HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Covid-19 cost tracker update, HC 1297

Thursday 27 May 2021

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Watch the meeting

Members present: Meg Hillier (Chair); Gareth Bacon; Sir Geoffrey Clifton-Brown; Peter Grant; Nick Smith; James Wild.

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

Questions 1-70

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Cat Little, Director-General, Public Spending, and Head of the Government Finance Function, HM Treasury; and Conrad Smewing, Director, Public Spending, HM Treasury.

Examination of witnesses

Witnesses: Sir Tom Scholar, Cat Little and Conrad Smewing.

Chair: Welcome to the Public Accounts Committee on Thursday 27 May 2021. Today we are looking at the National Audit Office's updated Covid-19 cost tracker. This is the primary public data source for looking at how the Government is spending taxpayers' money. It tracks the money allocated for Covid-19 projects, but it is not a fully audited account, so it does not actually track the final spend. The latest estimate puts the cost of measures for which Government Departments are responsible, from business support to the Test and Trace programme and everything between, at £372 billion, which—when we think about what we were doing 14 months ago as a Committee—seems unbelievable. That includes an estimated £92 billion in loans guaranteed by the Government and the Bank of England. Of those loans, £26 billion has already been included in the cost tracker as likely to be written off. There are some very significant figures in here, but we are also keen to understand how Government, overall, is tracking the spending of taxpayers' money and the impact on public finances, both now and into the future, given that some of the loan schemes will potentially be a liability for a decade.

We are delighted to welcome our witnesses today. In the room physically with us, we have Sir Tom Scholar, the permanent secretary at the Treasury. We have Cat Little, the director general for public spending and—crucially in this respect—head of the Government finance function, who is also at the Treasury. We also have Conrad Smewing, the director of public spending at the Treasury. Thank you to our witnesses. I am going to ask James Wild MP to kick off.

Q1 **James Wild:** Clearly, the sums involved that we are talking about here are extraordinary. Sir Tom, how are you tracking the activity and expenditure across Government in response to Covid?

Sir Tom Scholar: I will start, and then perhaps I will turn over to my colleagues, who are actively running this process day by day. The short answer is that we are tracking and controlling public expenditure on Covid in the same way that we do routinely for all public expenditure. As you say, the sums involved are very large, but the principles are the same, and we can certainly talk you and the Committee through that.

One new thing that we have done over the last few months is start to attribute particular items of spending and designate them as Covid-related. That was not previously, as you might understand, a recognised technical element of spending on a line-by-line basis, looking at the accounts, but we have done a lot of work with the Department to improve the definitions there so that we are able to give a reasonable guide to the overall cost.

I should say that we have found the collaboration with the National Audit Office on this incredibly helpful. The product that we are looking at today is the NAO's product, but we have worked very closely with them on it. We think it is a really excellent piece of work and very helpful in improving public understanding of the costs here.

Cat Little: To give a little more detail—Conrad might want to add to this—there are four very specific types of data, financially, that we are tracking. There is the whole-life cost; there is the budget that we set for every single measure; there is the forecast in the financial period—obviously we want to track in line with the financial years that we are accountable for; and then there is the actual spend in the out-turn data. The Treasury sets the frameworks and the details that we prescribe for each of those core types of data. Conrad has a dedicated team that is established to track and monitor and ensure that we understand all of that data throughout the financial year.

Q2 **James Wild:** Sir Tom said that this is being tracked in the same way as other spending. Is that appropriate with the spend that is involved here? Don't you really need a bespoke model to track the spend?

Conrad Smewing: The overall systems—the regular monthly reporting of out-turn spending—are pretty robust for keeping track of it, but you are quite right. We have put a lot more focus and effort on tracking what is going on with these particular items of spending because they are so large and, in many cases, quite novel.

The process is that each spending team in the spending side of the Treasury that has a relationship with the Department has been tracking each of these items of spending and how much has been approved, in terms of conditions or ex-post reviews of the spending that we have asked for, and following those up. Then my central team has been collating that information periodically to bring it together for the Office for Budget Responsibility forecasts at the spending review last year and at Budget '21, and reporting it separately in those Budget documents.

The basic framework works reasonably well for tracking this, but there has been a lot more focus on the particular line items.

Q3 **James Wild:** This is the third iteration of the NAO's tracker. You referred there to monthly spend. Obviously, this was September, January and then May. Are you getting monthly data on Covid spend?

Conrad Smewing: We get monthly data on overall departmental spending, not necessarily split Covid/non-Covid. We can come on to that. In some cases, that is actually quite a difficult thing to do, because there are some grey areas—what is Covid or non-Covid?—which we have to work on quite closely with the NAO when we come to the estimates for the tracker. We can track overall Government spending through that monthly public sector finances process, and then we need to put a little bit more effort in each time the tracker is updated or the OBR do a reforecast.

Q4 **James Wild:** What are the biggest challenges in identifying what counts as Covid spending, and how are you tackling that?

Conrad Smewing: For some areas of expenditure, it is reasonably straightforward. For instance, for the business support grant schemes, which are clear grant schemes, you can see that money leaving the public sector, and you know what the cost is, because it is 100% grant and that is quite straightforward.

For other areas of expenditure, like, for instance, the estimates of costs on the loans, those are very much estimates. They are extremely uncertain, and the people who are attempting to come up with a number for those write-downs are having to do quite a lot of modelling and assumptions to come up with something.

Then there are areas of spending where you can't actually see whether it is Covid-driven or not Covid-driven. I will give you a couple of examples. For instance, on spending in the NHS, you can see the overall NHS spending, but you can't see how much of that is actually driven by Covid or not Covid. You can only see the overall net increase. Similarly, for universal credit spending, you can see the number of universal credit claims and the amount per claim, but those claims do not come stamped "Covid" or "non-Covid". If you want to understand the impact of changes in the signing rules on the universal credit forecast, you have to make a whole series of assumptions and do some modelling for that, so those things are harder to do. The best estimates for those kinds of things tend to come in the Office for Budget Responsibility forecasts as they come round.

Q5 **James Wild:** In terms of the tracker's completeness, there are areas of Government spending that you don't consider it is capturing properly as it stands.

Conrad Smewing: Inevitably, it is difficult to decide where to draw the line. The NAO figure, which is trying to get gross lifetime costs of policy decisions driven by Covid, is one pretty good place to draw it—so that £372 billion. That figure ignores some measures that have been taken as a result of the pandemic to support the recovery—for example, the corporation tax super deduction that was announced in the Budget, or the increases in capital spending that were announced in Budget 2020. They support the recovery from coronavirus, but they are excluded from this measure.

It also doesn't include what you might regard as the costs of Covid on the economy, and therefore receipts in the public finances. It is a very good measure of what you might think of as policy response, although not a complete measure, but there are broader measures of the overall cost that you could draw.

Q6 **James Wild:** You talked about the NHS and universal credit and the headline figures. Is the DWP tracking if, when people register a UC claim, it is directly related to someone losing their job as a result of Covid?

Conrad Smewing: They are tracking the claims, and those claims can be a result of losing jobs following Covid, but I don't think they can track individually which claim is or is not Covid driven. They can try and make an estimate of the impact on the economy—on the unemployment roll and on people's wages—and how much that is driven by Covid. You can produce a top-down estimate, which is what they do for the OBR and their forecasts, and when the OBR reforecast their policy costings, but you cannot account for the spending in quite such a detailed way. For their annual report and accounts this year, we have asked them to produce their best estimates of what is Covid-driven and non Covid-driven expenditure. We are sympathetic with some of the difficulties, but it is possible to do an estimate.

Q7 **James Wild:** Why can they not just ask the person and record it at the time they are making the claim, and then add it to the system? I would have thought it might be useful data to have.

Conrad Smewing: It might be quite difficult for the system to capture it. It also might be quite difficult for the person concerned to know whether it is Covid or non-Covid—it is all post-Covid. I think it might be hard to get an accurate estimate that way. It would probably be better to do the top-down statistical economic analysis that I am talking about, to get a more accurate figure.

Q8 **James Wild:** Ms Little, you talked about the four elements of your tracking. How much of a concern is it to you that there are more than 30 measures where Departments could not provide the NAO with forecast costs, which is one of the four elements that you said you would be capturing?

Cat Little: We have gone through all the measures where costing wasn't available, and they tend to fall into two main categories. First, some of those measures haven't actually started yet—for example, the future fund breakthrough. We know its measure costs will start in due course.

The other category that very uncertain measures tend to fall into is tax measures. A good example would be the loss carry-back extension, which will probably be, overall, fiscally neutral but is very dependent on the economic recovery and the latest tax data that we will receive.

Conrad talked about the DWP data. I would add that, obviously, there is the AME spend on benefits, but there is also the DEL spend. We are working with the Department to understand why they haven't been able to produce better DEL data. As a Department, they have tried to get the balance between producing timely information and high-quality information. Unlike other Departments in the tracker, they have chosen to spend more time on the quality, rather than producing rougher estimates on a timely basis. So we are working with them to see how we can get that information produced more regularly. That accounts for the vast majority of the 30 or so measures that you mention.

Q9 **James Wild:** Do you have a timeline for when you would expect to have estimates against all or most of those measures?

Cat Little: For the vast majority, it will be over the course of the next 12 months. It depends when schemes start and when we have better data. For the tax measures, a lot of it will be to do with the gathering of tax information for the last financial period. Over the next 12 months, we will have a much clearer picture.

