



House of Commons  
Treasury Committee

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# Economic impact of coronavirus: the challenges of recovery

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**Eighth Report of Session 2019–21**

*Report, together with formal minutes relating  
to the report*

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### Contacts

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is [treascom@parliament.uk](mailto:treascom@parliament.uk).

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## Summary

This is the second Report in our inquiry into the *Economic Impact of Coronavirus*. The first Report focused on gaps in two key schemes, the Coronavirus Job Retention and the Self-Employment Income Support Schemes, aimed at protecting livelihoods during lockdown. We were disappointed that the Government did not implement our recommendations and that, whilst millions were helped by Government schemes, over a million people are still affected by the significant gaps that remain.

This second Report focuses on the medium term challenges which have emerged as the economy comes out of lockdown, including: supporting the recovery of consumer spending; minimising long term unemployment increases; and dealing with elevated levels of corporate debt. It also looks at issues that will become increasingly critical in the longer term, such as Government debt sustainability.

Consumption is returning following the lifting of Government restrictions. However continued consumer caution around re-engaging with the economy, the prospect of more localised outbreaks and a second wave are dampening a full recovery to pre-pandemic levels of consumer spending, with some level of economic scarring almost certain. The economic impact of the crisis has also been felt unevenly, with a variation between sectors and those in low pay, young people, women, renters and ethnic minorities being particularly impacted.

The Government's *Plan for Jobs*, published in July, contained measures to boost consumer spending, such as a VAT cut on the hospitality and leisure sector and the *Eat Out to Help Out* Scheme. Whilst there is some early evidence that this approach has helped this hard hit area of the economy, it is also the case that ongoing social distancing restrictions are likely to limit the effectiveness of such schemes and consumers, fearful both of the virus and job security, may still be reluctant to spend. The Government has rightly and consistently stated that it will review its approach in the light of changing economic circumstances, and we believe that it is important that it stands ready to take further action to support consumer expenditure and business as appropriate. Whilst the next fiscal event will be an obvious opportunity for further announcements, it is important that the Chancellor reacts quickly to emerging challenges and feels free to make frequent new policy announcements where these are necessary.

The Government faces a daunting challenge in preventing rising long term unemployment while enabling sufficient labour flexibility to allow structural change and movement from shrinking to growing sectors. The Coronavirus Job Retention Scheme (CJRS), which subsidised the majority of furloughed employees' wages, comes to an end in October. Some sectors suffering most from social distancing may no longer be viable, but many businesses in these sectors will have a viable long-term future, but only if they continue to be supported either by their owners or by taxpayers beyond the expiry of the CJRS. Whilst we recognise that the cost of the CJRS means that the Scheme cannot persist indefinitely, the Chancellor needs to carefully consider whether a targeted extension of the CJRS and/or other targeted support measures will be required, and to explain his conclusion. The Job Retention Bonus Scheme announced in the *Plan for Jobs*, which gives £1,000 to all businesses for each employee retained up to January

2021, does not appear to be effectively targeted. It will undoubtedly lead to significant deadweight cost, as this support will be claimed for a significant number of employees who would have been kept on anyway.

Supporting high quality training for young people and those who may find it difficult to find new jobs is critical and we welcome the Treasury's commitments in these areas—the Kickstart Scheme, an Apprentice incentive, more work coaches and skills training. We heard evidence that the poor reputation of schemes in the 1980s actually reduced participants' employment prospects. We recommend that the Treasury plays a key role in ensuring that the quality and reputation of reskilling and vocational schemes is monitored to ensure they increase employment prospects and provide value for money. The Government should also consider extending the measures increasing the generosity and accessibility of Universal Credit put in place in March 2020 and conduct a study to examine the adequacy of sick pay.

We are concerned that there may be a significant lack of capacity and willingness for the private sector to step in to provide solutions for corporate indebtedness especially amongst small and medium-sized enterprises (SMEs). Viable SMEs struggling with debt will prolong the recession and so the Government must develop solutions for ensuring the recapitalising of their balance sheets. The Government must outline a plan for this within the next three months. It should think creatively (as it has around other support measures) and consider a wide range of potential interventions, such as contingent tax liability or student loan type structures in relation to debt for SMEs, where repayments are conditional on them demonstrating appropriate financial health.

The Chancellor should, at the next fiscal event, set out an initial roadmap of how he intends to place Government finances on a sustainable footing. The milestones on that roadmap will need to be flexible—tax increases imposed too early are likely to stifle economic recovery. The Government may also need to demonstrate flexibility in other ways. It may need to drop its manifesto commitment on the “Triple Lock” on pensions next year in order to address the anomaly arising from the present downward pressure on average wages created by the Treasury's employment support schemes. The Treasury should also outline how it intends to support local authorities to respond rapidly to local lockdowns in the future.

“Levelling up” needs to be properly defined. In July 2019, the Prime Minister stated his intention was to “to level up across Britain”. And one of the priorities of the Spending Review launched in July 2020 is “levelling up economic opportunity across all nations and regions of the country”. In the next fiscal event, the Government needs to say what this means, and how it will be measured and implemented. We recommend that the Treasury also review the remits of both the Office for Budget Responsibility and the Bank of England in the next year to see whether they need changing to reflect the Government's “levelling up” agenda.

We are concerned that whilst there have been impressive examples of the Treasury moving at scale, at pace and with imagination to support the economy there are also disappointing signs of intransigence. We are disappointed in the Treasury's refusal to

implement recommendations from our first Report, focused on the gaps in support. The Chancellor told us that he had “drawn a line” under any possibility of changing the schemes. We urge continued flexibility in the Treasury’s approach going forward.

## Introduction

1. This report is the second Report in our continuing inquiry into the *Economic Impact of Coronavirus*. Our first report focused on gaps in the Government's key pandemic support schemes, the Coronavirus Job Retention and the Self-Employment Income Support Schemes.<sup>1</sup> The Chancellor responded that he was unable to mitigate these gaps largely due to operational difficulties and the risks of fraud.<sup>2</sup>

2. On 22 April, when we launched the second stage of the inquiry, we were still uncertain of the challenges that would emerge in the next phase of the pandemic response. We therefore kept our terms of reference<sup>3</sup> deliberately broad, covering a range of issues from how effective Government schemes had been in maintaining employment to the international response to the crisis.

3. We held fifteen oral evidence sessions on the economic impact of the pandemic and received thousands of written submissions from members of the public and stakeholders. We would like to thank all those who have contributed. The overwhelming majority of evidence from members of public, even in the latter stages of our inquiry, continued to highlight the hardship people have faced through being unable to access the Job Retention and the Self-Employment Income Support schemes. We remain convinced that more people should have been helped.<sup>4</sup>

4. This Report focuses on the emerging medium term challenges as the Government reduces restrictions and the economy comes out of lockdown, namely: supporting the recovery of consumption (Chapter 1); avoiding increases in long term unemployment (Chapter 2); and dealing with elevated levels of corporate debt (Chapter 3). The Chancellor announced some measures to boost consumption and reduce the risk of long-term unemployment in *A Plan for Jobs* in July.<sup>5</sup> We examine initial evidence on the effectiveness of these measures in the Report. We also consider some issues that may become increasingly critical in the longer term, such as debt sustainability and the international response (Chapter 4). Finally we consider the Government's overall approach to these challenges (Chapter 5).

