

Treasury Committee

Oral evidence: [Economic impact of coronavirus](#), HC 271

Wednesday 29 April 2020

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

Questions 295 - 379

Witnesses

I: Rt Hon Stephen Barclay MP, Chief Secretary to the Treasury, HM Treasury; Katharine Braddick, Director General Financial Services; Beth Russell, Director General Tax and Welfare.



Examination of Witnesses

Witnesses: Stephen Barclay, Katharine Braddick and Beth Russell.

Q295 **Chair:** The Treasury Committee welcomes you to its further inquiry session into the economic impact of the coronavirus. We are very pleased to be joined this afternoon by a panel of three witnesses, whom I would now ask to briefly introduce themselves.

Stephen Barclay: I am Steve Barclay, Chief Secretary to the Treasury and Member of Parliament for North-East Cambridgeshire.

Katharine Braddick: I am Katharine Braddick. I am the director general for financial services at the Treasury.

Beth Russell: I am Beth Russell. I am the director general for tax and welfare in the Treasury.

Q296 **Chair:** Welcome, everybody, to this remote session. I think most of the questions, Steve, will inevitably be directed to you, but if either of your officials would like to come in on any particular question do please raise your hand. I or the technicians will then know that you would like to come in and I will bring you in accordingly. Let me kick off. We know that the Government have come forward with economic support in a bold, wide-ranging and very quick fashion. Inevitably, under those circumstances, there are hard edges to the various policy measures being brought forward.

One of those I would like to explore with you. That is the assessment of the furlough that somebody who is self-employed and chooses to work through their own limited liability company can qualify for. As you will know, the current position is that, while the PAYE income under those circumstances is taken into account in that assessment, income received by way of dividend from that limited liability company that relates to self-employment is not taken into account. When we had Jim Harra, the head of HMRC, before the Committee, he said the reason it was not possible to take the dividend income into account was that it was very difficult to differentiate between the dividend income relating strictly to self-employment and the dividend income relating, for example, to a passive holding in a portfolio of shares elsewhere.

Steve, do you accept that it is unsatisfactory that those who were working in that way are disadvantaged in that manner? If you accept that it is unsatisfactory, could you share with the Committee what thinking there may be going on at Treasury at the moment as to how to put that right?

Stephen Barclay: You are quite right to say there is a trade-off between the pace and the operational delivery issues that Jim Harra drew the attention of the Committee to, and the scope of what we can cover. That was a theme of the questioning that you had with HMRC. I was particularly struck, for example, by the exchange with Angela Eagle, in



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terms of the balance between speed and the importance of cash flow, which was a point she drew the Committee's attention to, and the scope of the schemes.

It is worth drawing to the Committee's attention first the scale of the packages that the Treasury has put out. You mentioned the furlough scheme. That has covered over 4 million jobs that have been protected and has done so at quite remarkable pace, as indeed you recognised in your piece in *The Telegraph*. It is the case that a range of schemes has been brought forward. Where someone does not qualify for one, there are other measures that the Treasury has brought forward that may apply to those. We may want to get into the detail of where those who are getting paid through dividends can still access other aspects of the Treasury support, but there is a distinction in treatment with dividends in principle, in the way that they are addressed in the tax system.

There is also a difference in practice, and I think that difference in practice was what Jim Harra was drawing the Committee's attention to when he said it is very difficult to roll this scheme out at the speed we have sought to do while trying to address how you tell what is investment income and what is linked to earnings.

Q297 Chair: Thank you for that. Let me slightly rephrase that first part of my question. Are we saying that, if there was not a practical impediment to providing support for the self-employed working through companies based on dividend as well as PAYE income, the Treasury would basically provide that support, or is there a policy objection to providing that support?

Stephen Barclay: The policy objective has been to deliver support to as many people as possible, as quickly as possible. There is a different rationale to furloughing to the rationale behind the self-employment scheme. The rationale behind the furloughing scheme has been to retain that link to the employer. The self-employment support package is more about how we support people against the disruption, and that is through an interplay of measures. For example, one of the areas has been the removal of the minimum income threshold in the interaction with universal credit. The thing to do is to look at this as a package of measures that are unprecedented, delivered at scale. The policy objective has been to see what can be delivered at pace to respond to issues that the Committee itself has raised, in terms of how we get money to people in quick time.

Q298 Chair: I totally accept and get that there are a variety of different types of support out there, and self-employed people may be able to avail themselves of several different forms of support. This specific case is affecting a very large number of people, and you will be aware of that from the correspondence you will have been getting on this, and the Committee has certainly heard from many of them. Is it a policy position at the Treasury that this is just not something that you want to do? If so, what is the reason? If there is no reason in principle that you are not



prepared to take into account that particular form of income, which, after all, is self-employment income, as that is where it is generated from, it seems to me that it is simply—I say “simply”—a case of the practicalities of making it work and making it happen.

Stephen Barclay: My point is those practicalities are not insignificant. It would require a very significant manual intervention as a result, and Katharine may wish to speak to the operational challenges in designing a scheme like that. There is also a difference in principle, because dividends are not income in the same way. They are not treated in the same way by the tax system, but the primary concern has been an operational one. That is what Jim Harra set out with the Committee.

Q299 **Chair:** Sorry to interrupt, Steve, but we have limited time. What I seem to be picking up there is your comment that dividends are not the same as income in the sense of PAYE. Does this indicate that the Treasury perhaps, at the back of its mind, is saying, “Self-employed people are earning some of their income through dividends, therefore paying typically less tax than they would if they were declaring it as PAYE income. Therefore, perhaps in a sense they are not quite as deserving of support in respect of that income as if it had been PAYE income, for example”?

Stephen Barclay: No, that is not what I am saying, and that is not what Jim Harra said when he gave his evidence to the Committee. The focus has been on how to cover as many of the self-employed against what is a very challenging timeline. I will not be surprised if I get questions today about the timeline for how quickly we can offer support to the self-employed. Indeed, part of the reason the package for the self-employed came after the package for PAYE was because of the complexity of addressing the self-employed and where the data that we have links to people’s tax returns. On the tax return, as you well know, it is not possible to distinguish the purpose of that dividend income.

The design has been about what can be delivered at pace that covers the vast majority of those where the majority of their income is through their self-employment, 95% of whom are covered by this scheme. We have looked at operationally what we can deliver, the challenge of timing of doing so, the challenge of doing so alongside the wider package of measures, including the job support package, while covering as wide a range of people. That has been the policy objective, but clearly there has been a big operational element that has shaped that.

Q300 **Chair:** One solution that has been put forward is that those who claim for furlough could make a claim based on their self-employed dividends income and that HMRC could then look at some clawback mechanism if an erroneous claim had been made, maybe backed up by significant penalties to discourage people from making erroneous or indeed even fraudulent claims. Is that something the Treasury has considered? If it is, is there a possibility something could be worked up around that? If it cannot, what are the reasons why you could not go forward on that



basis?

Stephen Barclay: It has been considered. There has been a lot of conversation in the media, as you know, on that issue. In essence, the challenge with it was framed within your question, which is the risk of fraud as a consequence of that. I do not know whether Katharine or Beth wants to come in on the terms of this, but one of the issues that Parliament, quite rightly, would challenge the Treasury and HMRC on would be if we exposed these schemes to significant fraud risk. That is an one issue that, from a policy perspective, has shaped our approach.

Q301 **Chair:** I will bring Beth in now. Do you have an assessment of the size of that fraud risk, such as it is, in these circumstances?

Beth Russell: With both the self-employed and the wage furloughing scheme, to deliver this as quickly as possible we have had to build new systems that match information that comes from a claimant to information that is already held on the HMRC system, and then the money is calculated and paid out. That means that, although there is risking and fraud checking in that, it can be done very quickly because it is matched against information that is already held. In this case we do not have that information.

As you say, we are looking at proposals where the money is paid out on a claim, not verified up front and clawed back later. Because we do not have information on these people, we do not have an assessment of the scale of the risk there. There is both fraud risk and error risk, because it is difficult for some people to work out themselves what dividends relate to their business versus other dividend income they might have. HMRC then has to go back and retrospectively check every single claim, which it do not need to do in the same way for the schemes we have set up so far. If we did this, it would have to be a separate scheme. It would be very different from the ones we have already put in place and would take far longer to set up.

Q302 **Chair:** Thank you, Beth. I am going to move on now, but I am going to ask you to do something for me. Could you write to the Committee perhaps, as you have suggested that you are looking at proposals at the moment, to let the Committee know what kind of proposals you are considering? It would be useful to have some kind of assessment, as best you can, as to how many individuals are currently being impacted by the problem that we have just been discussing. I get your point that it is difficult to assess some things such as the fraud level risk here, but perhaps give a range of what might be at stake if there are major shortcomings in the system or proposal that is put forward. If I could ask for you to do that, that would be extremely helpful.

Q303 **Rushanara Ali:** Chief Secretary, thank you very much for all the work that your Department and HMRC are doing, but I wanted to quote the Chancellor, not you. The Chancellor said right at the beginning, "You have not been forgotten. You will not be left behind. We all stand



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together”, but, as you have already heard, a lot of people are still left behind, particularly those who are freelancers or self-employed. The IFS reckons it is about 2 million, but it would be good to get an update from your Department in response to the Chair’s request for a written update on the assessments.