The other thing that we have asked for as part of the annual report and accounts is for Departments to set out as much as they can about the estimates of each of the measures, what Covid money and EU exit money has been spent, and what is intended to be spent over the course of the next year. I think I copied the Committee into the instructions that we provided Departments with to gather that information so that we are not waiting until the annual reports and accounts for the next financial period.

Q10 **James Wild:** There are also a number of measures—I think it is in the region of 60—which Departments do not know how much they have spent on. Some of those measures have been active for more than a year. Why don't Departments have that data?

Cat Little: This relates a bit to the previous question, Mr Wild. The vast majority are to do with uncertainty and an inability to sensibly forecast. Of course, we want Departments to use evidence in order to set out their estimates of total costs. When it comes to loans, write-offs and inherently very uncertain, demand-led measures, they simply do not have the information to be able to accurately produce costs. As we said, there are a few examples where there are data issues and timeliness issues. They are mainly to do with the NHS and the DWP, but for the vast majority there are good mitigations for why costing is very challenging.

Q11 **James Wild:** The DWP haven't provided much data to the NAO on what they have actually spent to date. Is that good enough?

Cat Little: Well, as Mr Smewing said, it is very difficult for them to be able to ascertain the direct Covid nature of their benefit payments at this stage. They are working to improve that dataset. As I said, I think they have probably spent more time on the quality, rather than producing information quickly on the DEL side. There are certainly some areas where we want to do more, and more quickly, and get information out into the public domain.

Q12 **James Wild:** We have the headline figure of £372 billion. Sir Tom, how close do you think that current estimate is to the final cost to the Government and to the taxpayer?

Sir Tom Scholar: Let me say two things. First of all, what the NAO are doing through this exercise is keeping track of the gross public expenditure cost, but the answer to the question of how much Covid is going to cost the country is actually quite a lot broader than that and will depend above all on the degree to which the pandemic has a lasting medium-term hit on the size of the economy.

In terms of the cost to businesses, jobs, incomes and then, ultimately, tax receipts and therefore the public purse, that is the figure that will, in the end, be the most important. Obviously, that goes beyond the scope of the NAO's exercise, but I think it is important to be clear about that. That is a figure that is currently unknown, and we will be debating it for some years to come as we see what the long-term impact on the economy is. As you know, the Government are doing a whole number of things to try to reduce and minimise that impact, but that will be the single most important determinant of the overall cost.

Looking at the public expenditure cost, there are some details of definition, which we can certainly talk further about. But I think the main thing to say is that the £372 billion is a good and reliable snapshot based on what we know now, but there are still quite a lot of things we do not know—for example, all those programmes that are demand driven where the cost will depend on take-up, and that in turn will depend on the evolution of the pandemic. A very good example would be the cost of the health service, the cost of the testing programme or the cost of the vaccination programme. All of that will depend on the number of tests that must be carried out and whether repeat programmes of vaccination turn out to be necessary. We just do not know that yet. All those things will have a big, big impact on the public expenditure figures.

The other thing that will have a big impact—this goes back to the question about some of the cost of the loan schemes—is how the economy will evolve and the extent to which businesses are or are not able to pay back the loans that they have received. As of today, inevitably, there is quite a wide range of uncertainty there. With every month that goes by, we will know more about all the things I have been talking about.

So my simple answer to your question is: it is a good, reliable snapshot as of today, but we would certainly expect, and I am sure the NAO would expect, that number to change over time as we see what happens.

Q13 **James Wild:** I think your answer illustrates the uncertainty around it. When will you be able to put a definitive cost on the public expenditure which is categorised by the Treasury and NAO as related to Covid? When will the taxpayer have a definitive view? From your answer, it sounds like not anytime soon.

Sir Tom Scholar: That is right. We will only have a definitive view once we are clearly the other side of the pandemic. Obviously there has been a lot of progress in recent months and we all hope that we are getting closer to that point, but we are certainly not at that point yet.

Chair: I will bring in Cat Little on that as well.

Cat Little: As Sir Tom said, this is a really good snapshot and a very reasonable estimate of the total whole-life cost. When you compare it to what the Chancellor said about the total Covid funding made available for both the recovery and for public expenditure at the Budget of £407 billion, it is pretty close. We can reconcile the £35 billion difference between the two. So the numbers very closely correlate.

What I would say is that year-to-date expenditure—the £172 billion that the NAO tracker highlights—shows that it is tracking marginally behind what we expected to spend. On Tuesday, the ONS set out the overall expected expenditure for the past financial year for public spending, and we can see that there is a £9 billion underspend compared with the March OBR forecasts for total public spending.

Now, one of the things we are currently doing as part of the year-end process is understanding where those underspends have fallen, the reasons for that and what we can do to better improve the forecast of the total cost of Covid and, of course, of total public expenditure. It will not surprise you that there are some areas that are inherently very difficult to forecast which have come below the budget that we were expecting to spend. For example, Test and Trace has had some real challenges in managing its demand modelling, and it had to make some assumptions about a reasonable worst-case scenario of demand for testing. That has proven to come in under the expected costs. But as Sir Tom said, I think it will take quite a bit of time for us to get the actual outturn data as part of the annual reports and accounts this year.

That, of course, will be audited by the NAO publicly and set out. Our intention is to produce unaudited consolidated information ahead of that period, just because we are running behind the normal schedule, and then the Whole of Government accounts, probably for this year and the next financial year, will be the ultimate a number that will allow us to have much more granular detail on the total cost of Covid.

Q14 **James Wild:** Thank you for that. You have all complimented the benefit of the tracker. How are you using it day to day, week to week, to track things and work with Departments? That is for Mr Smewing.

Cat Little: I will start, and I am sure Mr Smewing will add to this. Obviously, we worked very closely in partnership with the NAO to produce the tracker. We have used it to corroborate spend-to-date data that our spending teams are using. We have used it to reconcile and challenge consistency of data between Departments, and we have certainly picked up some issues with categorisation, the way in which Departments are recording data, and the completeness of information, as we discussed. We will use it as a source of key information for the Whole of Government accounts, as well. Obviously, the tracker is not primarily for the Treasury to use; it is a really useful sense check and corroboration tool but, fundamentally, it is another source of data to complement the work of Treasury in providing timely high-quality information to Parliament and to the public.

Conrad Smewing: All I would add is that if the tracker was not there, we would have had to invent something similar to it. It is a very useful framing mechanism for us going into the detail of the various lines of expenditure with Departments, understanding those questions about provision, spend-to-date, future expected costs. If it were not there, we would have had to do something that was similar in our internal processes, so it has been a very useful tool for spending teams and for us.

Q15 **James Wild:** You said that something similar would have had to have been invented. Why did the Treasury not take the lead on doing this in the first place?

Conrad Smewing: Basically, the NAO got there first in publishing it. I am sure that the NAO will not mind me saying that it is very much a co-production between my team and theirs, in terms of us helping to collate the information from Departments and to ensure consistency. It is simply that they had the idea of publishing it first. They are a very sensible organisation to do it, obviously, so we are keen to help them, rather than to reinvent the wheel ourselves.

Q16 **James Wild:** Fair enough. You mentioned some of the elements that are not captured, such as some of the capital spend and the impact on economic growth. Do you think that can be usefully worked into future iterations of this model?

Conrad Smewing: My personal view is that the costs that are not included in the tracker, like those more economic costs, are better captured by the OBR forecast, because they are so dependent on a set of assumptions about the path of the economy, the path of receipts and things like that, that it is just more sensible to collate that alongside the OBR forecast, rather than trying to change the scope of the tracker. I would see those two things as complementary, rather than something you would necessarily want to expand the tracker into.

Q17 **Chair:** Can I be clear—perhaps this is one for the witnesses in the room as well—that, in a sense, what you are saying, Mr Smewing, is that the tracker is dealing with tangibles, which you can count and track, whereas you do not think the forecasting should be part of it? You want to see those as separate. You see them as separate methodologies and therefore as separate types of tool.

Conrad Smewing: That is right. Unfortunately, there are always slight grey areas in between, and we have covered a couple of them already, including, for example, how you work out how much of the DWP's social security costs are Covid or non-Covid. There will always be a little difficulty in drawing the line, but having something that is focused on the concrete, on the more auditable end of how much spending we have done, and complementing that with something that is looking at forecasts for the economy, comparing to counterfactuals, which is what the economists at the OBR do. Having both those ways of looking at it is very valuable.

Chair: For the record, the witnesses in the room are nodding, so I will not go to them. Mr Wild, back to you.

Q18 **James Wild:** On the spend, Sir Tom, where does value for money sit? We have had sight of the letter from the Chief Secretary to the Treasury to the Treasury Committee, talking about increased risk and changing the approach. Has value for money been put slightly to one side with chunks of this spending?

Sir Tom Scholar: Thank you. You mentioned the Chief Secretary's letter, which I hope sets this out very clearly. In looking at public expenditure decisions and value for money since March last year, the Treasury has kept the same basic framework, with its strong emphasis on value for money, but has adapted it and made it more flexible in various respects to recognise the circumstances, particularly the need for the Government to act extremely quickly on a whole range of fronts, and for the Treasury to provide very rapid funding to enable that to happen, whether it is the provision of frontline services, support to the economy or whatever.