5. Alongside the Government, the Bank of England has adopted several measures in response to the crisis, including cuts in the base interest rate. This Report does not focus on these measures—we scrutinise their efficacy in regular hearings with the Bank of England's Monetary Policy and Financial Policy Committees. It also does not examine matters pertaining to the Financial Conduct Authority, such as changes to individuals' creditworthiness arising from taking mortgage holidays, increases in economic crime and issues relating to vulnerable customers. These themes will be pursued in our evidence sessions with the Financial Conduct Authority.

6. There are also questions remaining about the wider impact on our economy: for instance whether certain trends during the crisis such as the increase in home working

1 Treasury Committee, *Economic impact of coronavirus: Gaps in support*, Second Report of Session 2019–21

2 Treasury, Committee, *Third Special Report - Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report of Session 2019–21*

3 *Terms of Reference* for Treasury Committee inquiry, Economic Impact of Coronavirus

4 Treasury Committee Press Release, *Chancellor has "drawn a line" under helping million-plus excluded people*, 23 July 2020

5 HM Treasury, *A Plan for Jobs*, July 2020

and increase in on-line selling will become permanent, and the implications for the UK's future infrastructure needs and the “greening” of the economy. Though this Report does not go into great detail on these themes, we will examine some of them in depth in our relaunched inquiry on *Decarbonisation and Green Finance*<sup>6</sup> and further evidence sessions on infrastructure.

7. Currently there is some uncertainty about whether there will be a Budget before the end of the year.<sup>7</sup> Thus a lot of our recommendations come with a timing of “by the next fiscal event”, to include the possibility of there being a mini-Spending Round in the Autumn which just sets the budgets for 2021–22.

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6 [Terms of Reference](#) for Decarbonisation and Green Finance inquiry

7 The Financial Times, [Sunak weighs delaying autumn Budget on second Covid wave](#), 11 August 2020

# 1 Recovery of consumption

8. This Chapter examines the particular characteristics of an economic crisis arising out of a health pandemic, including the differential impact across various business sectors, and the related opportunities and challenges in returning consumption to normal. We consider the effectiveness of the Chancellor's response to date and whether further measures are needed to stimulate consumer spending.

## The impact of lockdown

9. The UK suffered a significant economic shock following the arrival of Covid-19. In August, the Office for National Statistics (ONS) stated that:

[ ... ] the UK is in the largest recession on record. Our latest estimates show that the UK economy is now 22.1% smaller than it was at the end of 2019.<sup>8</sup>

10. During lockdown, shops, restaurants and leisure activities were compulsorily closed for public health reasons and people could not engage in normal economic activities. Consumption fell dramatically. According to the Office for Budget Responsibility's *Fiscal Sustainability Report*, "card and online payment data fell by around 25 to 50 per cent in April."<sup>9</sup> The Bank's *Monetary Policy Report August 2020* found that payments data fell around 30 to 40 per cent in April.<sup>10</sup>

11. Witnesses emphasised that the crisis had affected different sectors unequally. Evidence from the Office for National Statistics for the period 23 March to 5 April<sup>11</sup> shows that three quarters of firms in the arts, entertainment and recreation, and accommodation and food service sectors had turnover that was lower than normal. Yet only 36 per cent of firms in the information and communication sector suffered turnover that was lower than normal in that same period:

8 Office for National Statistics, [GDP first quarterly estimate, UK: April to June 2020](#), Released: 12 August 2020

9 Office for Budget Responsibility, [Fiscal Sustainability Report](#), July 2020, para 2.26

10 Bank of England, [Monetary Policy Report](#), August 2020, p2

11 [Letter](#) from Deputy National Statistician and Director General, Economic Statistics Office for National Statistics, 28 April 2020

Effect on financial performance, percentage of firms that continue to trade, UK, 23 March to 5 April

| Industry                                          | Turnover was lower than normal | Turnover was higher than normal | Turnover affected but within normal range | Financial performance within normal expectations | Not sure |
|---------------------------------------------------|--------------------------------|---------------------------------|-------------------------------------------|--------------------------------------------------|----------|
| All industries                                    | 55.3%                          | 4.9%                            | 4.4%                                      | 34.3%                                            | 1.1%     |
| Arts, Entertainment And Recreation                | 75.6%                          | 2.2%                            | 2.2%                                      | 20.0%                                            | 0.0%     |
| Accommodation And Food Service Activities         | 73.7%                          | 6.3%                            | 4.2%                                      | 15.8%                                            | 0.0%     |
| Construction                                      | 71.3%                          | 1.0%                            | 4.6%                                      | 21.5%                                            | 1.5%     |
| Transportation And Storage                        | 71.1%                          | 3.8%                            | 3.0%                                      | 21.7%                                            | 0.4%     |
| Administrative And Support Service Activities     | 68.0%                          | 2.5%                            | 2.6%                                      | 25.4%                                            | 1.5%     |
| Real Estate Activities                            | 62.7%                          | 0.0%                            | 5.1%                                      | 32.2%                                            | 0.0%     |
| Wholesale And Retail Trade                        | 62.4%                          | 13.8%                           | 4.0%                                      | 19.0%                                            | 0.8%     |
| Water Supply and Waste Management Activities      | 56.6%                          | 0.0%                            | 4.3%                                      | 36.2%                                            | 2.9%     |
| Education                                         | 55.6%                          | 0.4%                            | 4.3%                                      | 38.0%                                            | 1.8%     |
| Manufacturing                                     | 48.8%                          | 7.6%                            | 3.9%                                      | 38.6%                                            | 1.1%     |
| Human Health And Social Work Activities           | 47.7%                          | 0.9%                            | 9.2%                                      | 42.2%                                            | 0.0%     |
| Professional, Scientific And Technical Activities | 38.6%                          | 0.7%                            | 7.1%                                      | 52.4%                                            | 1.2%     |
| Information And Communication                     | 36.4%                          | 1.4%                            | 5.4%                                      | 55.6%                                            | 1.1%     |

*Note: Other services and Mining and Quarrying data have been removed from the industry breakdown due to the quality of the response rates, but these industries are included in the industry total.*

12. Torsten Bell, Chief Executive of the Resolution Foundation, told us that “this crisis is inherently a sectoral crisis. That is what is different about it. The sectoral variation is probably six times as high as we saw during the financial crisis, which sounds like a sectoral crisis in the headline but was actually much more evenly spread.”<sup>12</sup>

13. In the first few weeks of the crisis, the Treasury implemented policies rapidly to prevent unemployment and businesses going under when lockdown was implemented. Measures of enormous scale such as the Coronavirus Business Interruption Loan Scheme (CBILS), announced on 17 March, the Coronavirus Job Retention Scheme (CJRS), announced on 20 March and the Self-employment Income Support Scheme, announced on 26 March were all launched in the space of ten days.<sup>13</sup> Several of the measures were also refined and changed in the weeks afterwards in response to public consultation.<sup>14</sup>

### A V-shaped recovery?

14. The source of the shock and the Government’s response to it, are important when thinking about how the economy may recover. The former Chancellor, Rt Hon. George Osborne, told us, “the economic bounce-back has tended to be relatively rapid” in the history of pandemics compared to recoveries from banking crises which “are very slow, protracted and painful, because the credit channels of the economy are impaired”.<sup>15</sup> This point was also emphasised by Dr Gemma Tetlow, Chief Economist at the Institute for Government:

12 Q621

13 Chancellor announcements, [17 March](#); [20 March](#); [26 March](#)

14 For instance on [3 April](#), the Chancellor extended the Coronavirus Business Interruption Loan Scheme so that more businesses would be eligible and banned banks from asking personal guarantees

15 Q548

If this disease goes very quickly or we come up with a vaccine quickly, and we can just get back to what we always used to do, we may be in a much more benign world than the financial crisis.<sup>16</sup>

15. The potential for a swift or “V-shaped” recovery was also reflected in early analysis by the Bank of England and the Office for Budget Responsibility (OBR). On 2 March 2020, in his last appearance before us as Governor of the Bank of England, Dr Mark Carney told us that the economic shock from the coronavirus “could prove large, but will ultimately be temporary”.<sup>17</sup> In its first analysis of the shock, on 14 April 2020, the OBR published an illustrative scenario which also assumed no permanent scarring of the economy (that is activity would go back up to pre-crisis levels and there would be no permanent contraction of any sectors of the economy).<sup>18</sup>

16. On 20 July, Professor Andy Haldane, Chief Economist at the Bank of England, told us that progress “so far” had “been a V”:

I would say that, over the last 10 weeks or so, the economy has probably been growing on average by around 1% per week, which, if true[ ... ], when the official data comes out—would mean that roughly half of the roughly 25% fall in activity during March and April has been clawed back [ ... ]. You see that recovery in all sorts of indicators, including [ ... ] payments data, mobility data and surveys of various types. The housing and car markets have come back at real pace. [ ... ] This plainly has been a recovery, and a pretty sharp one, as we would expect given the extent of the fall [ ... ].<sup>19</sup>

17. In its August update, the ONS observed that the easing of lockdown restrictions had already led to a bounce back of GDP of 8.7% in June.<sup>20</sup>

18. However, as Dr Adam Posen, President of the Peterson Institute for International Economics, pointed out, Government restrictions were not the only brake on the economic recovery from the virus. Consumer perceptions of the risk the virus presented also mattered. He explained that even in a country such as Sweden, where there was no Government imposed lockdown, consumers changed their habits due to the potential consequences of being infected:

In Europe, we have seen the comparisons between Sweden and Denmark, countries that had very different approaches to lockdown, but a new study has shown that consumers broadly behaved the same in what they cut back on and how much they cut back.<sup>21</sup>

19. The former Chancellor, Rt Hon. Lord Darling of Roulanish, told us it was difficult “to see how you can pull out the stops and get the economy going again, because people will be fearful about going out. There is always a risk of a second wave and so on”.<sup>22</sup>

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16 Q661

17 Oral evidence taken on 3 March 2020, [HC \(2019–21\) 123](#), Q2

18 Office for Budget Responsibility, [OBR coronavirus reference scenario](#), 14 April 2020

19 Oral evidence taken on 20 July 2020, [HC \(2020–21\) 620](#), Q4

20 Office for National Statistics, [GDP first quarterly estimate, UK: April to June 2020](#), Released: 12 August 2020

21 Q456

22 Q547

20. Dr Posen added that there would “be a cap on the recovery, determined by how households and individuals feel the public health situation has been dealt with”. “Dealt with” did not necessarily mean “finally resolved”. He told us that:

“Dealt with” means getting to a point where people feel they know what the risk is, and that the risk will not be abated by waiting now versus later.

He gave an analogy of people living in Northern Ireland during the Troubles, or people in Israel or Colombia during wars who adapted to an ongoing risk of violence or danger because they did not expect it to change much, suggesting that consumption patterns could revert back to near normal patterns in the longer term even if the threat of the virus did not abate.<sup>23</sup>

21. Professor Haldane also emphasised that the economic recovery was linked to how consumers respond to the virus:

the path ahead of the economy will be shaped by three fundamental forces. The first [ ... ] is the course of the virus. I leave that to epidemiologists, of course. The second will be the degree of, for want of a better word, animal spirits on the part of both businesses and households, in terms of their willingness to spend in the face of what is still a very significant cloud of uncertainty. Last but by no means least, of course, is the course of policy itself, both set by central banks, by the Bank of England, and the course of fiscal policy as set by the Government.<sup>24</sup>

### ***A changing outlook?***

22. The scenarios from the OBR have become more pessimistic since its initial analysis in April. In its July *Fiscal Sustainability Report 2020*, the OBR assumed some scarring in its central scenario, as well as a less rapid recovery. The central scenario assumed output only regained its pre-virus peak by the end of 2022 and real GDP was seen to be 3 per cent lower in the first quarter of 2025 than in the March forecast.<sup>25</sup>

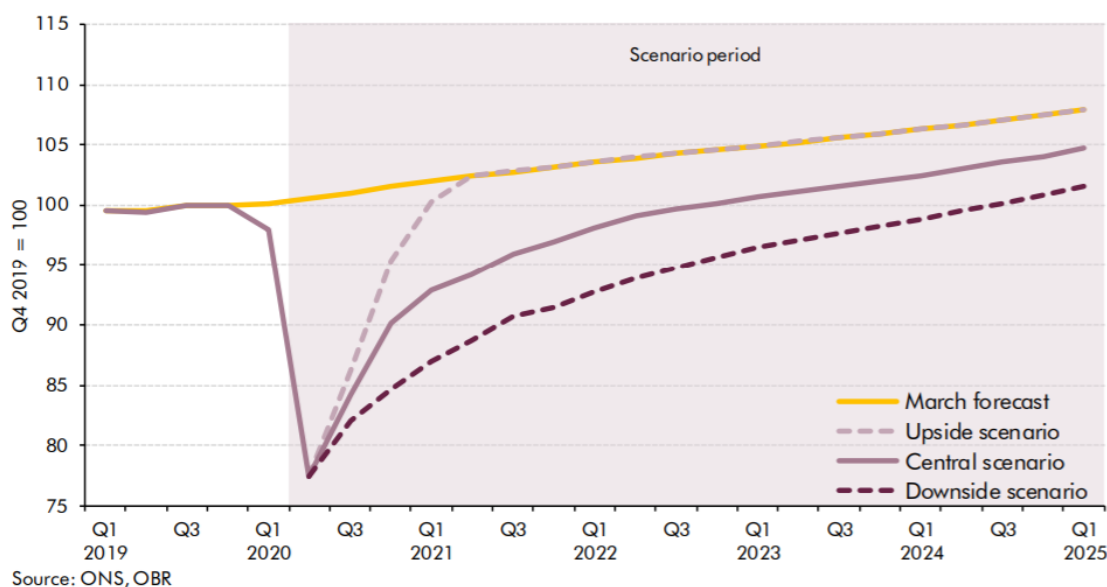
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23 Q456