On the job retention scheme, while this is very welcome, as is the change of date to 18 March, I think, there are major issues that came out from our last evidence session. In the hospitality sector, there are 350,000 to 500,000 people who are not getting the help they need. There are other sectors colleagues will be able to tell you about. For those in hospitality, 50% of their wages are calculated in the form of tronc or tips for services. That is not included in the programme, so they only get 80% of the 50% of their earnings. That is a massive problem for people who are not necessarily paid very well.

There are new starters. The New Starter Justice campaign has been bombarding us with emails, texts and all sorts, and I am sure you have got some, about the difficulties they are facing. While we recognise the unprecedented pressures, what will you do to make sure, as a matter of urgency, that we address these gaps so the hundreds of thousands, potentially millions if you include the self-employed, can get the help they need as quickly as possible?

Stephen Barclay: What is very clear is the scale. The measures have covered and enabled a huge number of people to keep their jobs. If you look at the furlough scheme, the numbers on that are very clear, notwithstanding the extremely tight timescales.

Q304 **Rushanara Ali:** With respect, I recognise that. You already said that to the Chair. As I have said, we appreciate all that you, your officials and others in HMRC are doing. The questions are about those who are left out. Like you, the rest of us are having to deal with people in very difficult circumstances. I think we are all in this together in the sense of wanting to see action for those who are left out, so could you please address those points?

Stephen Barclay: One of the cases that you mentioned as being left out was the hospitality industry. I would draw your attention to the £7.5 billion of grants that have now been delivered through local authorities, through the link to property and the support there.

Q305 **Rushanara Ali:** I am talking about the job retention scheme and the evidence that was given to us in the last session that 350,000 to 500,000 people have been left out. What will you do about it? You can write to us to give us specific responses, but we need that addressed because these people need to be paid. Also, some 250,000 hospitality workers who started before 28 February but have not had RTI event submitted by their employers in time for 19 March have been inadvertently un-furloughed. That is clearly an unintended consequence. Can your Department work with HMRC, if it has not already, to correct this, because that seems like—to put it kindly—an unintended consequence that needs to be sorted



out?

Stephen Barclay: We have sought, first, to cover as many people as people in the time that has been available. That is why, through the scheme, we have covered 29 million people. Within that, there have been some trade-offs, in designing something that is simple enough to deliver to those timescales with the hard edges that you allude to. That is why we have then taken further measures, such as moving the date from the end of February to the day before the scheme was announced. There is a campaign, as you say, and I get social media messages on it, as you do, in terms of wanting to go beyond that date, but these are the trade-offs in terms of the risk of fraud.

Q306 **Rushanara Ali:** Chief Secretary, these are people's lives. These are families. These are people writing to us, not being able to pay their bills, not being able to survive. These are not people who we can just treat as trade-offs. "Trade-offs" is a technical term you are using. This is people's livelihoods. We have all had shocking examples. We need action.

Stephen Barclay: That is why it is important to look at the package as a whole. For example, we put £7 billion into the welfare safety net. It is why we have made changes to universal credit, in terms of the increase in the standard allowance, the removal of the minimum income floor. It is why we have made changes to the rules around renting. It is why we have the mortgage holiday. It is why we have grants to certain sectors. It is why we have designed a scheme that covers as many people as possible. It is why we have adapted on the date.

Q307 **Rushanara Ali:** My question is whether you will be prepared.

Stephen Barclay: There is a range of measures. You quoted the Chancellor. As the Chancellor has said, there is no scheme that can be designed in the timescales we are dealing with that covers every single scenario.

Q308 **Rushanara Ali:** Chief Secretary, I am really disappointed that you are listing all the things that are going well. We welcome that. I have said that time and again. This attitude is not acceptable because these people are being treated as collateral damage in your trade-off analysis. That is not helpful. Can I ask you please to look at this? In the past your Department, and credit where it is due, has gone back, from feedback, and looked at where improvements can be made. In a pandemic, in a crisis, that is the way we need to keep working, to correct those things that are not working. Once again, I will say that we are grateful for all that is being done, but people are being left out. They should not be treated with the words of "collateral damage" or "trade-offs", because trade-offs mean a lot of lives are affected that need action.

I wanted to get on to a different point, about local government. Local government finance is not sufficient for them to cope with the crisis and what they are doing. I am going to give you my own local authority's experience. In total, because of this crisis, we will get probably about £15



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million from national Government. The cost of the COVID crisis within the three-month period, with what is going to be needed as well the loss of income, is about £60 million. Up and down the country, local authorities will have similar stories to tell. They are being dumped on, frankly, being asked to do more than what the funding is available for.

We need action from the Treasury to make sure local authorities can do their job with the support. We have a lot of frontline workers. We have a lot of people who are, like keyworkers, protecting our communities and we need the Treasury to act here. Would you be able to comment on what further action can be taken to provide finance to local government, on top of what has been provided?

Stephen Barclay: Sure, I will come on to local government. Before doing so, the point I was seeking to make is that it is important to look at the range of packages as a whole, not just one in isolation. Where someone falls outside the scope of one scheme, we have sought to address it through the wider package as a whole. That was what I was seeking. We have worked very closely with the TUC, with business leaders. Indeed, Frances O'Grady, in respect of the furlough scheme, recognised that the Chancellor had listened and tweeted to that effect. It is important that we work on our response in a very collaborative way. That is what we have sought to do.

Indeed, the Committee itself has raised changes. For example, the Chair raised the mid-tier firms when the CBILS loan was introduced. That was something that we responded to. We have looked at the date, so a number of changes have been made in the design: the announcement from the Chancellor on Monday, which we may get on to in the session, around the debate on 100% guarantees, the issues on viability criteria on some of the other schemes. There is a whole range of issues where we have sought to work extremely collaboratively on a cross-party basis and across the United Kingdom. Through my interplay with, for example, the devolved Finance Ministers, that is the spirit in which we have sought to act.

You also asked about local authorities. You are absolutely right: local authorities are under pressure. They have seen a significant drop in revenue, particularly district councils. For example, if you take one where you are, Westminster Council gets a huge amount of its revenue from parking charges, so district councils have seen impacts. Upper tier councils have seen impacts in terms of adult social care. That is why we have taken measures.

We announced £1.6 billion of additional funding in March. We announced a further £1.6 billion in April. We have also deferred payments of business rates. We have changed the profile of spending to help councils with cash flow. A number of measures have been taken to support councils because you are absolutely right: they are not only under pressure but they are being asked to do more, not least in the very



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successful shielding programme that we have been running, where councils have a very important part to play.

Q309 Alison Thewliss: First, Mr Barclay, I would like to ask quickly about an issue I had asked HMRC about before. HMRC told us that there is a hotline for employees who have been furloughed but have been asked to work, even though they are on furlough, by their employer. Can I ask you what the incentive is to an employee in that situation? Surely they are going to lose out on their wages at the end of the day.

Stephen Barclay: Sorry, this is where an employee has been asked to phone if the employer is asking him or her to turn up at work, is it?

Q310 Alison Thewliss: They have been furloughed and their employer is still asking them to work.

Stephen Barclay: That would be in breach of the terms of the scheme, because the scheme is that those who are furloughed are not able to work. They can take on voluntary work, but they cannot work for their employer.

Q311 Alison Thewliss: HMRC said there is a hotline that employees can call if that is the situation. If you are an employee and you phone that line, you are not going to get your wages, are you?

Stephen Barclay: It would depend how that was processed and I would expect HMRC to deal with any whistleblower call with discretion. Alongside the economic rationale to furlough, there is also a public health element to it. Therefore, if people have been furloughed from a public health point of view, it is important that those rules are adhered to.

Q312 Alison Thewliss: I would like to ask you some questions around the safety net that is in place for people, or not. In March, it was reported that there were queues of around 145,000 individuals trying to get into the DWP website for universal credit. Can I ask you what you are doing to support DWP in improving access to this?

Stephen Barclay: It is a hugely important area and DWP staff have done a phenomenal job in managing the spike in claims: around 1.5 million additional universal credit claims since COVID. That has been a huge operational challenge for the Department. We have worked with them, from a Treasury point of view, on the reprioritisation of that work, in particular the redeployment of staff, both internally within DWP and across the wider Whitehall Civil Service, for example staff from the Home Office passports agency. We have looked at boosting call centre capacity, which has been absolutely critical as well. We have worked with DWP to address that, deprioritising work where possible and redeploying staff to address that surge.

Q313 Alison Thewliss: We have received emails as a Committee, and I have received emails as an MP, through my constituency work, from people who are self-employed but are not eligible for universal credit because



they have business savings that have been counted against them. Can you tell me a wee bit more about how the Government are ensuring that self-employed people who are accessing universal credit for the first time know how to fill in the form appropriately, especially when they cannot get in contact with DWP by the phone?

Stephen Barclay: We have boosted the call centre, in part to be able to respond, but there has been a surge in calls and increased demand. On the £16,000 threshold, we have looked at the guidance, for example, where those who were self-employed had put money aside for tax. One change we have made is to enable people to defer that tax payment but to also ensure that, in the guidance for universal credit, those are not classed as savings in the way that has an impact on their ability to claim universal credit. Again, we have sought to apply the guidance in a flexible way to address issues as they have arisen.

Q314 **Alison Thewliss:** The Government have increased the amount of universal credit slightly. Why has that not been done for other legacy benefits?

