, we will hopefully have prevalence at a low enough level. The key measure, and the way to build confidence among consumers to come out again, is to commit to ensuring that that R number does not go back up. If we can do that, the fear factor may wane quickly, and that will be the best thing for the economy.

Q388 **Anthony Browne:** It obviously made sense focusing on the prevalence number when there was a strong and direct link between prevalence, hospitalisation and death, and we knew that one led to the other. When you have mass vaccination, although there is a risk, that relationship will certainly change, and could more or less completely break down.

On the whole fear factor, from what you say it seems quite a likely scenario that, as you vaccinate elderly people—as I see in my own family—they get less fearful of doing things that they were otherwise not doing voluntarily. As you vaccinate people, you could see a lift in economic activity happening, just as a result of the fear factor going away among the most at-risk population.

Ian Mulheirn: Yes, I think that is highly likely. The critical unknown will then be that they may be protected, but can they still transmit the virus, and to what extent? There is conflicting evidence on that. That may be an unmitigated good thing, if the vaccine also turns out to have put a big dent in transmission, but it may be quite a dangerous thing if that's not the case.

Q389 **Anthony Browne:** You mentioned doing contingent scenarios. I'm a very big fan of that; I think that is exactly what the Government should be doing in situations like this, and making it public, so that everyone knows what the plan is. What modelling do you think would be needed to decide those contingent scenarios? Is that too much detail for economics to be able to answer? Or can it really inform those decisions that, if the infection rate is this high, then you can open up the pubs, for example?

Ian Mulheirn: There is a point at which the health costs will dip below the economic costs and the two will shift around. It should be possible to set out what the economic costs over the whole of 2021 would be under a given easing plan, and what the health implications of that plan would be. And it should be possible to optimise those things. That is something where the Government would specify the staging of when restrictions would be lifted and the SPI-M modellers could say what that would be likely to do to the prevalence of the virus, the R number and so on. Then, the Treasury, the OBR or some economic modellers can take a view on what different levels of the virus and different levels of restrictions would do to economic activity. By putting all those things together, you should be able to optimise that and come out with what is best for the combined concerns of the country in terms of health and economic wellbeing.

Q390 **Anthony Browne:** Thank you, Ian. Jonathan, I've got a question for you but, first, do you have anything to add on this issue of modelling how we lift restrictions?

Jonathan Athow: No. The only thing I would say is that we are trying to gear up as much as possible within the ONS. We have our Covid infection study; we are linking that to vaccines, so we will be able to see how the vaccine roll-out affects that. We have also been doing some work on long Covid, to try to understand that. Nobody has a crystal ball; there are still unknowns about the effectiveness of the vaccine. We will try to make much of that data available and link up, so that people can see how the vaccine roll-out is affecting prevalence of the disease, and also hopefully its severity.

Q391 **Anthony Browne:** I have a follow-up question about the vaccination data. I can tell you as an MP that there is intense interest in the data on vaccinations, including locally. I think it is provided at the moment by Public Health England and the NHS. From what you say, the ONS will be doing data on vaccination yourselves. Can you say what sort of data that will be and when we will have it?

Jonathan Athow: For the main measures on how the vaccine is being rolled out, we will be relying on the Public Health England numbers. The ONS is part of the wider Government statistical system, so we have been supporting Public Health England in how it presents that data for second doses and those sorts of things. My previous comment was a much more limited point about making certain that vaccines are counted in the output of the NHS.

In normal times, vaccinations are relatively modest. They are the same every year, and they don't really affect the output of the NHS. We want to make certain that what is an unprecedented vaccine campaign is reflected in the output of the NHS and in GDP. So that is where we are particularly interested, but we work closely with Public Health England and the devolved Administrations as well, in making certain we have good information around and that it is well presented, because there will be a lot of interest and a lot of scrutiny of these numbers.

Anthony Browne: Okay, that's great. I would love to ask you more questions, but I am out of time. Thank you both very much.

Q392 **Mike Hill:** My questions are predominantly to Ian, following on from Anthony's session. There is a little bit of crossover, but it is worth drilling down, because I want to talk about business support and reducing uncertainty going forward.

Ian, in your view, how long should the Government extend the coronavirus job retention scheme and the self-employment income support scheme for?

Ian Mulheirn: In terms of specifics, I would not want to offer an opinion. The broad principles we should be working to, though, are that there were legitimate questions about how long this pandemic would go on for and how sustainable support levels would be, but we now have a relatively defined timetable to vaccination. It would be silly to be penny-wise and pound-foolish at this point. If we were to end support too early and cause a wave of liquidations just as we are expecting the economy to get back on its feet, that would seem like an unnecessary economic cost. I think that is the thing to avoid.

The specifics of when, for example, in the labour market we switch from supporting old jobs to turning round and incentivising the creation of new jobs so that shifts in the underlying economic structure can be facilitated rather than stopped is an open question, but I think the thing to do in the meantime is to prevent mass bankruptcies, certainly for the period of the lockdown and the toughest periods of restrictions coming out of that lockdown, which are not going to help speed the recovery and may exacerbate the long-term scarring effects of the pandemic.

Q393 **Mike Hill:** I think you are absolutely right to be hesitant. In some instances, things are unpredictable, but the end has to happen, doesn't it? I know these schemes have been restarted, but they will have to end. Do you have any idea of what kind of criteria should be used at that point?