24 Oral evidence taken on 20 July 2020, [HC \(2020–21\) 620](#), Q5

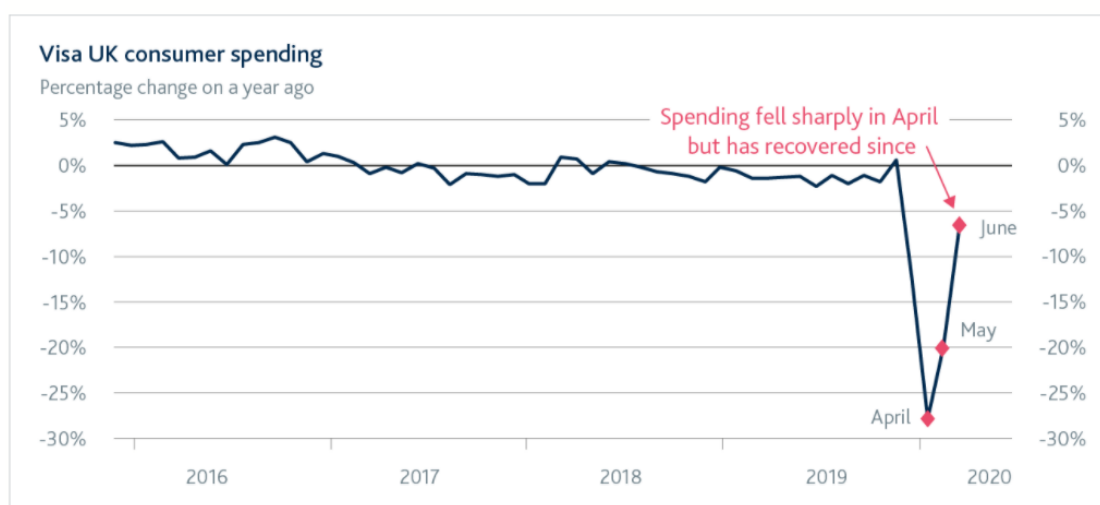
25 Office for Budget Responsibility, [Fiscal Sustainability Report](#), July 2020, p 6

## Real GDP scenarios versus OBR's March forecast



Source: Reproduction of Chart in OBR Fiscal Sustainability Report, p 6

23. The Bank's *Monetary Policy Report, August 2020* showed that payments recovered in July to no more than 10 per cent below their level at the start of the year.<sup>26</sup>



Source: Reproduced from [summary](#) of Bank of England Monetary Policy Report August 2020 on its website

24. The Bank found evidence of a V-shaped recovery in some sectors:

Some aspects of consumer spending have recovered rapidly. For example, spending that can be delayed—including on items such as clothing, household furnishings and other larger items—fell sharply after restrictions were introduced, but has since returned to close to pre-Covid levels at the start of the year [ ... ] In addition, spending on staples, such as on food

and household energy, has remained above pre-Covid levels for most of the period since May. Reflecting those developments, retail sales have risen sharply since April, and in June were close to their pre-Covid levels.<sup>27</sup>

25. However, the Bank also observed that recovery was uneven in other sectors:

Household spending that involves high levels of interactions with others fell the furthest and has recovered only partially from its lows.<sup>28</sup>

There is evidence in sectors such as hospitality and leisure that spending is depressed by fear of interactions with others: an ONS survey carried out in July suggests that more than 60 per cent of all adults feel uncomfortable about going to the cinema and close to half feel uncomfortable about eating indoors at a restaurant.<sup>29</sup>

26. As the Bank noted, the UK is more dependent on sectors which involve high levels of human interaction than other economies, indicating that the impact of the coronavirus on UK GDP and crisis was likely to be more severe than other countries:

In the UK, spending on things that typically involve interactions with other people—such as attending cinemas, restaurants, or live sports events—represents around 13% of total output, compared with around 11% in the US and 10% in the euro area, and this type of spending has been particularly affected by Covid-19.<sup>30</sup>

27. The possibility of more localised outbreaks and further waves of the virus remain a threat. On 18 August, local lockdowns or increased restrictions were in operation in the North of England, Leicester and Luton (see also Chapter 5).<sup>31</sup> Increased virus incidence has also led the Government to retract so-called ‘travel corridors’ to countries including France, Spain and the Netherlands, with knock on effects on those travelling and the travel industry.<sup>32</sup> On 31 July, the Prime Minister also had to slow the easing of the restrictions on a national basis.<sup>33</sup> Dr Gemma Tetlow, cautioned us that if there were “multiple subsequent waves”, we would be in a world of “multiple big structural shifts” that could be as large as or bigger than the structural adjustments made after the financial crisis.<sup>34</sup>

28. The Bank’s *Monetary Policy Report* in August concluded that:

The outlook for the UK and global economies remains unusually uncertain. It will depend critically on the evolution of the pandemic, measures taken to protect public health, and how governments, households and businesses respond to these factors.<sup>35</sup>

27 Bank of England, [Monetary Policy Report](#), August 2020, p2

28 Bank of England, [Monetary Policy Report](#), August 2020, p2

29 Bank of England, [Monetary Policy Report](#), August 2020, p28

30 Bank of England, [Monetary Policy Report](#), August 2020, p26

31 Department of Health and Social Care, [Local Government restrictions](#), Updated 31 July 2020

32 [Department for Transport and Foreign and Commonwealth Office, France, the Netherlands, Monaco, Malta, Turks and Caicos Islands and Aruba to be removed from travel corridors list](#), 13 August 2020; [Department for Transport and Foreign and Commonwealth Office, Spain removed from travel corridors exemption list](#), 25 July 2020

33 [Prime Minister’s Statement on Coronavirus](#), 31 July 2020

34 Q661

35 Bank of England, [Monetary Policy Report](#), August 2020, p1

29. In its *Monetary Policy Report*, the Bank observed that rebounding consumption was critical to maintaining employment. The Report stated, “As demand picks up and firms are more confident about future sales, this should feed through into lower flows into unemployment and a pickup in hiring”.<sup>36</sup> However, the Bank judged that increased job insecurity also posed a downside risk to UK consumer spending over the next year or so, as people increase their savings as a result:

Saving tends to be sensitive to people’s perceived job security, which is often related to the outlook for unemployment. Based on historical relationships, the recent sharp rise in the saving rate in the UK resulting from the sharper fall in consumption than real incomes should provide households in aggregate with a sufficient stock of such precautionary savings, given the projected rise in unemployment. And the saving rate is projected to remain somewhat elevated as unemployment falls back.<sup>37</sup>

30. In early September, Andrew Bailey, Governor of the Bank of England, told us that in its latest forecasts in the *Monetary Policy Report*, the Bank assumed long-term scarring to be roughly “over 1.5% of GDP” but stressed there was a “huge amount of uncertainty around this”, in particular the amount of structural change that would arise in the economy as a result of the crisis:

How much structural change will there be in the economy as a consequence of the shock that has happened? [ ... ] How is that going to manifest itself? How are we seeing it now? The extent of structural change is important, because that is the thing that can lead to what we tend to call scarring [ ... ] and it can lead to longer term unemployment and a raising of the natural rate of unemployment for some period of time. Those assumptions are, first, critical to the economy and, frankly, critical to people’s lives, and secondly, there is a lot of uncertainty around them, so [ ... ] there will be different views on exactly how that will unfold.<sup>38</sup>

31. **In the first half of this year the UK suffered its worst recession in modern history. The latest GDP figures suggest a bounce back has begun. But the path of the economy does not only depend on the course of the virus and Government restrictions or lockdowns, but on how the population views the risk from the virus and their job security, and how that in turn impacts on consumer and business confidence. Combatting the virus is an economic as well as a health priority.**