Stephen Barclay: We have increased the standard allowance significantly, so there has been a £20 a week increase in that. Alongside some operational changes such as making it quicker to access, not requiring physical visits, the changes that we announced initially in the Budget, we have looked at the interplay with other areas. For example, a little earlier I mentioned the removal of the minimum income floor so that, where people's hours have dropped, they are not penalised through the benefits system as a result. Again, we have sought to be very flexible with that.

We have applied that in other areas of policy, for example on accommodation, changing the rules for those in care and younger people claiming housing allowance. We have also moved the housing allowance up to the third quartile so that a third of rents in an area are covered. There is a range of issues where policy has been addressed to ease pressures as we go through the COVID emergency.

Q315 **Alison Thewliss:** I am afraid that does not answer my question. Why have you not increased legacy benefits? People who are not on universal credit have not seen their benefits go up. They also need more money to survive on at the moment.

Stephen Barclay: We put around £7 billion of additional spend into the benefits system, so that has been a major fiscal support to strengthen that. Alongside that, our key thing is to stop people going into benefits in the first place. The key rationale for schemes such as the furlough scheme is to retain the employment link that people have to avoid them needing to. If you look at the figures of how many people have been able to benefit from the furlough scheme, those are people who might otherwise have ended up on benefits. A key part of the wider package, the support for the public services, individuals and businesses, is to avoid



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people having to go on to benefits in the first place. Beth may wish to come in on the specifics on benefits.

Beth Russell: Alongside universal credit, we also increased the working tax credit. Here, we aimed to look at increasing the benefit rates that could be increased quickly. You would have to ask DWP about the details of the operational side of things, but my understanding is that it could not increase some of the legacy benefits as quickly as the ones we have focused on increased.

Q316 **Alison Thewliss:** There are still lots of people on those benefits. It would be good to see some action on that. Could I also ask about the two-child limit within benefits? Could that be relaxed? CPAG has suggested that there may be tens of thousands of people claiming universal credit for the first time who will not be able to get enough money to help their children get meals. Further to that, could the no recourse to public funds restriction be lifted as well? That prevents many people from getting the help they so desperately need.

Stephen Barclay: I know the two-child limit is an issue you have raised on a number of occasions in Parliament, as I know Alison McGovern has, and she highlighted it in her recent article as well. You will be familiar with the rationale for that policy.

Alison Thewliss: People could not have predicted this.

Stephen Barclay: You and I are going to disagree on this, but it is the rationale of the policy. It is about equity between those on benefits and those who are not, and the wider affordability of the system.

Q317 **Alison Thewliss:** Finally, can I ask about people who are stuck in a bit of a trap, who have been TUPEd over into a new company? The old company has been wound up. They are now stuck, unable to access the furlough scheme. Can something be put in place to help those people?

Stephen Barclay: As these schemes land, we are looking at where there are any specific cases and what can be done, given the operational challenges of that. One change we have already adopted, following feedback from the Committee and others, was to look at people who had left their job and were able to go back and be furloughed. Where there are opportunities to flex the rules in a constructive way, we have done so, and we will continue to engage with the Committee on that.

Q318 **Mr Baker:** Before I move on to self-employment, for completeness I need to declare that my wife is a locum doctor. There is, of course, no shortage of work for doctors at the moment. Chief Secretary, perhaps to save time as we move forwards, can I say thank you? I have enough ministerial experience to know that what you at the Treasury and HMRC have done is a tremendous achievement in delivering the range and scale of the package that is in place. It is inevitable, though, that we focus on the hard cases. In doing so, as I said to Jim Harra, that is not to imply any lack of appreciation of the fantastic work of officials and Ministers in



getting us this far. I mean that most sincerely, but I need to press you on the hard cases.

The first hard case I would like to turn to is the one that Rushanara brought up, this issue of tronc. A young man with a new-born child writes to me to say he was pleased with the furlough scheme but he finds he is not getting 80% of his usual income. He is getting 40%. You mentioned equity earlier and, as a matter of equity, I need to press you to answer whether you will look at the possibility of compensating people for their loss of tronc. The Government, as you well know, have stopped these businesses operating and it is a matter of equity that people in that position should not be getting 40% of their regular income. They should be getting the 80% that the Government intended. My question, very specifically, is whether you will go away and have a look at how tronc might be compensated.

Stephen Barclay: First, I recognise the point. With Rushanara, I was seeking to say that there are these cases. We are trying to design a scheme. We have designed a scheme, but we are looking at where these cases arise and what can be done constructively. One should not get away from the fact that it is very challenging to address some of these details, given that we are trying to work with the systems we have. We are rolling out a number of schemes. We have schemes still in train. The furlough scheme is up and running. The self-employed scheme obviously is still in train.

Q319 **Mr Baker:** I am so sorry to interrupt you. There is so much to cover. Could we have a brief word on the practicalities of covering tronc?

Beth Russell: The design of the scheme, partly for the reasons we were talking about before, in terms of the practicalities, is that it covers 80% of obligatory, regular payments. Ultimately, this is not a complete income replacement scheme. It is about retaining the link with the employer. The difficulty with tronc particularly is that, in some cases, it is notified to HMRC and in some cases it is not, so if we included it there would be unfairness in that approach. We are generally taking an approach that discretionary payments are not included and obligatory payments are.

Q320 **Mr Baker:** I hope you will all forgive me if I cut you short, because we have to get through it. You correctly foresaw, Chief Secretary, that we would come on to timing. Can you give the self-employed any additional firmness about the date when they will get support? Can you give any hope of an earlier deployment of support, because it is desperately needed?

Stephen Barclay: It is desperately needed. The Chancellor gave an update to the House on Monday on the timing, as previously set out, for payments in June. In essence, part of the reason within that question that we are not able to address all the issues the Committee is highlighting is because of the imperative of raising that. I alluded to that in terms of the evidence session with Jim Harra that the Committee had. One area we have been challenged on is the need to deliver quickly to



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the self-employed and that is why we need to work with the data we have. That data is shaped by tax returns. That creates a number of issues, which the Committee has highlighted, for those who fall outside of scope. We have covered 95% of those who are self-employed where it is the majority of their income. Of those who remain, a significant proportion are on very high salaries.

Q321 Mr Baker: I am so sorry to cut you short again. I want to put to you some categories that seem to challenge that 95% figure: people whose self-employed income makes up less than half their total earnings; those who started their business after April 2019; limited company directors; those not technically categorised as self-employed, for example people on PAYE freelance arrangements, which is why I have declared the locum issue. There are supply teachers and creative professionals. Can you really ask us to accept that it is only 5% who are omitted from these schemes and can you really ask us to believe that they are all high paid? The stories we are all getting are that people are missing out on support here. We would really like to know that you have thought about those groups.

Stephen Barclay: We have and we may want to get on to some figures the IFS put out and the difference with those. Yes, it is 95% of people who are self-employed where it is their majority income. For those where it is not the majority income, I think the average income in that instance is around £4,000, so that is not their clear main source of income. That is why it covers 95%. It is important also to recognise that many people are adversely affected but not every self-employed person is. Whether it is a law partner or a delivery partner, there will be some people who are not. We have designed a scheme that covers the vast majority and that has been the purpose behind it.

Q322 Mr Baker: On the 50k cut-off, it is obviously causing horror to people. We have all had cases, I am sure, including you, where people are just over the threshold and get nothing. For people who are self-employed, why can you not dispense with that 50k cut-off and instead use the £2,500 a month cap on what you pay people? At the moment, I have to say it looks like an ideological aversion to self-employment, which I think would be wrong coming from a Conservative Government. Why not just rely on the £2,500 a month limit and treat people in self-employment more similarly to those who are PAYE on furlough?

Stephen Barclay: The reasons were covered by Jim Harra at the previous session, when I think Rushanara challenged him on the difference between two people in a household on £49,000 and one just over £50,000. The same applies to your question, Steve. The way this is designed is off the self-assessment tax forms. That is the operational design. That is where the £50,000 threshold has been linked and that enables us to cover 95%. In a way, it goes back to your earlier question. There is a desire from the Committee, which I understand, as was explored in one of the previous hearings, to deliver schemes at speed, but there is an equal desire to cover every single scenario. We have



sought to have a package of measures. This covers 95% of people in self-employment where it is the majority of their income, but there are other measures alongside it. It is important that we look at the total package of measures.

Q323 Mr Baker: You have made that very clear. That is why at the beginning I acknowledged your achievement in the round. Is the problem not that, if you had two high-paid furloughed employees in a household, they would be very much better off than a household where somebody was just over the threshold? Again, I say to you, surely the thing to do here is to use the cap in what you pay out, instead of looking at the cap of what people usually earn.

Stephen Barclay: We have been asked this question of household income: could we not do this assessment from a household income? Indeed, when we come to major fiscal events, the distributional analysis is linked to household income, but there is a significant time period. Often it takes up to two years to do those household surveys, to design them and get that data back. It is the operational design that is driving this. That is why it is based in the way that it is.

Q324 Mr Baker: I am sorry that I cannot bring Beth in. I am running short. I could easily use another 10 minutes, but I must turn to procurement in my last minute, Steve, because I see on the website you are responsible for procurement. Can you tell us why it is that Government have been so very bad at buying stock that is there? I have two companies in my constituency, one in particular, MHP, with tens of thousands of visors in stock, a capacity of 2,000 to 4,000 visors a day. As prominently reported, it has been unable to sell into Government. I have Sabeti Wain, ex-aerospace sector, making thousands of gowns. What is going on that the NHS has been so bad at buying stock that is available in the UK and at procuring available manufacturing capacity? Will you have a root and branch review of what has gone on?