At every stage when allocating money, we have looked at value for money. We have advised Ministers on that and, collectively, we have always been trying to make that judgment. As the Chief Secretary said in his letter, part of the judgment in some areas was that value for money was actually best served by moving very quickly and accepting explicitly a slightly higher than normal risk appetite as part of that, in the interest, ultimately, of doing the job that needed doing. That was built into the approach from the beginning.

As time has gone by, and in all of the areas that I have mentioned, we have been consistently looking at where we can tighten up and where we can reintroduce the same set of controls that we would normally have, and we have quite a few examples of where we have done that. The basic guiding principle has been value for money, but value for money defined in the circumstances that the Government and the country faced.

Q19 **James Wild:** Thank you; it is helpful to have that on the record. A final question for me. Some 90% of the projected spend is on the response or consequence of Covid, and 10% is on recovery. Is that the right balance to make sure that we bounce back?

Sir Tom Scholar: Let me start on this one, and others may add. I will pick up what Conrad said earlier: it is actually extremely difficult to categorise spending as either part of dealing with the pandemic or part of recovering from it. I can give a number of examples. Vaccines, in one sense, are dealing with the consequences of Covid, but it is also an essential part of the recovery. As for the economic support schemes, the furlough scheme, the various loan schemes, on the one hand they were a response to the immediate situation, but they are also a critical part of recovery, because they are precisely designed to minimise the long-term damage to the economy that I was talking about earlier.

It is one of the things that we would like to pick up, explore further, think about further and discuss with the NAO. It is actually quite conceptually difficult in a number of these areas to draw that distinction. When it comes to decisions about allocating money, we are not thinking, “Is this part of dealing with the past, or is it part of recovering for the future?” We are thinking at every point in time, “Is this a good use of public money and an effective way of helping the country and the economy move forward and recover?” That is the way we think about it, but I think we ought to work further with the NAO on how to try to capture that in the tracker.

Chair: Thank you. We will come back to the recovery, because that is the future, isn’t it? Over to Mr Gareth Bacon MP.

Q20 **Gareth Bacon:** I want to pick up on a question that Mr Wild just asked you, Sir Tom. Your answer about value for money was: “Value for money, but as defined by the circumstances the Government now faces". Can you go into that a little bit more, please? Obviously I get the gist of what you are meaning by that, but in terms of planning spending decisions, can you clarify that a little bit more?

Sir Tom Scholar: Certainly. I will give one example, and Cat and Conrad might want to add others. Let's take the example of spending on vaccine development. That was a very important programme that started in March last year. It is in the nature of these things that they take a long time. Typically, most vaccines are developed either exclusively or largely by the private sector, but in these circumstances, as the development of a vaccine was absolutely central to dealing with the pandemic and recovery, there was a very strong public interest in the Government supporting it.

Vaccine development is an inherently uncertain business. A number of research avenues are pursued that turn out not to be successful, and you do not know in advance which will be the successful one, and which will turn out to be a dead end. The Government needed to decide how to approach that; as you know, they set up a vaccine taskforce, which started in March last year. In May or June, the major contracts were signed. They had to be signed very quickly in order to get ahead in the programme and keep it moving, and in conditions of considerable uncertainty, and included difficult judgments such as pricing and so on. We looked at all that, along with the rest of the Government. Obviously, they were hugely important decisions for the Government. We always had a focus on value and good practice, but we thought about and advised on that in the context of it being an absolutely critical national priority to make progress on the vaccine programme.

Chair: Let me draw people's attention to the letter that the Chief Secretary to the Treasury wrote to the Chair of the Treasury Committee Mel Stride, which is helpful in laying out some of what Sir Tom Scholar, as Permanent Secretary, just outlined about the Treasury's approach. It is a document that anyone following this session may want to look at. It will be available on the Treasury Committee's website and ours, too.

Q21 **Gareth Bacon:** Sir Tom, would it be fair to summarise what you have just said as: the Government, because of the pressing national need in the emergency and the pandemic, were prepared to accept a greater level of uncertainty about the efficacy of their spending on things such as the vaccine procurement programme than they would have done in normal times?

Sir Tom Scholar: Yes, I think that is fair. The Chief Secretary's letter sets that out and explains some of the other things that we did. There were a number of areas where it was very important to move quickly, so to facilitate that, in some areas we increased delegated spending limits or allocated particular pots of money for Departments to use, and delegated greater authority to them to make those decisions.

In some cases, we varied the approvals process. I should say that in all cases we told accounting officers that they remained responsible for assuring themselves that public money was being properly spent, for applying the principles of managing public money and for accounting to Parliament for the spending of that money. That has been a critical guiding principle throughout. But the Chief Secretary's letter sets out, and we can all talk through it in more detail, that in a number of areas we did introduce flexibility, particularly to recognise the circumstances at the time. As we have moved beyond that initial acute phase, we have gradually reintroduced all the normal features of the system.

Q22 **Gareth Bacon:** We have been talking this morning about the NAO's cost tracker and its usefulness as a tool to monitor what the Government is doing in relation to Covid. How confident are you in the accuracy of the data that the Departments are providing to you and the National Audit Office?

Sir Tom Scholar: There are several elements to that. As I said earlier, we are confident that the data that Departments report to us is accurate and reliable on the basis of the information known today. We think that the numbers set out in the NAO's cost tracker are a good, reliable and accurate snapshot of everybody's best estimate on today's information.

At the same time, in some cases it is conceptually very difficult to distinguish between Covid-related spending and normal spending. We see that most obviously in the national health service, where we have very reliable information on how much is being spent. How much of that is attributed to Covid will be clear in some cases and a matter of judgment in others. Similarly, on universal credit claims, whether a job has been lost directly or indirectly because of Covid or for some other reason will be very clear in some cases and much less clear in other cases. The split between Covid and non-Covid is inevitably subject to some uncertainty, but we are confident about the actual quality of the overall financial information that we receive.

Chair: For the record, Cat Little is nodding in the room.

Q23 **Gareth Bacon:** Thank you for that, Chair. I cannot see her on my screen, so that is helpful confirmation.

Inevitably, it is a very confusing situation, but clearly as guardians of public funds what we are most interested in is how much of this we can unpick as we move forward. Therefore, understanding what is additional Covid spending and what isn't is very important. Which Departments are having the most difficulty at estimating the cost of the measures that they are implementing specifically relating to Covid?

Chair: We have obviously touched on the DWP before. Is there anything else, Cat Little?

Cat Little: I would also cite the Department of Health and Social Care, as we have discussed. That is obviously challenging for lots of different reasons. There is also BEIS, just because of the sheer number of loan schemes that they are responsible for. Inherently, as we have discussed before, calculating the loss write-offs and the fact that we haven't even started repayment and have not got repayment data for a lot of the loans that we have put in place makes it very challenging for BEIS.

Q24 **Gareth Bacon:** How are you ensuring, then, that Departments have access to sufficient funding for the measures they need to implement, if they cannot give you accurate information about what they are spending at the moment?

Cat Little: Generally, we don't tend to struggle with Departments telling us when they don't have sufficient money. It is part of our usual work with Departments, so there is regular engagement with spending teams. We obviously have fiscal events where we review the adequacy of funding. SR20 was not that long ago, and there is also the Budget. Of course, the estimates process is a critical point at which we look at whether funding was adequate, what the year-to-date spend is, how accurate the forecasting is and whether there are any gaps. As I said earlier, all the indications, based on the data that we have received so far, are that we are seeing underspends, rather than very tight fiscal outturns across the board. That is something that we need to understand. We will want to understand which sectors and Departments are most impacted by it.

Q25 **Gareth Bacon:** I suppose it is the nature of political life, isn't it, that virtually every Department will be asking for as much money as they think they can get in order to spend on their priorities. Part of your job is to make sure it is balanced, proportionate and sustainable. This is obviously the biggest financial challenge, as well as health challenge, that we have faced since the second world war, so you can understand why our Committee is quite interested in getting underneath the detail of this.

The flip question, I suppose, is: how are you making sure you haven't under-resourced certain Departments or schemes? How are the Departments measuring whether what they are spending is sufficient for the needs they have assigned to it?

Cat Little: I can give you a few examples of how we do that with Departments. For example, let's look at local government as a sector. It is obviously a sector that we have talked about in detail with this Committee. We have had monthly tracking of information from local authorities; we have put in place escalation routes to get emergency funding; and we have worked very, very closely with the Department to make sure we understand what the spend has been on, whether it has been adequate, and whether we have needed to adapt and change the funding throughout the year. I think the fact that we have had several tranches of additional funding throughout the past year is a good example of where we have responded quickly and adapted our approach to respond to the needs of the sector.

Q26 **Gareth Bacon:** Okay. What about the devolved regions of Wales, Scotland and Northern Ireland? How are you assessing their needs and the spend to date?

Cat Little: The devolved Administrations receive their funding through the Barnett formula. Last year, around £16.8 billion-worth of funding was guaranteed up front on top of normal budgets. We have a guarantee of funding up front so that the devolved nations could best plan their response to Covid.

We have regular engagement with the devolved nations, as we do with all Departments, but because of the nature of the relationship we have with the devolved nations, it is obviously up to them how they spend the money. It is not ring-fenced, and therefore it is not really until the end of the financial year that we can see precisely where the money has been spent. Again, all the feedback I have had from the devolved nations is that we have had really good, ongoing continuous engagement; we have understood some of the challenges that they face; and we have not had any concerns about there not being enough funding through the Barnett consequentials.