32. **Consumption is returning following the lifting of Government restrictions. However, continued consumer caution around re-engaging with the economy, the prospect of more localised outbreaks and a second wave are dampening a full recovery to pre-pandemic levels of consumer spending. The Government has to contain the virus as best it can, but at the same time it has to boost consumer confidence and job security without causing the virus to spread—this is a difficult balancing act. The outlook for the economy remains exceptionally uncertain. Some level of economic scarring is now almost certain.**

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36 Bank of England, [Monetary Policy Report](#), August 2020, p43

37 Bank of England, [Monetary Policy Report](#), August 2020, p26

38 Q918

## A Plan for Jobs

33. The Chancellor's *Plan for Jobs* contained a mix of measures, which were aimed at encouraging consumption including:

- *a temporary cut in the VAT rate*: from 15 July 2020 to 12 January 2021, a reduced 5 per cent rate would be applied to food and non-alcoholic drinks from restaurants, pubs, bars and cafes; and also accommodation and admission to attractions across the UK.
- *a temporary cut in Stamp Duty Land Tax (SDLT)*: from 8 July 2020 to 31 March 2021, the Government would temporarily increase the Nil Rate Band of Residential SDLT, in England and Northern Ireland, from £125,000 to £500,000.
- *Introduction of the Eat Out to Help Out Scheme*: This Scheme entitled diners to a 50 per cent discount of up to £10 per head on their meal, at any participating restaurant, café, pub or other eligible food service establishment. The discount could be used an unlimited number of times and was valid Monday to Wednesday on any eat-in meal (including on non-alcoholic drinks) throughout August 2020 across the UK. The Government reimbursed participating restaurants for the discount.<sup>39</sup>

## Effectiveness of VAT cut

34. In 2008–09, the then Government cut VAT to stimulate consumption post-Recession. This may give some indications on how effective the current cut in VAT will be. The Chancellor at that time, Lord Darling has been one of the most vocal advocates for a general cut in VAT during the present crisis.<sup>40</sup> Professor Hamish Low of Oxford University told us his research indicated that back in 2008–09 there was likely to be “a pretty high pass-through” of the VAT cut into increased spending, suggesting that the cut to VAT was effective at boosting consumption. A paper co-authored by Professor Low in 2008 estimated an increase of around 1 per cent in retail sales as a result of the UK Government lowering its standard VAT rate by 2.5 percentage points (from 17.5% to 15%) for a period of 13 months.<sup>41</sup>

35. However, Professor Low also pointed out that today supply constraints put in place by social distancing meant that the VAT cut on hospitality would have a more limited impact on boosting demand:

If supply is at 50 per cent with social distancing, we are not going to need to see any or much of a demand bounce-back to meet that 50 per cent capacity. That is the real issue with the hospitality sector. I completely agree it is important we get people back to restaurants, but the extent to which we need them to be back is not actually that much if we are running at 50 per cent capacity.<sup>42</sup>

39 HM Treasury, *A Plan for Jobs*, July 2020, pp11–12

40 The Guardian, *Former chancellor Alistair Darling calls for emergency VAT cut*, 22 June 2020

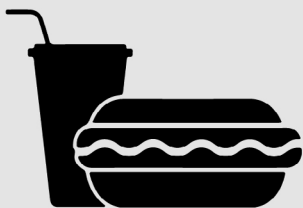
41 *The economics of a temporary VAT cut*, Thomas Crossley, Hamish Low and Matthew Wakefield, IFS Working Paper W09/02, 20 January 2009

42 Q809

36. He also argued that temporary VAT cuts worked to increase spending largely through a substitution effect which meant that people chose to bring purchases forward. This substitution impact might be more limited in the hospitality and tourism sector compared to the durable goods sector for instance, which would be affected by a general VAT cut. Professor Low explained:

Durable spending is really one of the main ways you would expect to see VAT cuts working, because it is durable goods where you spend the money now, but you get the benefit in the future, whereas with other sorts of spending, you can see it is much less amenable to storage or it is much less amenable to getting the benefits today and then still feeling the benefits tomorrow. That number of one for one has been driven for a large chunk, or to some extent, by the durable spending. However this is less effective in the hospitality and tourism sector.<sup>43</sup>

37. Rt Hon. Lord Macpherson of Earl's Court largely agreed with this analysis but pointed out some advantages of the VAT cut being targeted at the hospitality and tourism sector: the domestic content of the hospitality industry being “very high”, and it needing a “kickstart”.<sup>44</sup> In contrast, a VAT cut in durable goods which were mainly imported might just benefit foreign companies as opposed to domestic businesses.<sup>45</sup>

| VAT cut on hospitality                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                            | Estimated cost: £4.1 bn |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <b>PROs</b> <ul style="list-style-type: none"> <li>- Targets hardest hit sectors</li> <li>- Helps domestic businesses</li> </ul>  | <b>CONs</b> <ul style="list-style-type: none"> <li>- Impact limited because businesses face supply constraints due to social distancing measures</li> <li>- Substitution impact less than that of VAT cut on consumer durables where people bring forward spending on goods whose benefits are spread over time</li> </ul> |                         |

Source: Estimated cost from HM Treasury, [A Plan for Jobs](#), July 2020, Table 1

43 Q805

44 Q807

45 [A temporary VAT cut could help stimulate the economy, but only if timed correctly](#), IFS Briefing Note, July 2020, Richard Blundell, Peter Levell and Helen Miller

38. Overall, Lord Macpherson thought that the package “was relatively small”, as “the VAT measure will pump in much less demand than a generalised VAT decrease”. However, he pointed out that it was “targeted” which meant that it was not going to give rise to “overheating”. He concluded it was a “quite a sensible, targeted measure”.<sup>46</sup>

### Stamp Duty cut

39. Professor Low observed that Stamp Duty was generally perceived as a “bad tax” because it was a tax on transactions, which would reduce purchases. He also indicated that a cut would help the construction industry and increase labour mobility, pointing out that in the current crisis: “we would actually want to have as much flexibility as we can to move labour to where it is actually needed”.<sup>47</sup> However, he also suspected “it will be current homeowners who will be the ones who benefit”.<sup>48</sup> Robert Chote, the Chair of the Office for Budget Responsibility, estimated that the cut would lead to 100,000 additional transactions, but with about three quarters simply brought forward from 2021–22.<sup>49</sup>

| Stamp duty cut                                                                                                                                                                                                                                                                          |                                                                                                                                  | Estimated cost: £3.8 bn                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| <b>PROs</b> <ul style="list-style-type: none"> <li>- Stamp duty has been criticised because it is a tax on transactions which may affect economic behaviour</li> <li>- Reducing stamp duty tax may help labour market flexibility as it helps people move to areas with jobs</li> </ul> | <b>CONs</b> <ul style="list-style-type: none"> <li>- May not help renters who are worse affected than mortgage owners</li> </ul> |  |

Source: Estimated cost from HM Treasury, [A Plan for Jobs](#), July 2020, Table 1

### Eat Out to Help Out

40. Both Professor Law and Lord Macpherson referred to the *Eat Out to Help Out* Scheme as ‘gimmicky’.<sup>50</sup> The Scheme has been criticised on the grounds that it might reduce footfall over the weekend as it applied only to Monday to Wednesday, and might be confusing to administer as it did not include alcohol.<sup>51</sup> However data suggests that