Stephen Barclay: This has been subject to significant focus. The Chief of the Defence Staff talked about just the logistics element of this as being one of the biggest challenges he had seen in his career. There are lots of different components to it. You have the international purchasing element being led through the FCO and DIT, and the Perm Sec of DIT. You refer to the domestic manufacturing side, which is a mix of mobilising the sourcing capability of our major firms, such as Next, and domestic manufacturers, looking at, for example, MoD equipment suppliers and what they can repurpose.

Q325 Mr Baker: I am sorry, Steve; this is not the point. We agree that the capacity is there and I have given you an example of a firm repurposing from aerospace upholstery to gowns. We know it is happening. The question is why the procurement system is failing to buy available stock and available capacity, wherever it may come from.



Stephen Barclay: Firstly, it is buying huge amounts. It is not simply the supply. It is also the interaction with demand. The demand is extremely large, not least because the Department of Health is now procuring for the whole of the UK, not just the health needs but also the wider social care needs. It is partly an issue not just of manufacturing capability but of raw materials, having the right raw materials for the products, such as gowns, one needs. It is partly an issue of scale. Lots of manufacturers have come forward, but there is a wide range of capability in the scale that they can produce. Some of those that have taken to the airwaves, I am sure not the constituency cases you highlight, Steve, when due diligence has been done, have not sufficiently met the test.

It is a complex issue. A huge amount of work has been done. Lord Deighton has been brought in to co-ordinate the challenge on PPE. The Cabinet Office, through Lord Agnew, has been doing a lot of work in this space. A lot of work is going on. There are commitments, as you know, from the Downing Street press conferences, to ensure all those that have stepped forward get responses. I think that was due to be cleared by yesterday. It is quite a complex challenge with lots of aspects to it, but a significant amount of work is going on.

Q326 **Julie Marson:** I would like to turn to the loan schemes that have been announced and how they are working to get help out to businesses. I will start with the bounce-back loans, which were announced on Monday and I must say have gone down extremely well in Hertford and Stortford. What is the amount of bounce-back loans that the Government are anticipating will be disbursed, both overall and over the next critical couple of weeks?

Stephen Barclay: You are quite right; I think they have been well received. Again, it responds to a number of points that the Committee has raised, in terms of providing that 100% guarantee. They will be available on Monday on a much more simplified process, so we will see what demand there is on Monday. Based on the CBILS applications, we would expect that demand will be high, not least because the majority of CBILS applications were for sums below the £50,000, which is what the bounce-back loans will cover.

We will see what the application rate is on Monday, but we would expect there to be a very large amount demand, linking also to the other measures that have been taken, such as the £7.5 billion of grants that have gone, the tax deferral through time-to-pay measures—I think 57,000 firms have used that—and the deferral of VAT. There is a range of measures that firms are accessing, including overdrafts and conventional banking facilities, but the bounce-back loans will be a key part of that.

Q327 **Julie Marson:** You mentioned the overlap between the existing CBILS and the bounce-back. Do you anticipate a lot of the lending that we will see over the next few weeks under the bounce-back being transfers from CBILS to bounce-back loans?



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Stephen Barclay: There is scope under the scheme to do so, should people wish to. Within the terms of the scheme, either at application stage or, indeed, if the CBILS loan has been granted, there is scope to transfer it across. That is part of the scheme's design.

Q328 **Julie Marson:** Will we see that transparently, in terms of what is absolutely new lending and what would be a transfer from the CBILS?

Stephen Barclay: I know the Chair has raised data and what data there is available through UK Finance, and I know UK Finance is in correspondence with the Committee on that.

Q329 **Julie Marson:** Yes, I think we would all like timely and transparent data, so we can see transparently what is happening there. A low standardised rate of interest is mentioned. What do you consider to be reasonable and would that be the same across the lenders?

Stephen Barclay: The scheme is interest free for 12 months, so the Government back the loan and the 12 months without interest. The low interest to which you refer is what is applied after the 12 months. It responds to a concern that has previously been raised around what interest rates would be applied by commercial lenders at the end of the 12 months on the CBILS scheme. One of the distinguishing factors of the bounce-back scheme is that there will be one loan after the 12 months, which Government will discuss.

Q330 **Julie Marson:** Do you have an assessment of the losses that the Government might anticipate we will get from the bounce-back loan scheme?

Stephen Barclay: A key part of what is being designed is to support the businesses, because these were viable businesses before. The whole economic rationale of the interventions we are making is to ensure these businesses can come back and be successful. There is a six-year term to these loans, but the whole purpose is to ensure that the businesses are able to recover quickly. That is why we have designed the furlough scheme. That is where a big part of the fiscal measures are, £42 billion according to the OBR, in terms of cost. The big fiscal measure is to enable firms to come back.

They were viable before COVID and the underlying cause of the economic challenge we face is a health challenge. It is not driven by the economics, albeit the economics are the consequence, so we would expect these firms to come back, but it is very hard to model that without knowing what the NPIs are going to be. Depending on how long the disruption is, that will clearly have an impact on the future for those firms.

Q331 **Julie Marson:** Initially, and for a while throughout this, the Chancellor has been reluctant to announce and to consider the 100% guarantee level. We have talked in this Committee and heard about what we call the moral hazard, the fact that banks have no skin in the game, and the impact of the risk of loss to the taxpayer and the fraud that might come



from that. How has the Government assessment of that changed to bring in the 100% and how will we mitigate against those losses or the potential for loss?

Stephen Barclay: You are right; a key part of the CBILS scheme was to ensure that the banks have some skin in the game. I think that was a key part of the evidence the Chancellor gave to the Committee. Here, we are talking about a quantum of loan, up to £50,000, that is very different to the quantum of loan that is offered through the CBILS scheme. That is why there is the difference. It is also why the application process can be streamlined. Alongside that, at the same time we are picking up on concerns that have been raised by the Committee and parliamentary colleagues over the CBILS loan itself, the guidance from regulators to firms as to how they handle those applications, the terms that apply for the portfolio, the terms that apply for the viability assessment. Streamlining has also been applied to the CBILS loan, which is why we have seen the significant uptick in applications being successful from around 4 April.

Q332 **Julie Marson:** We are seeing an uptick. There are still some barriers, as we have talked about on the Committee, to the lending, particularly for small businesses. We have talked about the Consumer Credit Act making things more difficult. Have you considered changing or re-legislating on that? The know-your-customer checks slow the process down, particularly for businesses that have not lent before. What are your thoughts on those kinds of barriers to small businesses in particular?

Stephen Barclay: If any tweaks are required to the Consumer Credit Act in terms of the bounce-back loan, we would bring that to the House. In terms of guidance, the regulators more generally have been quite clear with lenders on what those requirements are, addressing some of the concerns that were had before. That is the discussion that Katharine and her team, and John Glen, who leads on our relationship with the banks and the regulators, as Economic Secretary, have been having, in response to issues that MPs have raised.

Q333 **Julie Marson:** We have also received evidence over the last few weeks that the accreditation process for the British Business Bank, when it looks at the lenders, is quite slow. We have heard that it originally had two members of staff dealing with that. It has 25 now, possibly more; I do not know. Is the process working better? Is there any need for further change in that accreditation process?

Stephen Barclay: Changes have been made to streamline that. The rules around the portfolio as a whole have been eased, in terms of the forward look, because I think it was quite difficult for firms to give some of the reassurance on the forward look on CBILS that the banks were asking for. We have also increased the numbers of approved lenders. The British Business Bank has now approved, I think, a 25% increase in those that can deliver this to 52 approved lenders. There has been a significant increase to address many of the issues, as to how we get these through



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the door and ensure the money is getting to the firms that need it. The bounce-back loans directly address this with a streamlined process, but additional things have been done on the CBILS loans. We have seen that with the numbers and the significant increase in loans made.

Q334 **Julie Marson:** I think I just have time to turn briefly to the large business interruption loan scheme. We have only had about eight days of that so far.

Stephen Barclay: Last Monday, yes.

Q335 **Julie Marson:** Do you have a volume of funds that we have got out through the large business loan scheme?

Stephen Barclay: We do not have clear data on that yet because it was only a week last Monday. There have been some approved through the large CBILS loans, so some have been successful and some applications are in, but the data is at a preliminary stage on that.

Q336 **Julie Marson:** Is there going to be a limit or barrier, in the fact that there are fewer lenders accredited on that scheme?

Stephen Barclay: The number of firms and profile of firms is different. One of the big issues was just the volume of applications coming into banks, and the fact that was coming at a time when banks themselves were suffering staff losses and there was significant pressure on the banks just in terms of volume. The larger business loans have a different profile, as does the corporate finance facility through the Bank of England, which covers around 300 firms, but obviously firms that employ vastly more people. The issues are different with the large loans but, even though it was only launched last Monday, we have already seen that some applications are successful, so it is clear that the process is working.

Q337 **Chair:** Steve, you mentioned UK Finance there and the issue of information around how quickly the banks are getting the loans out of the door. I think I am right in saying that the Treasury is receiving information in that regard on a daily basis. Would it be possible for you to have a look at what you might usefully be able to provide to the Committee by way of daily data? Could I ask you to take that away as something to think about?