Q27 **Gareth Bacon:** Can I take it from that that you are not tracking spend in the devolved regions and that they are doing themselves?

Cat Little: Yes, that is up to the devolved nations. We obviously have regular dialogue about what that is saying, but we do not necessarily share data. That is their responsibility.

Chair: I say just for the record of course that the other three nations of the UK have their own national audit bodies and equivalents of the Public Accounts Committee. The cost tracker applies only to England, just to be absolutely clear.

Q28 **Gareth Bacon:** Thank you. Ms Little, to go back to answer you gave a moment ago, the cost tracking in local government has, I think most people will agree, been pretty good. Is there any reason why the same level of detail and accuracy could not apply to the national health service?

Cat Little: That is a really good question. I think one of the things we will be doing as part of this year-end exercise, producing end reports on accounts and going through the year-end outturn, is to have a conversation across all Departments about lessons learned and best practice. It was a very large administrative exercise to collect and gather local authority data.

The Department of Health actually has very good standardised data capture tools, which did not exist in local government. I think the question for the Department of Health is how they can get more precise data, where possible, on a timelier basis, so that we can aggregate it more quickly. My expectation, though, is that at year end, when they consolidate the whole group, that picture will be much clearer. It is purely a fact that they do not consolidate all that financial information until the year end. It is a massive, massive financial exercise, as the Committee will be aware.

Q29 **Gareth Bacon:** Sir Tom, pre-pandemic, the Government would have had a whole schedule of public spending works planned across the board, across all Departments. Has any analysis been done of programmes and schemes that had been planned to take place but have had to be either cancelled or paused because of the need to divert funding towards the pandemic?

Sir Tom Scholar: I might turn to my colleagues here. I am not aware that we have done—

Chair: Mr Smewing is jumping to your rescue, Sir Tom.

Sir Tom Scholar: Thank you, Conrad.

Conrad Smewing: Broadly speaking, the pre-pandemic plans that people had have largely remained in place. If you look at the business-as-usual funding that we provided in SR20 for the coming financial year, the increase in funding that had been placed pre-pandemic has largely been delivered with Covid funding on top. For instance, to give a good example, the Government's capital programme is still rising to about £100 billion in 2021-22. Most of that progress is still happening.

The areas where there has been significant reprioritisation or pausing of things have tended to be the ones that have been really hit by Covid. The most obvious example would be the national health service, where some of the delivery of efficiencies that were in the long-term plan to be delivered over this financial year has not been possible, because of the impact of Covid.

Those kinds of projects have tended to be paused, but most of the rest of the Government's public spending programme has pretty much continued apace.

Q30 **Gareth Bacon:** Is there an estimated financial value or cost attached to programmes that have had to be paused, cancelled or dropped altogether?

Conrad Smewing: It is difficult to do an overall cost, to see the reallocations within Departments, particularly because the biggest area is going to be the health service and you get into those kind of definitional or judgment questions discussed before. So, it is not straightforward to come up with an overall cost number.

Q31 **Gareth Bacon:** But there must be a ballpark figure, because when you are doing budget planning, efficiencies is a key part of that, isn't it? If you are expecting to achieve a certain level of efficiencies and you don't, you then have to fund them, so there must be some kind of understanding on this.

Conrad Smewing: There is a bit of a ballpark figure, in the sense that in SR20 the Government announced a couple of quite large measures that reprioritise funding in 2021-22. The first one is the changes to the overseas aid budget and the second one is the freezing of public sector pay. With those two numbers, I don't have the figures in front of me, but they will be the largest savings projects.

In terms of paused projects and efficiencies, it is harder to say now. What really matters here, in a sense, is the recovery and how quickly either those projects get back on track or those efficiencies are delivered, and the spending review later this year is going to be the best moment for pulling all that kind of thing together.

Q32 **Gareth Bacon:** Recovery is precisely why I was asking the question, because that is what we are now bracing ourselves for, and an understanding of what might be achieved in a more painless way would be a very good step forward in that direction.

I understand Ms Little wants to come in off the back of this. Is that correct?

Cat Little: Yes. Thank you. Just one other thing that I would add is that we oversee the Government major portfolio alongside the Cabinet Office, which is all of the major programmes with over a billion pounds of whole-life cost. Looking at the analysis, which we track every quarter for that portfolio, pre-pandemic and where we are now, there isn't a significant shift in the trend of delivery.

Now, as this Committee knows, there are lots of other challenges, and we have certainly seen some indirect challenges of delivery through the supply chain and the construction sector. But I think that is also a really good bit of evidence to suggest that we are largely on track.

Of course, in the context of recovery, the cost tracker doesn't track all of our capital expenditure in full, and all of the indirect significant investment that we are putting into capital and infrastructure following the SR last year is obviously significant. There is £100 billion this year, which we would see as part of investment, economic recovery and growth.

Q33 **Gareth Bacon:** So, on your capital programme on infrastructure, you think that you're broadly on track, regardless of the pandemic.

Cat Little: I am saying that there hasn't been a discernible shift between what was on track and not on track. I am afraid to say that there are some programmes that are inherently challenging, and that are red and amber-red, many of which this Committee has conducted investigations into. But we are not seeing Covid as a specific discernible factor in delaying or slippage in programmes. There has been some, as I say, as part of the supply chain challenges and construction in particular, but it is not a primary factor.

Q34 **Gareth Bacon:** For things like various planned projects or efficiency savings that were planned pre-pandemic, are you enabling Departments to roll them over from one financial year to the next?

Cat Little: The central budgeting guidance allows for a certain amount every year. I am always surprised that Departments don't make more use of the flexibilities that are already within our framework, so I am doing everything I can advertise it and to ask people to take advantage of it.

Of course, individual programmes all have different flexibilities allowed. A lot of our transport projects have inherent year-end flexibilities where we allow movement between one year and the next, but I cannot think of any Covid programmes specifically where it has been needed.

Q35 **Gareth Bacon:** My final question is to Sir Tom, and it is really about the running of Her Majesty's Treasury. How has the pandemic response impacted on the running of your Department?

Sir Tom Scholar: Like everybody else, we have reprioritised and refocused our work to respond to the changed circumstances of the pandemic. I should say that this is something we are quite used to doing as the Treasury Department, which always has to deal with whatever the world throws at it.

In the spring of last year, we set up a new central team to co-ordinate all the different bits of work related to the pandemic response. We have a team of people who can be deployed flexibly—they are not part of a standing team: they are a project team that can be deployed flexibly to wherever the need is, so those people were all rapidly deployed on to pandemic-related work. We asked all the groups across the Department to take a very hard look at everything they were doing, and to make sure that their resources were focused on the issues that the Government needed them to be focused on, so we had a big shift in staff time away from anything that was not an immediate requirement and on to whatever we needed to do. I should say that we also took on quite a number of extra staff during the course of last year to help us deal with it. Several groups had a huge increase in workload, and the way in which we dealt with it was to give them more staff to help them cope.

Q36 **Gareth Bacon:** Do you anticipate that being something that you will need to maintain into the medium to long future, or are you thinking that you might be able to start to wind some of that down shortly?

Sir Tom Scholar: The project team that I have talked about is actually something that we created 12 years ago, not least drawing on the lessons of dealing with the banking crisis, and that is something that we now see as an absolutely central part of the Department and which we will certainly keep. It is a very valuable part of the way we run our things. Like every other Department, we will have our future spending plans set this year in the spending review, but again, like everybody else, we would hope that some of the acute pressures of the past 12 months will unwind as the country gets beyond the pandemic. I do not yet know what the spending plans will be, but I am sure they will not show the same growth that we saw over the past year.

Chair: Sir Geoffrey Clifton-Brown.

Q37 **Sir Geoffrey Clifton-Brown:** May I turn to Mr Smewing? The issue that Sir Tom has just raised of extra staff, not only in HMT but in every Department, is one of these definitional issues. Should this be treated as a Covid expense, or should it be treated as a general departmental overhead expense?

Conrad Smewing: In general, we have tried to treat these as Covid expenses, rather than business-as-usual expenses. The funding for extra staff in the Treasury and elsewhere that has come from the central Covid reserves has been ring-fenced for Covid, and we have separate core and Covid budgets.

One of the things we have been working with the NAO on in producing the cost tracker was to try to get decent estimates of those operational costs into the tracker. Again, this is one of those areas where unfortunately there is quite a lot of grey area, so it is quite hard to see how much reprioritisation of existing staff has been moved on to Covid, particularly if it is not 100% of someone's job. For example, me and all of my team probably spent almost all of our time in the last year working on Covid stuff, but we are a core part of the Treasury—we have been around for ever. It is not always totally straightforward, but what we have done in terms of the net additional costs is have them ring-fenced away from the business-as-usual budget.

Q38 **Sir Geoffrey Clifton-Brown:** Sir Tom, are you in HMT beginning to think about where you might need to have additional catch-up expenditure? I am thinking particularly in terms of the health service—to recover some of the normal operations they would do that have not been able to be done, in order to catch up on the backlog.

Sir Tom Scholar: Yes. These issues in the health service and in other parts of Government are very much part of the discussion between the Departments and us on requirements, looking at, as Conrad was saying earlier, what was planned pre-pandemic, then at the impact of the pandemic and then what today's priorities suggest. That will largely be determined through the spending review later in the year as we set spending plans for the rest of the Parliament—for the next three years.