46 Q799

47 Q821

48 Q819

49 Robert Chote, [Speaking Notes](#), Fiscal Sustainability Report 2020

50 Qq807–808

51 The Telegraph, [Obesity row over Rishi Sunak’s ‘Eat Out to Help Out’ restaurant scheme](#), 8 July 2020; 8 BBC News, [Eat out to help out will definitely affect the weekend](#), 3 August 2020

the Scheme did increase demand. Data from OpenTable showed that during *Eat Out to Help Out*'s third week, the number of customers at UK restaurants was 61 per cent higher than the same days last year on average for Monday to Wednesday. The average level across Monday to Wednesday in the first and second weeks of the Scheme were 12 per cent and 41 per cent higher respectively. However it is not clear whether restaurants were less busy in the other days of the week. In the first three weeks, businesses claimed for 64 million discounted meals and 87,000 claims were made by the restaurants taking part in the Scheme.<sup>52</sup> The Federation for Small Businesses has called upon the Government to extend the *Eat Out to Help Out Scheme* to help small businesses.<sup>53</sup> Some restaurants are also extending the promotion themselves.<sup>54</sup>

### **Additional options**

41. Both Professor Low and Lord Macpherson thought that an increase in Universal Credit over and above what the Government had already implemented (see Chapter 2) might be a good way of stimulating consumption, given that those in lower income deciles have a higher propensity to consume. Lord Macpherson pointed out: "the working-age poor took a disproportionate hit during the austerity era. If austerity truly is over, as the Prime Minister claims, this is the time to put that right."<sup>55</sup> Professor Low also argued that providing an adequate safety net "provided assurances" that people's consumption would be maintained.<sup>56</sup> We return to Universal Credit in Chapter 2.

42. **The Chancellor was right to begin stimulating consumption at the time of the Chancellor's Plan for Jobs, especially in the hospitality and tourism sector, to ensure these businesses, often reliant on summer months, did not start cutting jobs. However the Eat Out to Help Out Scheme has now ended and the continued VAT cut on hospitality and leisure may not be enough to encourage consumers to continue to spend as the threat of the virus continues and they face rising job insecurity. *The Chancellor needs to consider whether additional measures to stimulate consumption are warranted at the next fiscal event.***

52 HM Treasury, [Over 64 million meals claimed for as Eat Out to Help Out enters fourth week](#), 25 August 2020

53 Federation for Small Businesses, Press Release, [Small Firms call on Government to extend Eat out to Help Out](#), 26 August 2020

54 BBC News, [Restaurants extend discount dining into September](#), 27 August 2020

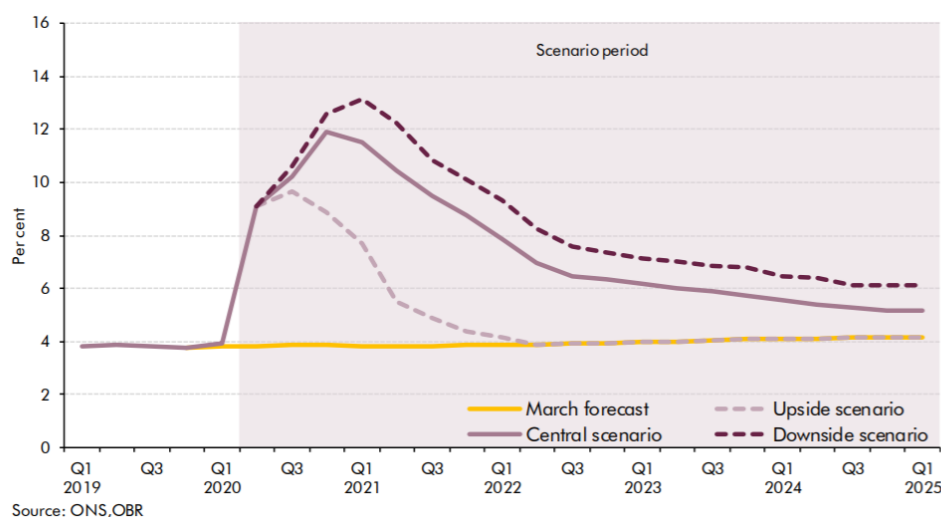
55 Q824

56 Q827

## 2 Avoiding long term unemployment

43. One of the critical challenges facing the Government is combating long-term unemployment. In the OBR's central scenario in its *Fiscal Sustainability Report 2020*, unemployment would peak in the fourth quarter of 2020 at 11.9 per cent.<sup>57</sup>

**The Unemployment rate: scenarios versus March forecast**



Source: Reproduction of Chart 2.9 in OBR, [Fiscal Sustainability Report](#), July 2020, p39

44. The Bank also projected a significant increase in unemployment in the near term to 7.5 per cent, however it forecasts unemployment gradually declining from 2021 onwards.<sup>58</sup> In its recent *Monetary Policy Report*, the Bank observed that the “unemployment rate took seven years to return to pre-recession levels after both of the past two recessions”.<sup>59</sup>

### The Coronavirus Job Retention Scheme

45. The Government's Job Retention Scheme, which subsidised workers' wages up to 80 per cent, was lauded by witnesses as successfully preventing sharp rises in unemployment in the early stages of the crisis.<sup>60</sup> Government data published in July shows that up to the end of June: 9.4 million employees had been placed on furlough; 1.14 million employers had made at least one claim; and the total claimed was £26.5 billion.<sup>61</sup> The Scheme will be wound down in October and changes were implemented to reduce the amount paid by the Government from August. From the first week of August, employers had to start paying national insurance and pensions contributions and for September and October, Government contributions were reduced to 70 per cent and 60 per cent respectively.<sup>62</sup>

46. Witnesses expressed concerns that unemployment would surge once the Government stopped subsidising wages. Lord Darling warned, “we need to get ourselves into the frame

57 Office for Budget Responsibility, [Fiscal Sustainability Report](#), July 2020, p6

58 Bank of England, [Monetary Policy Report](#), August 2020, p i

59 Bank of England, [Monetary Policy Report](#), August 2020, p 43

60 Q58, Q549, Q621

61 HMRC, [Coronavirus Job Retention Statistics](#), July 2020

62 HM Treasury, [Changes to the Coronavirus Job Retention Scheme](#), updated 1 July 2020

of mind where we are thinking about 1980s levels of unemployment.”<sup>63</sup> George Osborne also suggested the same, noting that: “[u]nemployment did rise in 2008, 2009, 2010 and 2011, but we never faced the kind of structural unemployment that we saw in the 1980s”.<sup>64</sup> Torsten Bell suggested that there were a number of characteristics of this crisis which meant that unemployment was going to rise more than it did in the previous recession of 2008. He argued that in that recession, the economy experienced a large sterling depreciation and an inflation spike, causing a fall in real wages, which meant that unemployment did not pick up as expected. He also pointed out that the sectors that contributed to the highest job growth in the last crisis, hospitality and non-food retail, had been the hardest hit in the current recession so would not be able to perform the same role in creating jobs this time round:

after the financial crisis, they [hospitality and non-food retail] were 10 per cent of the jobs but they were 22 per cent of the move from unemployment into work after the crisis.<sup>65</sup>



Source: Office for National Statistics, Unemployment rate (aged 16 and over, seasonally adjusted), Last updated 11 August 2020