Stephen Barclay: Yes, I am happy to take it away. Obviously, that data does not tend to come to me because it goes to the Economic Secretary, who leads on these issues, as opposed to me.

Chair: From my time at the Treasury, I seem to remember his office is just up the corridor from yours, so I am sure you can have a chat with him.

Q338 **Anthony Browne:** I want to first echo the comments made by Steve Baker and others. As somebody who has been involved with rolling out Government support schemes for business over the years, I have been



astonished at the speed, given how you have put years of work into weeks, and been very flexible at changing things when you do spot gaps, which is going to be the focus of my question. I have to say the bounce-back loans have been incredibly welcome and I have had a lot of positive feedback about that. That has certainly filled in a lot of different gaps. I would also say that the tone of correspondence from my constituents has changed from one where there is universal anguish to one where we are getting an equal amount of thanks for the Government's support at the moment, but there are still gaps there. As Steve noted earlier, it is natural that we focus on that.

First, I want to ask an open question. The Treasury has been very flexible in changing policies and developing new schemes, such as the bounce-back loan. Are there any other gaps or policies that you are planning at the moment that you could highlight to us?

Stephen Barclay: The Chancellor updated the House on Monday and I do not want to add anything further to that at this stage. As has been demonstrated with the responsiveness to date, which you kindly made reference to, we are keeping these issues under consideration and will continue to do so.

Q339 **Anthony Browne:** One of the biggest gaps that I hear from my constituents is the cut-off in rateable value of £51,000 for businesses in the hospitality industry, where they get a £25,000 grant up to that but then, if they are just over £51,000, they get nothing. For example, I have two pubs in my constituency. One has a rateable value of £49,000, which got the £25,000 grant. It has made it able to survive. One that had a rateable value of £55,000, just a bit higher, gets nothing, and it is really struggling to survive. I understand the need for simplicity to roll out things quickly. You have had a bit more time now. Could you not introduce some form of tapering scheme, for example for every £1 increase in rateable value you reduce the grant by £1?

Stephen Barclay: I would draw your attention to the fact that there have been iterations already, Anthony, if you look at what was initially announced in the Budget; there was then subsequent movement following that, so changes have been made. There is a logic to why it has been set as it has, in terms of the £10,000 grant and the £25,000 grant. Indeed, there are challenges around that. I know the Scottish Government looked, for example, at whether to apply it to businesses as opposed to premises and themselves made iterations, as we have made iterations on certain schemes.

We do look at these schemes, but it is important to say that changes have already been made, in part to address concerns where there were certain businesses saying that they were outside of scope for what was within the Budget, which is why we made the changes subsequent to that.

Q340 **Anthony Browne:** One of the other gaps that we have, which I hear



from my constituents, is around businesses where the operations are based primarily at home, or the administration is based at home but they operate out in the field, so they do not pay business rates. That is fully open with the council, but it means they get no grant whatsoever. This is for the small businesses. A lot of them certainly feel fairly hard done by as a result, because they are basically getting no Government support. Will you consider any support for businesses that are exempted from business rates?

Stephen Barclay: Again, that is an issue that has been raised with us. It often comes up with mobile businesses, for example mobile food operation, which does not have the same cost. Part of the reason for linking it to property is that property is a significant fixed cost of business. That was part of the rationale for the scheme. There have been areas where we have responded flexibly. If you look at fishing, for example, an issue that was raised was that within the fishing sector they did not tend to have properties because it was their boats, but property is one of the big costs that businesses face. That is why the scheme has been designed around the property, both operationally, because there is a natural link to that, and because that is one of the big costs that firms face.

Q341 **Anthony Browne:** Indeed, and quite a few companies have spoken to me and said that they have furloughed most of their staff. They are appreciative of the support you have given them but they have lost 100% of their income, and the one big cost they cannot control is rent. I realise that this is not a primary Government responsibility, but we heard from UKHospitality about this. It made the point that that is the big outgoing cost that is pushing a lot of companies over the edge. Some landlords are being flexible—they are cutting or stopping the rent—but many others are not. UKHospitality called for Government action on this, saying that otherwise it is going to be a bloodbath—that was the word used; it is not my word—in the fights between the hospitality industry and renters. With responsibility for looking at businesses going, is that something where you can see the Government getting involved, or do you just leave it to landlords and tenants to sort it out between themselves?

Stephen Barclay: There has not been a laissez-faire approach to landlords and tenants. There are a number of measures. We have not gone on to things such as mortgages and rent, and the things that have been done there. The package that has been announced on hospitality covers multiple sites, not just one. It is based on the premises, not the business, which is one of the issues that the industry specifically raised.

I recognise that there are sometimes localised impacts, in terms of inner-city London districts or areas such as yours in Cambridge that may have higher business rates compared to other parts of the country. Again, there are other aspects of the package. Within the hospitality industry, the furloughing scheme is a key one; there is also the deferral of tax. There is a range of measures, as well as those that assist on property.



Q342 **Anthony Browne:** You mentioned the furloughing scheme. That has been incredibly popular. Quite a few of us might have been surprised quite how popular it has been. A very large proportion of companies have furloughed their entire staff. There are now 4 million workers on it. How are you going to exit from the furlough scheme? There is clearly a risk that, if you go cold turkey, a lot of those people who are furloughed will end up being made redundant as soon as they come off the scheme.

Stephen Barclay: That is part of a much wider question on the wider exit package, which we may get on to within this session. You will have seen the five tests that the First Secretary of State set out on 16 April and our thinking that that will primarily be shaped by the health needs of the NHS but also avoiding a second wave.

Q343 **Anthony Browne:** My question was not about the timing. Whenever the furlough scheme ends, how are you going to manage it so that you do not end up with many millions of employees coming off it at the same time, and companies suddenly facing wage bills but without having income to pay for those wages?

Stephen Barclay: It depends on the interaction with the NPIs, but the scheme was initially announced for three months; it was extended for a further month. Again, that was also listening in terms of the notice period that firms would give and the interaction with that; that was one of the concerns that had been raised. The scheme has been extended by a month. Our approach to that will be part of the wider discussion that the Treasury and BEIS are having with the Department of Health and No. 10 on how we look at the wider exit approach. The Prime Minister touched on that in his statement on Monday. He said that he would set out more details in the coming days.

The interaction with getting people back to work is extremely important, but there are many dimensions to that: the interaction with schools, which are a key enabler of people's ability to work; how it interplays with schemes such as the furlough scheme; and how it addresses the challenges for the NHS.

Q344 **Anthony Browne:** Finally, I have a question about paying for all of this. You are responsible for public spending. We have seen the projections from the OBR about the impacts on Government finance; we could end up having a national debt as much as 100% of GDP. There is some concern that, as a result, we are going to end up having another age of austerity to bring Government finances back under control. As the Cabinet Minister responsible for public finance, can you reassure people that we will not have another age of austerity? How are we going to end up paying for all of this?

Stephen Barclay: As the Chancellor has said, we have to be honest that there is clearly going to be a very significant effect from the measures that have been taken. The OBR figures, while not a forecast, alluded to the size of the measures, but the OBR also said that, had we not acted,



there would have been a bigger cost. The IFS also recognised that the measures taken by the UK Government had been swift, active and aggressive. It was important to act. The key to that, as the Chancellor has repeatedly set out, has been to avoid the economic scarring that would otherwise have happened, to enable firms to bounce back quickly. There is no getting away from the fact that this will have a significant impact but the cost of not acting would have been greater, and the OBR, in its data, reflected that.

Anthony Browne: I think we all agree that the cost of not acting would have been greater.

Q345 **Alison McGovern:** Can I just say that it is nice to know that you read my articles? Nobody expects the Chief Secretary to the Treasury to be the person deciding or announcing dates for the end of lockdown, but, as you have heard from Anthony, we do expect you to play a leading role in designing the exit strategy. Given your answers to Anthony just now, can you confirm that we can expect a contingent strategy—a strategy that is contingent on meeting the five tests—as you said, in the coming days? Is that right?

Stephen Barclay: I drew the Committee's attention to the remarks from the Prime Minister on Monday. He said that he intended to have more to say on this in the coming days. The five tests that were set out by the First Secretary will shape the Government's thinking on how this is approached.

Q346 **Alison McGovern:** Basically, the Prime Minister has effectively announced that we will hear very shortly on a contingent strategy: "When the tests are met, these are the steps that will be taken". To put some detail to that announcement from the Prime Minister, in that case, can I just ask about the Treasury's role in that contingent strategy? What risk assessments has the Treasury undertaken about particular sectors at risk and the consequences for the public finance of that?

Stephen Barclay: The Treasury does not do forecasting in perhaps the way you allude to. We have been speaking to the TUC and business leaders. The Secretary of State for Business, for example, has been having a large number of conversations.

Q347 **Alison McGovern:** Forgive me for interrupting you, Chief Secretary. You said that the Treasury does not do forecasts in the way that I suggest. Are you telling the Committee that the Treasury has no forecasting capacity? It has no economists working on a forward look, as we step out of this period, as to what the shape of the economy will be.

Stephen Barclay: We have already touched on what the OBR has set out in terms of the impacts and what we expect from these measures, but there is significant unpredictability as to what those impacts will be.