Q39 **Sir Geoffrey Clifton-Brown:** So you are content that there is no need for any additional expenditure at this moment to be allocated—it can wait until SR21?

Sir Tom Scholar: No, where there are more immediate requirements, those are things that we discuss with Departments as we go along. Obviously, we have a reserve allocated for the purpose of dealing with immediate in-year pressures on spending, so our spending teams are in constant dialogue with Departments on all those things.

Q40 **Chair:** Ms Little, earlier in your comments and in the letter from the Chief Secretary to the Chair of the Treasury Committee, you emphasised the importance of accounting officer decisions going through the normal process. Have you had any feedback from accounting officers about the pressures on them? There are potential political pressures, there are time pressures, there are huge risk pressures. Perhaps you could explain that. As a result, are you looking at any changes to deal with emergency situations?

Cat Little: Yes. We have just undertaken a review with accounting officers, sponsored by the Civil Service Board, which was very kindly sponsored by the accounting officer for the Department for Transport. Specifically, the group of accounting officers were asked to set out: how did you find it, what were the challenges, how well did "Managing public money" stand up to the issues that you were facing?

The key lessons learned were, first, that we have clearly seen that "Managing public money" has stood the test of time. I suppose the principles within it are timeless and so the flexibility that we have needed and the agility—the framework that is there—has really worked quite well. Of course, the fact that we had more accounting officer directions, where accounting officers felt that the framework allowed them to be able to publicly set out what the challenges were, is obviously important.

We have also learned that we need to update our accounting officer assessment guidance and some specific things in there—first, how you actually apply the principles and the tests in practice. On the four accounting officer tests, while there are some good examples within "Managing public money", what accounting officers have said is, "Do you know what? We really want a repository of case studies that sets out the considerations—particularly the case studies that we have mentioned on vaccines and value for money." It would be really good to actually have that depository, so that the finance function and accounting officers have access to the sorts of thing that have been taken into account.

We also think that the guidance needs to be updated for how you assess your risk appetite in an emergency. Again, going back to the Chief Secretary's letter, what we are talking about here is taking much greater levels of risk appetite up front. Our risk management framework in the Orange Book sets out quite a lot of guidance, but actually putting that in the context of accounting officer assessments is going to be really important.

The other really critical finding was that we need better guidance on where you have multiple Departments involved in delivery, or where policy and delivery are undertaken by different Departments and you have multiple accounting officers providing inputs. A good example, recently, was testing in schools. The accounting officer for the Department for Education provided input to the Department of Health's accounting officer assessment, but that was probably one of the early examples of where we formalised the way in which accounting officers work together. I think I have mentioned the levelling-up fund as another example. That is obviously not Covid-related, but, increasingly, these big cross-cutting issues need collaboration and accounting officers have to work together in different ways. That does not necessarily change the fact that you have one accounting officer who is ultimately responsible.

The final thing that I would say is that we know that we have to do more training. I assumed that everybody had read "Managing public money" in all its detail in same way that I had, and that is clearly not the case. We need to do much more training to make sure that everybody understands how "Managing public money" applies to their work.

Q41 **Chair:** When you say everybody, do you mean accounting officers?

Cat Little: Oh no. Accounting officers are as deeply familiar—

Chair: I was slightly alarmed for a minute.

Cat Little: Of course, the finance function really is the centre of excellence for accounting officer guidance. We are making it mandatory for finance directors to sign off all accounting officer assessments that are undertaken to make sure that they have that consistency and professional input. But, day to day, everybody needs to have a really good understanding of those principles and how this applies.

Q42 **Chair:** Would that include Ministers?

Cat Little: That does include Ministers. I think I have mentioned to this Committee before that we are embarking on more ministerial training for finance, the Green Book and MPM.

Q43 **Chair:** In the evaluations that you did, was there any feedback about the political pressure? Laced through the letter from the Chief Secretary are some of the decisions that seem of more concern. I refer particularly to the PPE procurement and Test and Trace sentences in there, which I won't be able to find now as I didn't mark them up, about how we had to change our approach because of, basically, a sudden change in prime ministerial decision-making. Obviously, it is the prerogative of Ministers and Prime Ministers to make changes to decisions, but that can also put pressure on accounting officers to do things that in their view are challenging. Did they raise any of those issues and, even if they didn't, are you looking at how you manage that tension in future?

Cat Little: The main mechanism is through the accounting officer direction process. Inevitably, we have looked at how well that stood up to the different changes of direction, and the fast, rapid basis of decision making. It hasn't been raised as a specific issue as part of that review, but our conclusion is that the accounting officer direction process worked well, and that is the mechanism that we would use to raise those concerns.

Q44 **Chair:** In a previous hearing, we were looking at the allocation of money to charities. There was an extraordinary number of special advisers in the room at the point of decision making, and some decisions by officials were overturned. The accounting officer was very robust in saying that the decisions were officials' decisions, not the decisions of special advisers, but the Treasury and No. 10 were there. I think there were three from No. 10 in the room.

For those of us who have been in Government one way or another, the meeting was extraordinarily laden with special advisers—very unusual in our view. We felt there was a kind of implicit pressure there politically, although the accounting officer said that it was not a problem. Perhaps I am paraphrasing a bit too simply, but I wonder whether in the heat of the moment that was happening more, and whether you think that there is still a challenge for the system, because when you have those people in the room representing the Prime Minister, effectively, or the Chancellor, that is quite a pressure for officials, often more junior than you, to have to deal with.

Cat Little: Two things. First, senior officials are very well used to operating in that sort of environment, especially our accounting officers. If anything, we found that during the pandemic we did much more close decision making between Ministers and officials. A really good example of that is the vaccines approval process, where we got all senior officials and Ministers in a room together to speed up the decision-making process. Actually, it was much more effective because we could have the debate with everyone in one place, so if anything, there is more evidence of it working to good effect, to speed up and to add quality to what we were doing.

Chair: And maybe stop the endless chain of submissions going up and down the line. There is a civil service reform waiting to happen.

Q45 **Sir Geoffrey Clifton-Brown:** A quick question for you, Ms Little. What consideration has been given in the Treasury to speed as opposed to risk? I am thinking of the BBLS. If you had just taken a little more time to do a little more due diligence, would the lack of payback have been more assured than it has been in practice?

Chair: May I urge colleagues in the room to lean in towards the microphone, because people on the line are finding it hard to hear us?

Sir Tom Scholar: Perhaps I can take that. You are referring to the bounce back loan scheme, Sir Geoffrey?

Sir Geoffrey Clifton-Brown: I am, yes.

Sir Tom Scholar: That was an explicit judgment and explicit risk factor addressed at the time. The particular policy problem identified at the time was that the first loan schemes were too slow and too difficult to deliver for small businesses with no borrowing history and therefore no existing borrowing relationship with a bank or other lender. Where you do not have an existing relationship, inevitably it takes quite some time for the bank to go through the approval process—and, in the circumstances of the time, there was a very major risk very widely identified that a number of businesses simply would not be able to survive long enough to get accredited for a loan, if indeed they ever did get accredited for a loan, because a business with no borrowing history might find that difficult to do. So, it was an explicit policy decision to set up a scheme that would disburse very quickly and ask lenders to put to one side all their normal lending practices.

Now, it is inherent in such a policy design that there will be a high degree of risk. The judgment was that that risk was justified by the urgent need to provide support to many thousands of businesses. As I said earlier, we are only just now at the stage when the first of those loan repayments is becoming due, so at the moment we still have a very wide range of estimates for the potential losses. To the extent that the economy recovers well, we would expect to see that range both narrow and come down, but I do not think we have seen anything since the original decision to cause us to think that it was a mistake—on the contrary. It would not just have been a delay of a short period, a week or two. The delay could have been really devastating for many of the businesses concerned.

Sir Geoffrey Clifton-Brown: That is very helpful, thank you.

Q46 **Peter Grant:** Sir Tom, could you outline some of the circumstances that might lead to the Government having to write off loans? The current estimate for write-offs is £29 billion. Could you run through the circumstances that might make those loans irrecoverable?

Sir Tom Scholar: The first thing to say is that the Government expects the loans made under the various schemes to be repaid. That is the expectation. In the case of bounce back loans, there are generous and extended repayment terms to ensure that businesses are able to repay as they go through the pay as you grow scheme, but we would expect loans to be repaid.

Inevitably, with any loan book there are some loans that go into default because of a failure of the business concerned. At the moment, there is a wide range of estimates, particularly under the bounce back loan schemes, as to what percentage of loans might come into that category. The thing that will determine it will be the underlying strength of the economy and the pace of the recovery.

As you will know, the recent short-term indicators have been very, very positive, but it is not just how the economy goes this year; it is over the over the years to come. So, to the extent that the economy recovers well, we would expect a lower rate of default. To the extent that there are prolonged difficulties—we hope there will not be—obviously that would tend to increase that.

Q47 **Peter Grant:** There is obviously a great deal of uncertainty as to what the eventual write-off will be. I think I said £29 billion earlier, but the figure—

Chair: It is £26 billion.

Peter Grant: Yes, it is £26 billion. Apologies for that.

Sir Tom, is that £26 billion a number you recognise as in the right ballpark for the eventual write-off costs at the end of the day?