47. Several prominent businesses have already announced redundancies. British Airways wishes to cut up to 12,000 job roles.<sup>66</sup> John Lewis has put 1,300 staff at threat of redundancy.<sup>67</sup> Even sectors less affected by the crisis have announced job cuts. HSBC is announcing cuts of 35,000 staff worldwide.<sup>68</sup>

48. However, Dr Tetlow told us it was uncertain what proportion of the workforce furloughed would end up unemployed and that it would ultimately depend “in the longer term, on what structural changes have happened to the UK economy as a result of the coronavirus, so which bits of the economy and which businesses are no longer long-term viable”.<sup>69</sup>

63 Q557

64 Q548

65 Q626

66 British Airways, [British Airways to cut up to 12,000 jobs as air travel collapses](#), 28 April 2020

67 Retail Gazette, [1300 jobs at risk as John Lewis shuts down 8 stores but reopens another](#), 9 July 2020

68 BBC News, [HSBC to press on with 35,000 job cuts](#), 17 June 2020

69 Q627

49. Many witnesses recognised that the Government faced a daunting challenge in maintaining a balance between preventing unemployment from rising sharply but allowing some labour market flexibility to enable workers to move from shrinking sectors to growing sectors in the economy. The former Chancellor, Rt Hon. Philip Hammond, observed:

There is always a tension with the desire to protect employment, so there will be a tremendous political pressure in this recovery to not let people become unemployed and to not let companies fail. We have to balance that against what we know from previous downturns, which is that the best economic outcome is to get the restructuring that is necessary done quickly, not to try to protect failed businesses, but to facilitate the people who work in them moving on and having good employment prospects for the future.<sup>70</sup>

50. Professor Low argued that “the job retention scheme just prolongs the time until the adjustment will take place”, and that a general wage subsidy scheme would be preferable.<sup>71</sup> The Governor of the Bank of England said in August that he didn’t think it was right “to be locking the economy down in a state that it pre-existed in” and the time was right to end the Job Retention Scheme in October.<sup>72</sup>

51. The Trade Union Congress wanted a further extension to the Job Retention Scheme on the grounds that a lot of businesses would still face reduced demand due to social distancing in place due to the virus. They asked for a further extension of furlough beyond October “for a more limited group of businesses and workers”.<sup>73</sup> The National Institute of Economic and Social Research suggested that the end of furlough should be determined by economic recovery rather than an arbitrary deadline. In a press release, it stated that in their modelled scenario analysis:

Unemployment would have stayed lower had the government extended the furlough scheme beyond the end of October. This would have been a relatively inexpensive measure, and by preventing a rise in long-term unemployment might have paid for itself.<sup>74</sup>

52. In evidence to the House of Lords Economics Affairs Committee, the Chancellor noted that extending the furlough scheme to just certain sectors is administratively difficult as “there is an entire supply chain for those companies and that in practice it is very hard to distinguish between businesses”.<sup>75</sup> However, Paul Johnson, Director of the Institute of Fiscal Studies argued that though it was difficult for himself to gauge practical difficulties, it ought to be possible to:

identify those firms that have some employees in particular sectors and get them to self-certify how many are in the sectors that are trying to be targeted. After all, this whole scheme is dependent, to a very large extent, on self-certification by employers at the moment.<sup>76</sup>

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70 Q560

71 Q823

72 The Financial Times, [Pressure grows on Rishi Sunak to extend UK furlough scheme](#), 7 August 2020

73 EIC0478 (Trade Union Congress)

74 NIESR Press Release: [‘Premature’ end to furlough to push jobless rate to 10%](#), 28 July 2020

75 [Oral evidence](#) taken on 19 May 2020 to the House of Lords Economics Affairs Committee, Q 5

76 Q619

## A Plan for Jobs

53. The Chancellor's *Plan for Jobs* announced a number of measures aimed at addressing the risks of rising unemployment:

- Job Retention Bonus—a one-off payment of £1,000 to UK employers for every furloughed employee who remained continuously employed through to the end of January 2021;
- Kickstart Scheme—a £2 billion fund to create “high quality” six-month work placements aimed at those aged 16–24 who are on Universal Credit and deemed to be at risk of long-term unemployment.;
- new incentives for employers to take on apprentices—a new payment of £2,000 to employers in England for each new apprentice they hired aged under 25, and a £1,500 payment for each new apprentice they hired aged 25 and over, from 1st August 2020 to 31st January 2021;
- an additional £111 million for traineeships in England to fund work placements and training for 16–24 year olds, £32 million funding over the next 2 years for the National Careers Service and £101 million additional funding for young people to study for vocational qualifications;
- enhanced work search support—£895 million to enhance work search support by doubling the number of work coaches in Jobcentre Plus before the end of the financial year;
- bringing forward of £5.6 billion of national infrastructure project “shovel ready” schemes.<sup>77</sup>

54. We heard some criticism of the Job Retention Bonus Scheme. Robert Chote observed that a large proportion of that Scheme would go to employers for workers who they would have paid anyway and thus this would be a deadweight cost.<sup>78</sup>

55. The Chair of the Federation for Small Businesses, Mike Cherry stated on 2 September 2020 that the Kickstart Scheme was not designed with small businesses in mind:

The Kickstart scheme aims to help young people into work but many small businesses will be disappointed to see today's announcement which feels more aligned to the needs of larger businesses.

Without further work, the scheme will leave many without any employment support after waiting for it for so long. Crucially it is more difficult to access for those hiring fewer than 30 roles through the scheme, who as it stands will need to find intermediaries. There is currently no guidance for how to become an intermediary and how they will operate the scheme.

To hire 30 individuals is just beyond the means of most small businesses, many of which have far fewer employees or don't have the HR support on hand to introduce that number of new employees.

77 HM Treasury, [A Plan for Jobs](#), July 2020, p 1

78 Robert Chote, [Speaking Notes](#), Fiscal Sustainability Report 2020

The time it will take to hire these 30 employees across several small firms could take months and result in increased costs for small firms at a time when they need our support the most.<sup>79</sup>

56. Some witnesses told us that the quality of vocational training in the UK was poor and improving its quality was crucial to both improving employment outcomes and output.<sup>80</sup> Paul Johnson observed that the Youth Training Scheme in the 1980s had such a poor reputation, there was some evidence that it led to a decline in employment prospects for those who participated in it.<sup>81</sup> Ms Bridget Rosewell from the National Infrastructure Commission said:

In my whole career, we have been spending time saying we do not have a good enough vocational training system. I cannot really answer the question as to why in all that time we have not been able to. I wish I could give good answer for it. I do not know how.<sup>82</sup>

57. Philip Hammond argued that UK had “very poor levels of intermediate technical education.”<sup>83</sup> Professor Low told us “we are not actually serious about training the bottom 50 per cent of the population” and that the Government should be making a commitment to a “five-year plan on how we are actually going to stop the dependency of young people on the hospitality and the retail sectors”.<sup>84</sup> Lord Darling pointed out that it was not the Treasury but other Departments, such as the Department for Work and Pensions and the Department for Education, who were responsible for running vocational training and retraining schemes.<sup>85</sup>

58. **We believe the Chancellor was right to start measures to combat long term unemployment in July. Rising unemployment becoming structural and permanent is a critical risk arising from the crisis.**