Q348 **Alison McGovern:** Can I just press you on the factual point here? The OBR is quite constrained, legally, in what it can do. Its purpose is



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prescribed in law and, as we found out as a Committee when we had successive Budgets moved and cancelled, what the OBR does is dictated by law quite heavily. It does not have the capacity to act beyond its powers. If we are looking for who is mapping out the impact of the situation we are in, which is the most serious for a generation, that capacity to map out and forecast should sit with the Treasury, should it not? Are you saying there is no Treasury forecasting going on at the moment because the Treasury no longer does forecasting?

Stephen Barclay: Of course we are looking at the impacts. I am saying that the economic impacts will be largely shaped by the duration of the NPIs that are taken. There is a really strong correlation between how long those interventions last and what impact that has on the economy. That is why we are discussing, with the TUC, business leaders, stakeholders and sectors, what measures can be taken for the economy.

There are different aspects to that. For example, if I look at the debate in the media, there are debates as to whether shops that can have single routes, whether garden centres can come back more quickly than others and whether certain sectors, such as hospitality and restaurants, are more difficult.

Q349 **Alison McGovern:** If I may, Chief Secretary, just to press you again on the factual point, I know that you talked to the TUC, the CBI and others, and that contact is really welcome. We can all read what the chat in the paper is, but I would like to know how many economists are currently working inside the Treasury, or in the Government Economic Service across Whitehall, to figure out the best estimate on the impact and what the future might look like. Can you write to us and let us know how many people are working on it, what teams there are and what information we can expect the Treasury to make public about those assessments?

Stephen Barclay: Many people within the Treasury are looking at the impacts on the economy of the measures taken to date.

Q350 **Alison McGovern:** Can you write to us and just let us know? We are in this situation where we have a very formal forecasting function within the OBR that reports, as it is legally required to, on fiscal events. We need to know that the Government are taking an in-depth look, sector by sector and region by region, at how this crisis has affected our economy and the route map out of this horrendous time. Can you just write to us and give us the detail of what Government resource is being put on that job?

Stephen Barclay: I am happy to write and say what work we are doing, but it is not as simple as linking it to an individual and headcount, because there are discussions with other Departments and there is interplay across different sectors.

Q351 **Alison McGovern:** Not all economists work for the Treasury; that is fine. A cross-Whitehall look is fine.

To move on from that, what assessments have you made of the



geography of the impact of this? There are various datasets about which sectors will be worst affected and which will be last out; we have all seen the newspaper coverage of which sectors are expecting the worst impact. We know that some of the scarring that you referred to will be geographically clustered. What information have you asked for on the geographic clustering of the impact?

Stephen Barclay: The key impact on all regions will be the interplay with the NPIs and when those are lifted. It will apply differently between different sectors of the economy. There are different interplays within that. I touched earlier on the importance of schools as an enabler of people going back to work; that is a factor as well. These are measures that will be taken across the United Kingdom as a whole, not on a regional basis.

The sorts of issues, moving forward, that will shape it are, for example, looking at the work that the Department of Health is doing on track and trace, how we monitor the infection rate in the future, and what data there is—

Q352 **Alison McGovern:** Chief Secretary, you have not really answered my question at all there. If, at the moment, you are watching this session of the Treasury Select Committee and you live in a seaside town whose economy is entirely dominated by the visitor economy, that is a completely different situation to listening to this discussion in, say, the middle of Manchester, where there is quite a diverse economy across a number of sectors. Who in the Treasury is looking across the United Kingdom and finding those towns, cities, counties or regions that are completely disproportionately affected by this situation? Is anybody trying to find those places and getting a plan to help them?

Stephen Barclay: First, the decision is primarily driven by the health assessment of what the infection rate is, because we need to, in line with the five tests that we have set, ensure that the NHS can cope with the infection rate—

Q353 **Alison McGovern:** Chief Secretary, you are not the Department of Health. I am asking you what the Treasury is doing to assess the British economy and to work out what packages of support will be needed to make sure that this crisis does not obliterate whole towns whose economies will never recover. Who is doing that work?

Stephen Barclay: There are a huge number of people in the Treasury working on this issue, but the point is, first and foremost, that it is not a choice between the economics and the health.

Q354 **Alison McGovern:** I did not say it was. This is not a question about when we should lift those restrictions. We should only do that for the right health reasons. My question is about what preparation the Treasury is doing so that, whatever we need to do to protect people's health, we are not leaving towns, regions or places that are disproportionately affected to deal with this problem on their own.



Stephen Barclay: That is something we are actively looking at. We are discussing, as I say, with the Department for Business as well. We are engaging with the different sectors to look at what measures can be taken within those sectors. It will vary between different sectors. If you look at construction, as an example, around 35% of construction is currently suspended. The Chief Scientific Officer has now said that the infection rate outside is lower than it is inside, so we are looking at what the sectoral impacts are. That will vary within different sectors, whether it is a gardening centre compared to a restaurant, so the issues will be different sector to sector. We are discussing those with the industries as to what steps they can take, but it will also be shaped, as throughout this, by scientific advice as to what SAGE recommends and what measures are needed. The Prime Minister has said he will have more to say on that in the coming days.

Q355 **Alison McGovern:** I will look forward to the Prime Minister's announcements. You mentioned sector-by-sector analysis. Have you commissioned analysis across different groups in society to work out where those disproportionate impacts are, for example on race, gender, disability and socioeconomic inequality?

Stephen Barclay: The distributional impacts are usually measured by household and there is often quite a time lag in compiling that data. The expectation is that this is impacting much more among the young, women and the low paid. Again, it is quite difficult to model that, given that we do not know how long these measures will be in place for.

Q356 **Ms Eagle:** The five tests for easing the lockdown, Chief Secretary, do not include an explicit economic consideration, which may well be the right thing. Could you give us a bit of an impression today about what input into these decisions the Treasury is having?

Stephen Barclay: First, there are a number of cross-ministerial committees, one of which is chaired by the Chancellor, which is the economic and business ministerial committee that feeds into COBRA. That sits alongside the health ministerial committee, the public services committee and the international committee. This speaks to some of the points that Alison was raising. These issues are brought before that committee, chaired by the Chancellor. That then goes through to COBRA, where it is discussed on a UK-wide basis, and the decision then, in terms of the application of the five tests and how those are met, will be taken through the COBRA committee.

Q357 **Ms Eagle:** We have a lot of epidemiological analysis of the reproduction rate of the virus and what needs to be done to save lives. Is there an equivalent cost-benefit analysis for the economy, which is based on the lockdown, that can be used as an analytical tool to make some decisions on exit strategies?

Stephen Barclay: Do you mean in terms of the cost of the measures per month? Is that what you are driving at?



Ms Eagle: There is also opportunity cost of not having an economy that is actually running at the moment.

Stephen Barclay: Again, a number of factors, not just economic, would come into that. There would be economic measures, such as the cost per month of the furlough scheme and the cost of the self-employment scheme: is that £20 billion a month or is a different figure? I touched earlier on the money that has gone on grants. Some of the measures are one-off costs. If I look at the funding on the public services, quite often that is for one-off purchases, such as ventilators, as opposed to recurring ones.

You could look at the collective costs of those measures, but what you would not pick up in that are issues that I am sure you and I would also be concerned about. What are the other health costs? We have seen, over the last 24 hours, quite a bit of concern around those with cancer, for example, not presenting at hospital. The Home Office has been doing a lot of work on the impact on domestic violence and some of those wider issues. The Department for Education is doing work on vulnerable children who are not in school at present and what issues there are there.

That is why I was drawing Alison's attention to the point that it is not a health-versus-economy issue. It is not even, just within health, a COVID issue; there is a wider health impact and there is a wider societal impact, and they feed into any assessment from an economic point of view.

Q358 **Ms Eagle:** There was a huge intake of breath when the OBR published its report with a 30% predicted fall in GDP, and a 35% fall in Q2 in GDP, coupled with what the IMF has been saying about a global recession of 3%, which is 2.5% more, in global output, than the 2008 financial crisis. Since that publication, the general view is that perhaps they had been too optimistic, which is hard to imagine, and that a V-shaped recovery will actually be more like a U-shaped recovery or, God forbid, even an L-shaped recovery, if there is too much damage done to existing companies but also to the prospects for trade globally and the prospects for survival for a lot of our economy. What is your gut instinct?

Stephen Barclay: Personally, I think it is too early to start talking about V-shaped, U-shaped or what shape it will be. It is clear from what the OBR and others have said that the UK has responded quickly and on an unprecedented scale. Even Ed Balls has said that he was surprised by the scale and pace of the Treasury's response. The cost of inaction would have been greater; that was a key part of what the OBR had to say.

In terms of what the cost will be moving forward, the whole purpose of the measures we have taken has been to seek to limit that economic scarring and to enable the economy to recover quickly, but it will, in large measure, be shaped by how long the measures are required for. You will know that, for example, the British Chambers of Commerce has talked about the fact that many businesses do not have cash reserves of more than three months and that there will be significant pressure on



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businesses the longer this goes on. It will be shaped by the length of the NPIs, but we have taken measures to enable the economy to bounce back quickly.

Q359 **Ms Eagle:** You are the Chief Secretary to the Treasury. When is the spending review going to be?

Stephen Barclay: We have said that the spending review will be in the autumn, later this year. As you know from your time in Government, autumn covers a number of dates.

Ms Eagle: It is all the way up to Christmas on some occasions, I seem to remember.

Stephen Barclay: I do not want to hark back to that period, but we have said it will be later this year.