Sir Tom Scholar: I can’t remember the precise breakdown, but I think a large amount of that £26 billion is accounted for by the bounce back loans—£20 billion, £21 billion, £22 billion or something of that order of magnitude.

We would recognise that figure as a good snapshot based on today’s information as to where the losses might end up. It is to some degree a bit backward-looking as a figure. I am not sure precisely on what date it was assessed, but with each month that goes by, we are getting economic data that is stronger than was expected. To the extent that the vaccination programme in particular, but other measures too, is successful in helping the economy get back quickly to something more like normality, you would expect those businesses, or a higher proportion of those businesses, to thrive and prosper, and be in a position to repay their loan.

I should say two other things. We will know considerably more about this in the next few months as we get the first months of repayment data. The first advances were made in May last year. Therefore, the first repayments are due now, and we do not have that data yet. The second thing is that there is quite a lot of anecdotal evidence—again, we will see more on that in the months ahead—that quite a number of businesses applied for a bounce back loan, drew it down as a precautionary measure in case they needed it, and in a number of cases have not actually used that money but had it there as a buffer, and it would be available for repayment once they felt they had got beyond the worst phase of the pandemic.

We do not have a different number to put on it, but we are very alive to the uncertainty. If the economy continues to recover well, we would expect to see that come down. I guess the next authoritative estimate will be in the British Business Bank's accounts, which will be consolidated into the BEIS accounts, and I guess the deadline for that is September. I am not sure how it will fit with the next iteration of the NAO's exercise at probably around about the same time. We will have then an updated estimate, with more information both on repayments and on the state of the economy.

Q48 **Peter Grant:** Thank you. Are you able to describe what steps the Government would expect to take on an individual loan before accepting that it was unlikely to be repayable? How do you make sure that the loan is irrecoverable, and secondly, how do you make sure that the application for the loan itself was genuine at the time, and it wasn't just somebody trying to work the system?

Sir Tom Scholar: Since the scheme is operated by the British Business Bank, these are both things that are their responsibility, but I can certainly explain to you how they discharge that responsibility.

Both at the time of making the loan and subsequently, they have a number of checks, which they have used to make sure that applications comply with the terms of the scheme, and they have done quite a bit. I think the bank itself—the British Business Bank—described some of the action they have taken when we had a specific hearing on bounce back loans in October last year. They have taken quite extensive enforcement action to follow up cases of suspected fraud. We have allocated additional resources to them, I think in the Budget this year, to help them to do that. They will certainly pursue any instances of fraud that come to their attention.

In terms of repayments—this is new since the session we had in October last year—there is now an agreed protocol between the British Business Bank and the lenders under the scheme as to how they will approach the question of repayments. The Treasury has also participated in those discussions. This agreement seeks to strike a balance between ensuring proper recovery and repayment of the loans that have been advanced, because, as I said, these are not grants; they are loans, and we expect them to be repaid.

At the same time, it is recognised that quite a few of the businesses that took out bounce back loans had never previously borrowed. The only reason that they were borrowing was the extraordinary circumstances of the pandemic and the lockdown. As I said earlier, lenders, in making the original advances, had not gone through all the usual checks and credit assessment that they would for a normal commercial operation, because this is not a normal commercial operation; it is the implementation of a Government-supported programme.

Taking all that into account, it is important to have an agreement—a protocol—on the approach to repayment that strikes the balance between all those different considerations. That is something that has now been drawn up by the British Business Bank, in conjunction with all the lenders under the scheme, and will guide the approach to repayments.

Q49 **Peter Grant:** Given the amount of bureaucracy that has clearly being involved and is still involved, and given that it is likely that anything up to 25% or 30% of the money never comes back, with hindsight, would it have been simpler just to have made this a small business grant scheme, rather than a loan scheme, from the beginning?

Sir Tom Scholar: I think that would have ended up being very considerably more expensive to the public purse and would not have represented value for money. I don't think the scheme is bureaucratic. On the contrary, it was set up quickly, dispersed quickly and provided very rapid support to a large number of small businesses that might otherwise have gone under. As I said, it is a loan scheme, not a grant scheme. We expect businesses to repay the loans that have been advanced to them. We will know only at a much later date the extent of recoveries and the percentage of defaults. That will be determined by the strength of the economy, but it will certainly be much less expensive than a grant scheme would have been.

Q50 **Peter Grant:** You say that it would have been much more expensive and would not have represented value for money to have implemented a grant scheme instead. Did you carry out a full assessment of a grant scheme before the decision was taken to make it loans instead?

Sir Tom Scholar: The policy problem we were asked to address was how to ensure the supply of credit to small businesses, so all of the design was into a loan scheme. A grant scheme would have raised enormous difficulties, including how to decide which business should receive a grant, and how much. The essence of a loan scheme is that it is the business that is taking the risk. The business is then incentivised to act responsibly and to look after the money it receives, because it knows it will have to repay it.

Q51 **Peter Grant:** One further thing that I want to ask about, Sir Tom, is the letter that the Chief Secretary to the Treasury sent to the Chair of the

Treasury Committee on 1 April, which sets out some of the reasons why a lot of the usual checks and scrutiny simply were not possible because of the urgency of the situation, which I think we all understand. One specific point that is made is that when Departments asked the Treasury for approval to exceed their delegated spending authority, there were times when "the Treasury turned round requests extremely quickly (often in hours when market conditions necessitated that we had to move quickly to meet the Prime Minister's ambitious commitments)." The letter goes on to say that in those circumstances, there was not the level of scrutiny that would have been expected in normal times.

Could you give us an example of a time when the Treasury had to move so quickly to approve a spending request from a Department simply because it was a commitment that the Prime Minister had made?

Chair: I think we'll go to Cat Little on that, unless Sir Tom wants to come in.

Cat Little: Thank you, Mr Grant. A good example of that would be on PPE or vaccines, which are both quite similar, ultimately. Normally the Treasury would have had a delegated level for PPE of £150 million where the accounting officer would have to come to the Treasury for consent. We took the decision that given the pace, the urgency and the scale of procurement that was necessary—we started off, and I remember this very clearly, as it was my first week at the Treasury, pretty much every day having a discussion saying, "What contracts do you need?" You can imagine that the scale and the number of contracts over £150 million became very clear very quickly, and that is when we took the decision to say, "Look, this is neither effective nor the best use of our combined time to be doing this in this way."

That is when we started to provide the delegated funding directly to the accounting officer of the Department of Health. With vaccines, similarly we made a number of big procurement decisions within 24 hours. Obviously, in a market where you are operating with significant global demand, your ability to get in quickly as a country to put orders in is incredibly important, so we convened the ministerial approval taskforce almost within hours for a number of those decisions. Of course, the vaccines taskforce had to produce business cases at record speed to allow us to do that.

Q52 **Peter Grant:** Just to be clear, the kind of prime ministerial commitments that were referred to in the Chief Secretary's letter—were these things that the Treasury had been sighted on before they were announced? Had the Treasury been asked whether it was credible?

Cat Little: Yes.

Peter Grant: It had been. Thank you. I may want to come back later on another area, if we have time, but I will leave it there just now.

Chair: Thank you very much, Mr Grant. We go to Nick Smith.

Q53 **Nick Smith:** Thank you, Chair. My first question is to Sir Tom Scholar.

What is your assessment of the quality of the impact assessments for the major Covid-19 schemes?

Sir Tom Scholar: Let me talk first about the major economic support schemes, and then perhaps Cat and Conrad might like to add more on some of the public services-related schemes. A common feature for all those impact assessments was a great degree of uncertainty as to the environment in which they would be operating. So, if I take the original assessment of the furlough scheme and the likely impact and the likely cost of that, the cost is determined by the average take-up per person furloughed and the number of people furloughed. In the end, the cost was heavily driven by the take-up of the scheme, and it was a pretty uncertain business trying to forecast that.

From what I remember, if I have my facts right, in the end the maximum take-up under the scheme was about 10 million people, and that was actually pretty close to where we were expecting it back in March last year when we introduced it.

On the loan schemes, I talked just now about the bounce back loan scheme, where there is the biggest uncertainty—12 months on, that remains a big uncertainty. Cost is one part of the impact; the extent to which it achieved the public policy purposes is the other. In both cases, there is quite a lot of evidence, including quite a lot of analytical judgment from, for example, the OBR, the IMF and other independent bodies. They have looked at the economic policy response and have assessed that it has made a very significant difference in terms of cushioning the economy from the worst effects of the pandemic and the lockdown. We hope, and they also believe, that an important part of that will be reducing the medium-term cost.

All that will certainly be assessed further in the time ahead, but I do not think we look back at any of the major analytical judgments we made last year, and think, "We got that one really wrong." I do not think we have any examples of that.

A lot of the public services judgments were very difficult. In every case, somebody else or another Department is in the lead, but the Treasury has a critical job in challenging, trying to understand and ultimately agreeing on levels of funding. I might turn to Cat on that.

Cat Little: Thank you. I would say two things about the impact assessments across public services. First, we very quickly highlighted the need for better data and better evidence to justify some of the big schemes. One of the positives has been that for the biggest elements of expenditure—we keep coming back to PPE, Test and Trace and vaccines—we have almost live data to demonstrate the impact of those spending measures.