Ian Mulheirn: It may have to depend on the sectors we are looking at. What we had with the last strain of the virus was the potential to have much more middling restrictions and keep the virus under control. It was at least possible to do that. Arguably, with this more infectious strain, we are forced into this rather nasty binary where we have a pretty heavy lockdown until we have got enough immunity from the vaccination programme to unlock. It may be that you have a quicker shift from one to the other, which may mean that you cannot take a sectoral approach, but that depends on what the Government decides to do in terms of its pace of easing and how quickly we can get back to normality.

Mike Hill: I get what you are saying. My third question would have been: to what extent do you think the vaccine roll-out will enable the economy to get back to normal? As you describe it, that is an unpredictable element, to a degree. But that has to be the target, hasn't it?

Chair: I think we have lost Ian. Do you want to continue with Jonathan? We will see whether we can get Ian back, although it is a bit late in the day now.

Q394 **Mike Hill:** The only other question remaining is about the OBR. Jonathan, perhaps you can answer this. What more analysis would you expect the OBR to do of your current Budget, the vaccine roll-out or the latest lockdown? What kind of analysis do you think the OBR would need to do, given the current state of the vaccine roll-out?

Chair: I see Ian is back, and he may have caught the tail end of that question.

Ian Mulheirn: My apologies; I had a technological fail. Was that question directed at me?

Mike Hill: It was. If Jonathan wants to come in as well, that's fine.

Jonathan Athow: Do you want to start, Ian? I can maybe pick up a few pointers.

Ian Mulheirn: Yes, sure. As I understood the question, it was about what other analysis the OBR should be doing. One thing to say is that in terms of modelling what will happen to the economy, that is principally contingent on the restrictions and the path of the virus. That is obviously a set of health policy decisions. It is difficult for the OBR to model that without having some sort of path set out in terms of restrictions and the Government's view on the likely evolution of the pandemic. In formulating that forecast, the ideal thing would be for the Government and the epidemiologists to set out a contingent plan, their view on the likely evolution of the virus, and what that means for the timetable for easing, and then to provide that to the OBR, which could then model what would be likely to happen to the economic forecast in light of the restrictions, the prevalence of the virus and the fear factor that might create.

It would take all parts of Government to make that assessment, but it should be possible to do. It is not something that the OBR can do on its own; it would need to be provided with those assumptions and inputs from the epidemiologists, and from the Government setting out its own plan, if only behind closed doors, about when and how easing should occur.

Mike Hill: Thank you. Jonathan?

Jonathan Athow: The one thing I would say is that I think the OBR was very successful in its previous forecast at using scenarios. What Ian said is absolutely right, but it is also about recognising that there is a danger that if you put out one set of numbers, people seize on it. We have seen that in many contexts throughout the pandemic. If we put out one scenario, people say that is a forecast. We need to explain that we are still in very uncertain times. There is hope through the very prompt roll-out of the vaccine that seems to be happening, but putting some scenarios around things really helps. That was a really successful way in which the OBR presented its last forecast. Keeping that going, given the uncertainties here, would be helpful.

Q395 **Mike Hill:** It was helpful. My very last question is: what would you expect to see in relation to measures that would boost recovery, presumably post Budget or as part of the Budget?

Ian Mulheirn: Sorry, do you mean economic measures to stimulate the recovery?

Mike Hill: Yes. Do you see any measures that need to be put in place to help that?

Ian Mulheirn: There is obviously a lot that will be needed. Some of the things that I have alluded to before around moving towards subsidies that encourage the creation of new employment are the kinds of things we need to move to, because the economy has undergone massive structural change already and will continue to, and we cannot really predict how much of the changes in the economic structure that we have seen over the last nine months will persist versus what used to be normal.

We need to create certainly a macroeconomic environment that is fiscally supportive until such time as the economy is back to its potential level. That is the key thing. But the micro measures need to be well designed to facilitate the emergence of whatever that new economy is, and not necessarily be protective of the status quo. Finessing that move will be difficult, but it will be really important as well.

Q396 **Mike Hill:** Thank you, Ian. Jonathan, do you have anything to add?

Jonathan Athow: Luckily, I can steer clear of policy. The one thing I would say is that when we look at household finances, there have been very different experiences through the pandemic. Some households have been very stretched and have had to run down savings or borrow, but other households have been able to build up savings. So I think that once the restrictions are eased, there will also be a question of how much organic bounce back in consumer spending there will be when people who have not been able to spend money on hotels, holidays or eating out are able to go and do different things. That will be an interesting question and a real unknown as to how much of the savings that have been built up during the pandemic by some households then unwinds as well. That will be a key judgment to make in terms of future policy setting.

Mike Hill: Thank you, Jonathan. Chair, that was my last question.

Chair: Thank you very much, Mike. That brings us to the end of this session. I thank both Jonathan and Ian very much indeed for appearing before us. It has been a really interesting discussion. There are such huge policy decisions that the Government are having to take at the moment. The kind of issues that we have discussed today lie right at the heart of whether those decisions are optimal or otherwise.

It was very interesting how we touched on the importance of the accuracy of data, and also the way that analysis is carried out. Particularly interesting was the discussion around GDP, how we interpret the analysis in the broader context of other things going on in the economy, including on the health side, and the role of counterfactuals and so on. It is all very complicated is the summary of it all. You have adroitly helped us to navigate through a lot of the issues today. It has been an extremely interesting and very helpful session, so thank you both very much indeed. That concludes this session.