Q360 **Ms Eagle:** In those considerations, will you be looking at the expenditure that local authorities are being forced to make now, simply because they have been at the forefront of the crisis response in all communities? My own local authority has been absolutely magnificent in keeping people safe and shielded, keeping food going to houses and organising the emergency availability of all kinds of services. The LGA has said that there is nearly a £10 billion deficit now between the resources that local authorities need and what they actually have. It has become clear that without significant Government intervention almost all local authorities, if not all of them, would have to promulgate to section 114, saying that they could not balance their books, which they are legally entitled to do. They are in need of a great deal of support, and yet I hear rumours out of the Treasury that there is a view that local authorities are spending too much and they need to rein it back. Can you cast some light on this?

Stephen Barclay: The fact that we have given local authorities additional funding, as I touched on in response to Rushanara's question earlier—the £1.6 billion and then the further £1.6 billion, so £3.2 billion—reflects our recognition of the significant pressures on local authorities. Within that, there is a split in the pressures between upper-tier and lower-tier councils, which have different remits and therefore are impacted, both on the revenue side and on the demand side, in different ways. We have recognised that. We have also been flexible in our approach around the payment profile, in terms of deferrals of business rates. We have listened. I have engaged and spoken on a regular basis with Robert Jenrick about these issues.

You are also right that the local authorities have done a huge job on things such as the shielding programme, which has been extremely successful. They deserve a lot of credit for the work that they have done, in particular through the local resilience forums.

Q361 **Ms Eagle:** Will you also recognise, when you are thinking about the plight of local authorities in the spending review, that the emergency situation has meant that a lot of them have not been able to get the



income that they had budgeted for in, simply because everything has stopped, and they have also been unable to make the savings that they were forecast to make to balance their budgets, again because they have been dealing with the emergency? I hope that side of their situation will also be taken account of.

Stephen Barclay: What is within your question is the fact that the impacts for local authorities vary. What impacts one local authority disproportionately is not necessarily the same as another. One of the things I am very interested in, moving forward, is the quality of data and how we improve data within Government. Where we allocate money, such as that £3.2 billion, what accuracy do we have, in real time, over how that is being spent? What are the differences in pressures between different local authorities? There is significant scope, moving forward, to improve the quality of data that we have within Government, in order to make us more responsive as challenges such as the ones you touch on arise.

Q362 **Ms Eagle:** That is a very Treasury answer, if you do not mind me saying so. Finally, we are expecting that there will be an enormous slack in demand, with oversupply both in the commodity market and more generally in consumer markets, when the economy gets back up and working. We have seen what has been happening in the oil market, in retail and in aviation. Are you worried about deflation and the problems that oversupply and glut will actually cause, alongside the potential for mass unemployment if we get it wrong?

Stephen Barclay: On unemployment, we are obviously concerned by the OBR figure of a potential 2 million extra in unemployment. That is why we have taken the steps that we have.

Q363 **Ms Eagle:** That all has an effect on demand, which in turn has an effect on supply.

Stephen Barclay: The challenge on demand is linked in some ways with how long this lasts, because it is shaped by what confidence consumers have in their jobs and their spending power, and their willingness, therefore, to go and respond to the availability of goods that you allude to. A key part of that has been keeping people's link to their job, so that they can go back into work and therefore be in a position to support the economy moving forward.

Q364 **Harriett Baldwin:** As Chief Secretary, you are the Minister responsible for keeping control of the public purse. I just wondered if you could give us an indication of how much more you have spent since the Budget on 11 March.

Stephen Barclay: We have tended to touch more on the business and the individual elements of spending, but on the public services side, which is the key part, that is now in excess of £16 billion. It is the £14.5 billion that the Chancellor updated on, and then there has been the local authority spending in addition to that. There is also additional spending



coming through in key areas, not least on the health side, and there is also £2 billion or so of spending that has gone to the devolved Administrations through Barnett consequentials.

The Chancellor was very clear at the outset, when he made his Budget statement, that we would do whatever was required to support our public services. It is a national emergency, as the Prime Minister has made clear, and the Treasury, in its spending, has responded to that.

Q365 Harriett Baldwin: You have referred a couple of times to the Office for Budget Responsibility forecast. Would you say that you are broadly comfortable with what it is forecasting by the end of the year: that, if we have a recovery from the coronavirus crisis and a relatively temporary shock, the deficit will rise to about 95% of GDP? Does that seem about right to you?

Stephen Barclay: I would not say I was comfortable. The numbers within that report focus the mind. What I thought was positive within those figures was the expectation that the impact would be temporary and that the economy would respond quickly to this emergency. Key to it was the length of the measures and how long, therefore, that impacts on the economy. It is clear from the OBR numbers that the impact will be significant. We see similar within the Treasury. The key is that the underlying principles of the economy are strong. The measures that we have taken over the last 10 years, during your time as a Treasury Minister, enable us to meet this from a much stronger position than would have been the case had we not taken those measures over the last decade.

Q366 Harriett Baldwin: The OBR assumes three months of you taking these extraordinary spending measures. How much room would you say that there is for extending that, if it does need to be extended for health reasons?

Stephen Barclay: This is what I was trying to drive at before in saying there is no distinction between health and the economic, because the two are intertwined. A key part of that is how that shapes the five tests that the Government have set out. If there was a second wave of infection, that would have a very big economic consequence, in terms of whether that would require a further lockdown. It would speak to Angela Eagle's point on consumer confidence, because it would have a very significant impact on any consumer confidence if that infection rate were to return.

The length of the measures is related to what is required to ensure that we do not have the second peak, not just because of the impact on the NHS, on lives and on the health perspective, but also because that is so intertwined with the impact on the economic side as well.

Q367 Harriett Baldwin: I am going to give you a slight break and turn to Katharine, to ask her about the Debt Management Office and the sustainability of the deficit. I understand that so far there has been



record demand for some of the gilt auctions, but I know that the Debt Management Office has started with a negative cash balance. I wondered if you could tell us what you think. Is the demand coming from overseas? How dependent are we on overseas investors for financing the deficit? Could you also touch on monetary financing? I know there was some concern about that, with the expansion of the “ways and means” overdraft. Could you touch on some of those points about sustainability and our dependence on overseas investors, particularly at a time when so many other countries are also having to extend their deficits?

Katharine Braddick: I am afraid I cannot comment in substance, because I am director general for financial services, so I do not lead on our relationship with the Debt Management Office and I would not claim the expertise. I can certainly take those points away and we can write to the Committee to give a view on reliance on overseas investment, and I think your second point was about patterns in demand.

Harriett Baldwin: Yes, and the starting balance of the Debt Management Office, which was negative, and then about monetary financing.

Katharine Braddick: Yes, I will take that back to the relevant team at the Treasury and we will make sure that you get a letter on those issues.

Stephen Barclay: The key point with the debt management is the fact that it is a liquid and deep market. In addition to that, we have taken the measures on ways and means. The DMO is something we have used throughout, and is well placed to meet the borrowing needs that we have.

Q368 **Harriett Baldwin:** Moving on to the allusion you made earlier, Chief Secretary, to the wider exit strategy, can you tell me what fiscal preparations you have been involved with for that wider exit strategy and what shifts in approach there might be from the Treasury? What is your current thinking?

Stephen Barclay: In terms of the wider measures as we respond, anything on the tax side will be for the Budget. We will bring that through in the Budget. We have touched on the next spending round, which will be later this year. I am in regular discussion with Secretaries of State about their ongoing spend, and there are impacts in the here and now for their spending on certain projects that are difficult to deliver because of COVID; that has had an immediate impact. There are wider issues that we need to consider. For example, if you look at the aid budget, there is the interplay with GNI and how that will then impact on the aid budget.

Above all, this will be shaped by how long the interventions are required, what the damage therefore is to the economy and what measures we then need to take in response to that.

Q369 **Harriett Baldwin:** That is interesting. Could you list for us some of the schemes and projects that other Departments are currently not able to



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deliver because of the coronavirus outbreak? Are there any savings coming to you from the public purse? I am aware, for example, from my own constituency that the National Citizen Service is not going ahead this year. I wonder if there are other projects like that that you could tell us about.

Stephen Barclay: You are right. It will vary from Department to Department in terms of which ones. Departments are compiling returns to the Treasury on that and I have written to Secretaries of State about that. It is work that is ongoing. You will be able to guess where those projects largely relate. They relate to areas where, because of the health impacts, it is not possible to pursue the projects. I do not have a list to run through with the Committee, but it is something that we are discussing with Departments.

It is not simply about whether a project stops or continues; it is also about the extent to which the way the project is delivered will change. In terms of immediate projects, the obvious impact is on things such as construction, where we are trying to ensure it continues but there is an immediate impact on the profiling of those projects. There will be other areas where work continues but it may be done in a different way, and that is equally important moving forward.

Q370 **Harriett Baldwin:** You have alluded to infrastructure. I just wondered whether you think that the infrastructure plan needs to be reviewed in the light of the fact that so many people may choose to continue to work from home once the lockdown is lifted.

Stephen Barclay: We keep these things under review. The extent to which behaviours will bounce back to how they were before and the extent to which they will change will, again, be in part shaped by the duration. It is interesting. If you look, for example, within the health sector, there are significant changes in delivery at present. One of the most visible to your constituents will be around GP telemedicine; around three-quarters of patients are now accessing their GP through that, as opposed to in person.