The other thing I would say is that it really has shone a light on a lot of the work that we do to assess equality and diversity in our impact assessments. Particularly for public services expenditure, one of the big areas that we are very conscious of, as we start to prepare for the spending review later this year, is the wide impact that Covid has had on different sections of society. Therefore, to what extent are we going to have to focus and target spending in different ways to manage the impact of the pandemic? Having the diversity and equality data upfront in impact assessments has made a massive difference, but the challenge of responding to that is to come.

Chair: Huge challenges ahead.

Q54 **Nick Smith:** Have you had a chance to drill down into any of the impact assessments that have been made? Do you have any particular points that you want to emphasise? For instance, does either of you have a view on the impact assessment on the provision of PPE?

Cat Little: I chair a board every single month with the SROs for PPE and the Department of Health's accounting officer. We regularly go back to the intended policy impact and what we are trying to achieve. One of the big challenges that we have is what we do with excess stock. We are currently going through the year-end process to value and manage what a more balanced approach to stockpiling of PPE categories looks like. We have learned throughout the whole of the past year that the modelling that we used to estimate and forecast resources in this area has been really challenging. It has got better, but the fact that we are left with some areas of excess stock shows that there are big lessons to be learned.

Q55 **Nick Smith:** We heard at the most recent session that there are 10,000 sea containers of PPE, just off the dock, at the moment. I understand that the core of these orders were made in July 2020, but it is unclear what the supply chain and timetabling is of all that, and trying to understand the impact assessment from the Treasury of an issue like that is critical. I would be grateful if we could have further information on that in particular, please, from the Treasury before our session on 10 June. Will that be possible?

Cat Little: It would be, but of course the information behind it would largely come from the Department of Health and Social Care.

Chair: We are pursuing that separately, but Mr Smith's point is well made—that there are, as we heard, nearly 10,000 sea containers. It is not clear where they are and what the impact is on the supply chain, so the impact on all sorts of bits of the sub-economy in health and social care is immense.

Q56 **Nick Smith:** My original question was about the Treasury's assessment of the quality of the impact assessment, so having your view on that topic would be really helpful.

Let us return to the big picture. The NAO estimates current costs of Covid of just over £370 billion capital. As was mentioned earlier, the Treasury's assessment is that it could be about £400 billion. How is this expenditure going to be financed, please?

Sir Tom Scholar: Let me take that one. Like all Government spending, it is financed by a mixture of taxation and borrowing. As the Committee knows, borrowing last year reached a record level in cash terms of about £300 billion. As a share of GDP, that has been exceeded, but only in the circumstances of wartime, so that was, by any standards, a huge amount of borrowing last year.

The Budget set out medium-term fiscal projections and the Chancellor set out at the time his medium-term fiscal policy, which is that we expect borrowing to fall rapidly as the economy recovers, but the Chancellor has been very clear about the need to put the public finances back on a sustainable footing. In the Budget he set out the tax plans for that, and in the spending review later this year we will be setting out spending plans. The short answer to your question is that it is a mixture of tax and borrowing. We expect that a lot of the cost will now come out—being short-term pandemic-related costs—and the economic recovery too should bring down borrowing.

Q57 **Nick Smith:** When will that mix of tax and borrowing be announced? When will we have a clear idea from the Treasury of exactly what its plans are, please?

Sir Tom Scholar: Twice a year, the OBR set out their official forecasts for tax, spending and borrowing. In the Budget each year, the Treasury—the Chancellor—sets out fiscal policy and our plans for taxation, and in the spending review we set out the spending plan. The Chancellor will be setting out later in the year spending plans and in the next Budget there will be an updated forecast, including whatever the Chancellor at the time says about the medium-term fiscal objectives and the balance of tax, spending and borrowing within that.

Q58 **Nick Smith:** Okay, Sir Tom. I understand that you are keeping your cards close to your chest. Thank you for that. I want to try to tease out, if we can, this quite hard question of Covid costs into the future and expenditure plans already in hand. From listening to your earlier responses, I think it is still loose and ambiguous. Could you try to provide a better definition, please?

Sir Tom Scholar: A better answer to the question of what is the cost of Covid?

Nick Smith: And what is recovery from Covid.

Chair: When do we segue from Covid into recovery costs— investment in recovery?

Sir Tom Scholar: If you go right back to the very beginning, a lot of the money that the Government was spending was certainly designed to deal with Covid but was at the same time designed to lay the basis for the recovery from Covid. That is true of the economic support schemes. There were two motivations for the furlough scheme, the self-employed income support scheme and the various loan schemes. One was to support jobs, businesses and livelihoods from the immediate impact, and the second was to protect the economy so it would be ready to recover as soon as we were through the worst phase of the pandemic and it could be opened up again. If you have wide-scale job losses and business failures, that creates lasting damage to the economy. The Government wanted to avoid that—hence the decision to provide all that support.

Equally, a number of the big items of public spending that feature in the tracker—most obviously, the money spent on developing vaccines—were both to deal with the impact of the pandemic and to prepare for the recovery of the future. I am not trying to be at all evasive here. I think it is genuinely conceptually quite hard to say, "This bit of the cost was dealing with the pandemic, and this bit is recovering from it." In many cases, the same programme does both things. I guess, again at a conceptual level, in the future, once the pandemic is definitively behind us, the answer to the question, "What did that cost?" will include both elements—the cost of dealing with the immediate impact and the cost of recovery.

Q59 **Nick Smith:** Thank you for that. I can understand that you are talking about streams of funding for furlough and loans, and about expenditure on viruses and Test and Trace for the future. Equally, Cat Little talked about the levelling-up fund and that sort of expenditure for the future. I am always mindful of the very grand projects like HS2. What we are seeking in this Committee is a more refined definition—"That was Covid, this is recovery from Covid, and this is what we were going to do anyway." We want to try to understand how it is all going to be explained in the coming months. I am just trying to tease out from you, if you can explain this—we understand it is difficult—the framework of your thinking at the moment. We understand that this is hard.

Cat Little: To add to what Tom has said, the spending review this year will be a really defining moment to set out that framework. It will encompass all spending, both for recovery from Covid and economic recovery. We hope that we will be in a position, following the road map, for the path of the virus to allow us to take a more medium-term view of what spending looks like going forward.

At the spending review last year, we made a distinction in our Covid funding, certainly for public services, between recovery funding and ongoing response to the pandemic. Sir Geoffrey asked earlier about the big areas of recovery—courts, education and health electives, in particular. We very precisely set out the amount of money that was made available to those Departments.

The spending review this year will build on what we have done to date. We will obviously have more information about where we are with the pandemic and how Departments have used that money, particularly for recovery, and therefore what it means for the future. The spending review will be a big part of that framework.

Nick Smith: That's it from me.

Q60 **Peter Grant:** Sir Tom, I understand why you were not able to give a size estimate as to the expected level of write-offs on the various loan guarantees that the Government has taken on. When do you expect to be able to give Parliament some kind of reasonably accurate estimate as to the total amount we are going to have to write off?

Sir Tom Scholar: A number of people are providing estimates here. There is the British Business Bank, which operates the scheme, and BEIS, which is the parent Department. There is the NAO exercise that we are discussing this morning, and the OBR will cover it in their forecast twice a year. Each of these bodies will, at the moment at which they are required to produce their estimates, provide an updated estimate with the best and latest information. What we are looking at today is the latest information from, ultimately, the British Business Bank, but of course we are at a very early stage in the life of these loans, and we are also at an early stage in the path out of the pandemic.

The best answer I can give is that we will continue to report to Parliament transparently, and in a timely way, on the basis of the best and latest available information, but we are talking about loans that get repaid over a 10-year period, starting now. Until we have a reasonable track record of repayments under the loans, and until there is a much clearer sense of how the economy can be expected to perform—until we have both of those things—there will inevitably be quite a wide range for the estimate of the possible loss, because, in the end, it is determined by the strength of the economy.

Q61 **Peter Grant:** Related to that, when a business fails to pay its debts, obviously there are implications not only for that business, but possibly for others related to it. Have you done any modelling as to where the impacts of that debt and other Covid-related debts are likely to fall? Have you looked at what kinds of families are likely to be the most impacted on? Have you started to think about how the Government's policy response might have to adapt in order to protect families from falling into unmanageable debt?

Sir Tom Scholar: That is something we always look at. In the case of the bounce back loan scheme, the extra flexibility on repayment that was introduced last year was explicitly designed to make sure that businesses were given longer to repay and greater flexibility over when those repayments were made, recognising, as I said earlier, that many of these businesses do not have a history of borrowing and only found themselves borrowing because of the circumstances of the pandemic.

As part of our economic monitoring—the Bank of England does the same—we look at household indebtedness and corporate indebtedness. We try to see trends there. We look at that on a regional basis as well as a national basis. We provide advice on all that, and these things are looked at, particularly at the times of Budgets and spending reviews although, as we have all seen in the last year or so, in exceptional circumstances things can also be decided outside that normal cycle, but they are certainly things that we look at continuously.

Q62 **Peter Grant:** Finally, I want to look quickly at something that you mentioned a few minutes ago, which is the overall performance of the economy in the medium and longer term. The Office for Budget Responsibility has forecast that over the next five years public sector debt will increase to about £2.8 trillion. To put that into context, that is somewhere between £45,000 and £50,000 of debt for every man, woman and child in the United Kingdom. Do you have even an approximate idea just now as to how long it will take to get that debt back down to the kind of levels that we would have seen as acceptable before Covid?