There are changes in delivery model in a number of areas. The Department for Education is at the moment looking at its online provision, through things such as the Oak Academy. There are changes within different Departments, but it is probably too early to say to what extent passenger numbers will come back and at what speed they will come back, depending on the length of the intervention.

Q371 **Felicity Buchan:** First, Steve, I want to thank you so much for the phenomenal amount of work that you and your Treasury colleagues have put in over the course of the last six to eight weeks. It has been amazing that we have turned things around so quickly. My questions are about industrial strategy and business bailouts. It has become clear that certain industries are suffering more acutely; I think of the airline industry or the travel industry. When the Chancellor came in to see us, he said that he



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had instructed various Secretaries of State to go off, talk to their industries and see if there were particular issues. Has that happened, what are your conclusions and could you contemplate bailouts of particular industries?

Stephen Barclay: Sectoral discussions and discussions with firms happen as part of business as usual, and they clearly happen at a time like this. There are a number of clear principles that the Chancellor has previously set out, which is where we are talking about individual firms. First, there are the measures that we have set out. There is also the expectation that firms will turn to their own shareholders and their own commercial lending in the first instance, before they look to the state. In terms of what measures are taken, we look at that on a case-by-case basis.

We have already taken measures that most firms can benefit from. Any firm that uses PAYE can benefit from the furlough scheme. In addition to the things that might be looked at individually, in the package that has been announced, with the £350 billion of loans and the support that was announced, there are already big measures that the Chancellor has set out.

Q372 **Felicity Buchan:** You are not contemplating at this stage a major bailout of any particular industry, over and beyond the regular schemes.

Stephen Barclay: We continue to keep these issues in review and we look at them on a case-by-case basis. We have taken measures, for example, in the rail industry. We announced a package of support of £3.5 billion, to address the difference between costs and revenue, recognising that it is important to keep the industry functioning. There would not be capacity within the public sector to absorb that and keep those lines operating, and that is important. Baroness Vere is meeting with metropolitan mayors today to discuss the light railway in areas such as Manchester, the West Midlands and Sheffield, and how we work with the mayors on that. In London there are issues with TfL and areas that are devolved to the London Assembly as opposed to the Government, but we are in discussions there.

It will vary from sector to sector and it is looked at on an individual basis, but the expectation is that shareholders and the firms themselves use those options before they come to the taxpayer.

Q373 **Felicity Buchan:** This crisis has clearly highlighted that we need certain industries here in this country. I am thinking about high-tech manufacturing, for instance, when we had the call for ventilators. Does this affect our industrial strategy going forward? In the past we have been very dependent on imports from cheap-labour countries. Is there now more of an imperative to have certain industries here in the UK?

Stephen Barclay: There is a recognition in the response that the Chancellor has set out. For example, there is the future fund, the funding that is allocated to support high-growth, knowledge-intensive R&D firms.



We recognise the importance, for example, of that sector. Those firms can also access the bounce-back facility that was announced on Monday. There is a recognition that we need to invest in R&D; that was reflected in the Budget, with the £22 billion of R&D that was committed there. That was already a part of the Treasury's strategy, which the Chancellor had set out at the Budget, but the measures that he has since brought forward reinforce the commitment to that sector.

Q374 Felicity Buchan: Many of our companies at the moment have depressed market valuations. I see that Germany has introduced more stringent measures on foreign, non-EU takeovers in certain sectors. Is that something that we could contemplate to ensure that some of our critical industries are not snapped up at the moment at these depressed valuations?

Stephen Barclay: You raise a valid point. It is one that we are alive to and one that the Cabinet Office, in particular, leads on co-ordinating, working with us in the Treasury. You are right to point to that. There is a risk there and it is one that we are aware of.

Q375 Felicity Buchan: I have one final question. We have a lot of workers who are furloughed at the moment in certain industries. At the same time, we have other sectors that need workers. Is there any way that we can bring those sectors together within the context of furloughing?

Stephen Barclay: There is scope, for example, for volunteering. We have been clear that that is one of the options for people who are furloughed. We have seen a remarkable response, for example, to the NHS volunteering request; we had 750,000 people.

There is also flexibility within the furlough scheme. The opportunity to furlough for three weeks allows flexibility within workforces as well. One challenge that has been raised is around part-time furloughing, looking at the Irish model. There is flexibility within, in terms of being able to furlough for as little as three weeks.

The key issue of the furlough is that it both has a public health benefit to it but also retains that link with the employer, because ultimately these were viable businesses before a health issue fed into the economy, and we need to ensure that they can bounce back as quickly as possible once the NPIs are lifted.

Q376 Felicity Buchan: You cannot envisage a way that we could ask bar staff in London to go and work for supermarkets, for instance.

Stephen Barclay: Many people are going and working. One of the areas that the Defra Secretary of State has been looking at specifically has been pressure on labour in the agricultural sector and what can be done there. We are looking at that and I know that work is being taken forward.

Q377 Rushanara Ali: I have a question about the supply chain and



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international trade. The garments sector is one example I wanted to raise. In one of our sessions, economists talked about the importance of maintaining the supply chain. I am just going to give you one example: a country such as Bangladesh, where over 80% of its exports are in the garments sector, through multinationals. It has had £2.4 billion of garments bills not being paid, contracts not being honoured or orders not being competed; there have been a mix of things like that.

Two companies, after some lobbying by the Bangladesh garments representatives, have agreed to contribute some of that money, but it is not clear whether any of it has been paid up yet. That is billions of pounds, affecting many millions of people. What help can the Treasury give those companies that are in trouble in these sectors, so that they can honour these commitments to some of the poorest people in the world? The supply chains need to be maintained, not only for our own interest but for theirs.

My second question is about companies such as Asda, which was very quick to be on the defensive following my intervention in a previous Treasury Committee meeting. It said it would pay 95% but has not said whether it has paid a penny to these people. A month has gone by. What pressure can our Government put on our companies to be responsible businesses so that we can maintain these supply chains, because it is in our interest to do so?

Stephen Barclay: First, you raise a very important point. I understand that you have written to the Chancellor on this issue. When the Chancellor initially set out the package of support, he did speak of the importance of companies acting in a responsible way and the way, once we come through the COVID crisis, that companies will be judged by people in terms of how they have conducted themselves during this process. I know you have written to the Chancellor about it and I know colleagues are looking at this. It is important that companies act in a responsible way.

Q378 **Rushanara Ali:** I just wanted to share this with you. I received a letter, which was copied to the Chancellor, from Asda. It has not, to this day, explained whether it has paid anything; it has said it has an intention to. Could I have a response that sets out what pressure will be applied to those that can afford it—this business is worth billions; it is not like it is in financial distress—to honour their commitments to some of the poorest people in the world, whose lives are at risk because of the actions of British companies and other multinationals?

Stephen Barclay: I am sure you will appreciate that I cannot answer for Asda and it would not be fair to single it out, but it will have heard the point and the concern you raise. You have put it on record, and I am sure Asda will respond to you.

Rushanara Ali: New Look and Asda have said they will pay, but Edinburgh Woollen Mill, Peacocks, Urban Outfitters and a number of others have not made any commitment, so we need to apply pressure on



them to act now.

Q379 **Anthony Browne:** I have a very quick question for Katharine Braddick. You are the top civil servant responsible for financial services, in particular banking and insurance. There have been questions raised about the solvency of the insurance sector if it has to pay out on some of the claims. Banking in the last few days has seen a dramatic fall in profits in several banks. I just wonder what you think the long-term impact will be on the financial services sector, and if there are any lessons to be learnt from it.

Katharine Braddick: It is a difficult question to answer in a very short time but I will do my best. Specifically on the question of insurance and the impact on insurers of claims arising from a number of types of cover affected by coronavirus, we are working very closely with the FCA and, where necessary, the PRA to understand the impact on solvency should that become an issue.

The Financial Policy Committee at the Bank of England leads for the UK on analysing the stability of the financial system, and in its *Financial Stability Report* it will be discussing how it sees the impact of the coronavirus event on our financial system and its ability to withstand and support. Currently, the Governor has made clear that the core of the system is sound and it is not constraining provision of credit into the economy. We work very closely with the FPC, the Bank, the Chancellor and the Governor to understand those issues. As the Chief Secretary has made clear, the chief uncertainty here is how long the crisis continues and its nature, so we will need to continue to keep these matters under very close review, not only within the UK but through our participation in the Financial Stability Board, which is the G20 committee that considers the stability of the global financial system. I am sorry that is so brief and high-level.

Chair: That brings us to the conclusion of this session. Can I thank very much Katharine, Beth and particularly you, Steve, who, understandably, had to answer most of the questions that were put to you? I echo the sentiments expressed by a number of members of the Committee, in saying that, while we will press very hard on these hard edges that we have raised with you today, we recognise the considerable success that the Treasury has been having under very difficult circumstances in dealing with this crisis. You are operating at an extraordinary scale and at an extraordinary pace. We have noted that the Chancellor and the Treasury have been fairly nimble, have listened and have responded on a number of these hard edges that you referenced earlier.

There is, however, inevitably, more work to be done. We have raised issues around dividends and the self-employed, and the speed of getting loans out of the door; *tronc* has been referred to, as have furloughing and new starters. There are a number of hard edges that remain, which we think are extremely important. We look forward to continuing to engage with you positively and constructively. Once again, thank you



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very much for all that you are doing and all the hard work that you are putting in. On that note, this is the end of this session. Thank you very much.