Sir Tom Scholar: That will be central to the fiscal judgment that the Chancellor will make at the next Budget, but let me just talk a bit about the dimensions of the issue—the analytical dimensions of the issue.

Last year, Government debt increased to just under 100% of GDP, and the Government's view is that that is too high and needs to come down. There is then a judgment to be made about the pace of doing that, which is, in effect, the judgment that every Chancellor has to make in every Budget.

As I say, we would expect borrowing to fall sharply this year from last year's exceptionally high levels but, of course, the stock of debt remains the same. We hope—and we are putting a lot of effort into trying to make sure this happens—that the economy will recover rapidly from the shock of last year, and robust economic growth will certainly bring down the overall debt level as a share of GDP.

However, what the Chancellor will need to do at the next Budget will be to look at the latest forecast of the OBR, which of course partly depends on economic circumstances in the UK and partly depends on economic circumstances in the rest of the world, since we are an open trading economy, where circumstances elsewhere have a big impact. In the light of those forecasts, he will then need to take an overall view on the fiscal position. So it is something that will just need to be constantly reassessed.

Q63 **Peter Grant:** The OBR also pointed out what I think we all knew—that the targets the Government set themselves for the big economic and fiscal indicators, such as Government borrowing and underlying levels of Government debt, will become nearly meaningless, and no updated targets have been issued since then, because we have all been focused on dealing with the pandemic. Do you have any indication as to when we can expect to see the Government setting these major targets again, so that Parliament has some kind of target to hold the Government to account for in future?

Sir Tom Scholar: As you say, the pandemic last year had a huge impact on both Government borrowing and Government debt, which took us way outside anything like a normal framework. In the next Budget, the Chancellor will set out a fiscal policy. I don't know yet what that will be, but it is a large part of our work between now and then to provide advice on that. However, that is a judgment for the next Budget.

Q64 **Chair:** And ultimately, of course, a political judgment, whatever advice the Treasury provides.

Sir Tom Scholar: It is absolutely a political judgment—among the most political judgments there are.

Chair: Exactly, so I think it is harder for us to for push Sir Tom further on that, and I am sure his officials will be providing the best advice that they can for all options. I think that many Governments of different colours over decades will be dealing with this. Is that everything from you, Mr Grant?

Peter Grant: Yes. Thank you, Chair. I fully appreciate that the permanent secretary cannot comment on what the political judgment might be, but I think we would all like to get some hint of when we might see that political judgment being made.

Chair: Exactly. Of course, at this point we are not quite able to say when the pandemic will finish. We do not even know whether step 4 is going to happen, but we will continue to watch this as ever, of course, on the PAC.

Sir Geoffrey Clifton-Brown: I don't suppose that political judgment has begun to be made yet.

Chair: Sir Geoffrey has an inside track.

Q65 **Sir Geoffrey Clifton-Brown:** No, I don't. I have no inside track at all.

Ms Little, may I take you back to PPE? In our latest hearing we heard some evidence that procurers were not able to go out into the market quickly enough, in a very quickly rising market, because the NHS had expenditure limits and those expenditure limits had not yet been increased sufficiently to allow those suppliers to go out into the market. That cost not only in terms of actual money, because the market was rising, but in terms of PPE not being available to the health service. Is that something that you are looking at?

Cat Little: Yes. It is probably worth me talking through the timetable of what happened with the funding envelopes for PPE. As I mentioned earlier, back in the middle of March, when PPE procurement started in earnest, we only allocated funding of £100 million around that time. That very rapidly increased. We increased it to £1 billion by 11 April and up to £4 billion by the 24th. Ultimately, by June that had increased to £15 billion, and the vast majority of PPE procurement took place before July.

I would like to think that we very rapidly increased and scaled to respond to the concerns that were being raised. I don't think that we could have done it any quicker at that point in time, because the demand modelling was so immature, we had not yet got settled PPE guidance, and these are vast sums of money. I think the Treasury took a balanced approach, but ultimately, as the Chief Secretary's letter sets out, we took the view that it would be better to pass a delegated pot to the accounting officer of the Department of Health so that they could manage those risks more effectively.

Q66 **Sir Geoffrey Clifton-Brown:** May I take you back to loans? Clearly various different Departments—your own Department the Treasury, BEIS, the DCMS and others—now have a significant loan book to manage. Is there any thought that these might all be packaged together, or at least managed by one Department, so that the skills to manage them do not need to be duplicated?

Cat Little: I don't know whether Sir Tom might want to add to this—or start.

Sir Tom Scholar: We have looked at that question as part of a broader look at how we make sure, first of all within the Treasury, that we have a coherent response to managing all of what are now Covid legacy schemes and projects that we have—for example, looking at the outstanding loan book to businesses. Obviously, we, the Treasury, do not manage that, but as part of our overall monitoring of the economy we need to have a good idea of how it is performing, what the impact on it of different sectors is, and the extent to which the management of that book is achieving a whole range of economic policy objectives, including very much fiscal and value for money, but others too.

That is something that we have looked at internally. We have not reached a view on it yet. Obviously, these things are ultimately all ministerial decisions, but it is our job to look at them. I have had discussions with various people about exactly that question, but we have not yet got to the stage of reaching clear conclusions or decisions. It is a very good question and something that we should keep under review

Q67 **Sir Geoffrey Clifton-Brown:** A final question from me: this whole session is about the cost tracker. We all hope there will come a time when we can finalise the whole thing. What is the sort of criteria in the Treasury's mind as to when we can actually say that the Covid pandemic has ended for the purposes of Government expenditure? Clearly, it is likely to never quite end, because there may well be things that are needed like annual vaccinations and testing, but from the actual pandemic point of view, what is the end point?

Sir Tom Scholar: On that, I think we are really in the hands of the health professionals. That is ultimately a public health judgment. As you say, nobody knows yet whether—

Q68 **Chair:** We know the public health bit. It is more the tail end and the catch up in schools that Sir Geoffrey is referring to—the tail of costs that have resulted after 14 months of the most significant upheaval since the second world war.

Sir Tom Scholar: Sorry, I misunderstood. The first element is the public health element. The second element, which, as you say, is likely to persist beyond the point— We hope the point at which the pandemic is in some sense declared to be over is not too far away, but we would expect the consequences, including the social consequences, to persist beyond that. I don't know the answer today to that question. We will obviously be looking in the spending review at medium-term plans to address it, as well as, day by day, to shorter term in-year pressures.

I think that is an issue that will have to be addressed public service by public service. To take one example, the justice system, we know that before the pandemic there was a backlog of cases in the courts. We know that the pandemic has made that very significantly worse. We need to discuss with the Ministry of Justice what the plan is for dealing with the backlog and how to fund that and then I guess that will at some point merge into business as usual, because at some point we won't any longer be distinguishing in any public service between how much of the problem is pandemic and how much is not—we will just be looking and saying, "We have a problem in this public service. How are we going to solve it and over what timeframe?"

Q69 **Chair:** Thank you.

I have a couple of quick questions for Ms Little. Earlier, you talked about capital projects not being significantly delayed. We know of the woes of Crossrail, which is delayed partly because of Covid construction issues. Do you want to revisit that answer? You seemed very confident. We were quite impressed at how confident you were but, thinking about it, I am slightly concerned that there may be more hidden away that we are not fully aware of.

Cat Little: I suppose I was talking at portfolio level. If you look at our top five reasons why programmes are delayed, obviously Covid is in there and I mentioned the construction sector and some of the supply chain issues we have had, but it does tend to vary programme by programme. But overall at portfolio level, there isn't a discernible Covid-specific impact that shows it is much worse—

Q70 **Chair:** Okay. Mr Bacon highlighted that Treasury officers in local government have been quite positive to us about the information that they are feeding in about what is going on to MHCLG—that they are very on top of the numbers. You indicated that it is not the same in the NHS and that it is going to be consolidated and it is very tricky. Are there any issues of rigour at trust level that concern you? Is it harder for us to get that information?

Cat Little: No; not at all. If anything, for local government we had to put in place a bespoke data capture tool—

Chair: Which is perhaps why we are talking about it more.

Cat Little: Indeed—because it is not automatically consolidated into MHCLG accounts, whereas the Department of Health, NHS trusts and CCGs are all consolidated and there is monthly data capture. So, if anything, we have got really good robust, mature systems for data capture in health that didn't exist in local government, and therefore we have had to put much more effort into it.

Chair: Okay. So we are hearing more about local government because they are excited about it.

Cat Little: Because it is quite new—yes.

Chair: We would like to see more of that in every sector. All power to everyone's elbow on that one.

I thank you very much indeed for your time. Thank you to all three witnesses from the Treasury. A transcript of this will be up on the website in the next couple of days. We will be putting out a report, because we are very concerned that the cost tracker continues as long as necessary. We are heartened that it is going to become business as usual for the Treasury, but we think it is a really good model for watching expenditure, and we have this and Brexit—two big areas of expenditure out of the norm—so it is an interesting approach for us as a Committee.

We were just mulling over before the meeting started how many of us will maybe be here in 10 or 20 years' time. Sir Geoffrey was here 20 years ago, looking at some of these issues, so this Committee and its membership may have a longer hinterland than some of the officials who appear in front of us.

Thank you very much indeed for your time.