59. **As the crisis moves beyond full lock-down, it is important to effectively target assistance to those businesses and individuals who need it. The ability of labour to move from sector to sector will not be a painless process and will be dependent on the growth of sectors matching the shrinkage of sectors. *The Government should set out how it will manage the transition to mitigate the crisis and prevent exacerbating further inequalities that undermine the “levelling up” agenda.***

60. **A large proportion of businesses in sectors such as hospitality and leisure that are suffering most from social distancing may still have a viable long-term future at the end of October. It is not clear to us that the Job Retention Bonus, which all businesses are eligible for, is value for money, given that most of the funds will be spent on workers who would be retained anyway. *The Chancellor needs to carefully consider whether a targeted extension of the CJRS and/or other targeted support measures might be required and to explain his conclusion.***

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79 Federation for Small Businesses Press Release, [Small firms disappointed by Kickstart announcement](#), 2 September 2020

80 Q615, Q628, Q839

81 Q628

82 Q839

83 Q615

84 Q840

85 Q557

61. It is vital that workers made redundant have the opportunity to reskill. We heard evidence that the poor reputation of schemes in the 1980s actually reduced participants' employment prospects. *Even though the Treasury is unlikely to be responsible for delivering vocational or reskilling schemes, given the role of these schemes in reducing long term unemployment, we recommend that the Treasury ensures that their quality and reputation is monitored. We recommend an evaluation of these schemes every six months afterwards to assess whether they genuinely increase job prospects.*

62. *The Government also needs to make sure that the requirement for employers interested in offering fewer than 30 Kickstart roles to apply through a representative organisation does not make the scheme inaccessible to SMEs and charities.*

## An unequal crisis

63. We also heard that different groups of people faced varying prospects of unemployment, thus opening up further inequalities in the UK's economy.

### Low paid

64. A Resolution Foundation survey found that nearly one-third of lower-paid employees had lost jobs or been furloughed, compared to less than one-in-ten top earners.<sup>86</sup>

### Young people

65. Many witnesses expressed concern about how young people would be affected by the crisis. Torsten Bell said that “the younger workers, particularly the very youngest, 18 to 24, [ ... ] face the biggest job losses and furloughing to date”. He described a U-shaped impact, “where the over-60s and people in their 20s have slightly higher risk of furloughing and job losses than people in the middle of the age range”.<sup>87</sup>

66. Dr Tetlow also pointed out that young people at the tail end of their education and on the cusp of going into the labour market were likely to be “badly affected by the poor state of the economy “ and that going into “a poor labour market can have lasting scarring effects on people's earnings opportunities”.<sup>88</sup> Shortly before the Chancellor announced *A Plan for Jobs* in July, Torsten Bell observed, “All our income support schemes are supporting previous incomes, not potential future incomes”.<sup>89</sup>

### Mothers

67. A study by the IFS found:

- Mothers were more likely to have quit or lost their job, or to have been furloughed, since the start of the lockdown. In all, mothers who were in paid work in February were 9 percentage points less likely to be currently working for pay (either remotely or on-site) than fathers.

86 [Flash findings from the Resolution Foundation's coronavirus survey](#). 16 May 2020

87 Q651

88 Q649

89 Q651

- Compared with fathers, mothers were spending less time on paid work but more time on household responsibilities. Mothers were doing paid work during two fewer hours of the day than fathers, but they did childcare and housework during two more hours each. Mothers combined paid work with other activities (almost always childcare) in 47 per cent of their work hours, compared with 30 per cent of fathers' work hours.
- The differences in work patterns between mothers and fathers had grown since before the crisis. In 2014–15, mothers were in paid work at 80 per cent of the rate of fathers; now this was 70 per cent of the fathers' rate. Mothers in paid work used to work an average of 73 per cent of the hours that fathers worked; this has fallen to 68 per cent.<sup>90</sup>

68. Previous IFS analysis indicated that “gender differences in hours of paid work contributed substantially to the widening of the gender wage gap after childbirth”.<sup>91</sup>

69. Paul Johnson observed that the disproportionate impact on mothers could potentially have “a long-run effect on [ ... ] labour market outcomes and wages” because time spent out of the labour market or working part-time can have significantly negative effects.<sup>92</sup>

### **Ethnic minorities**

70. Ethnic minorities were also more likely to suffer an economic disadvantage as well as suffering from increased health risks.<sup>93</sup> Paul Johnson told us that “Pakistani and Bangladeshi men, are much more likely than others to work in shut-down sectors”.<sup>94</sup> Professor Low told us that people from minority ethnic backgrounds were also more likely to be made unemployed than furloughed.<sup>95</sup> In April, a poll conducted by BMG for the Independent noted that “people from black and minority ethnic (BAME) households were almost twice as likely as white Britons to report having lost income and jobs.”<sup>96</sup>

### **Renters**

71. Torsten Bell noted that analysis by the Resolution Foundation showed that renters might have been particularly hit, observing that: “[p]rivate renters are, in general, 50 per cent more likely to have fallen behind on their housing costs since the crisis started, compared to mortgaged homeowners”. He explained this was due to two factors: “[t]he people in the occupations that have been hit hardest by this crisis are more likely to be in private rented accommodation” but also because “[i]t is easier, in some ways, to delay payments for mortgages”.<sup>97</sup> A Resolution Foundation survey found that 10 per cent of

90 IFS, [How are mothers and fathers balancing work and family under lockdown?](#) 27 May 2020

91 Institute for Fiscal Studies, [Wage progression and the gender wage gap: the causal impact of hours of work](#), 2018

92 Q652

93 ONS, [Coronavirus \(COVID-19\) related deaths by ethnic group, England and Wales: 2 March 2020 to 15 May 20; 20](#), June 2020; The Guardian, [South Asians in Britain most likely to die in hospital of Covid-19](#), 19 June 2020

94 Q652

95 Q835

96 The Independent, [Coronavirus economic effects hitting ethnic minorities and young people hardest](#), 13 April 2020

97 Q640

renters had attempted to negotiate rent pauses or reductions in their rent with landlords but only half of them have been successful, whereas nearly all of the thirteen per cent of mortgage owners who had negotiated holidays with their banks had been successful.<sup>98</sup>

## Adequacy of safety net

72. Those who lose their jobs are likely to often rely on the Government's safety net, Universal Credit. On 20 March, the Chancellor stated "we will also act to protect you if the worst happens" and announced the following changes to Universal Credit for 12 months "to strengthen the safety net":

- a temporary increase in both the Universal Credit Standard Allowance and the Working Tax Credit Basic Element by £1,040 a year, on top of the planned uprating;
- a temporary increase in housing support for private renters through Local Housing Allowance (LHA) rates, which were increased to the 30th percentile of market rents;
- the temporary relaxation of the requirements of the Universal Credit Minimum Income Floor;<sup>99</sup> and
- people directly affected by COVID-19 or self-isolating in line with Government guidance allowed to claim Universal Credit and access advance payments upfront without the requirement to attend a jobcentre.<sup>100</sup>

73. In its distributional analysis, published alongside the *Plan for Jobs*, the Treasury showed how its Coronavirus Job Retention Scheme and Self Employment Income Support Scheme protected incomes of all deciles, and how increases in the Universal Credit increased the incomes of the lowest decile:

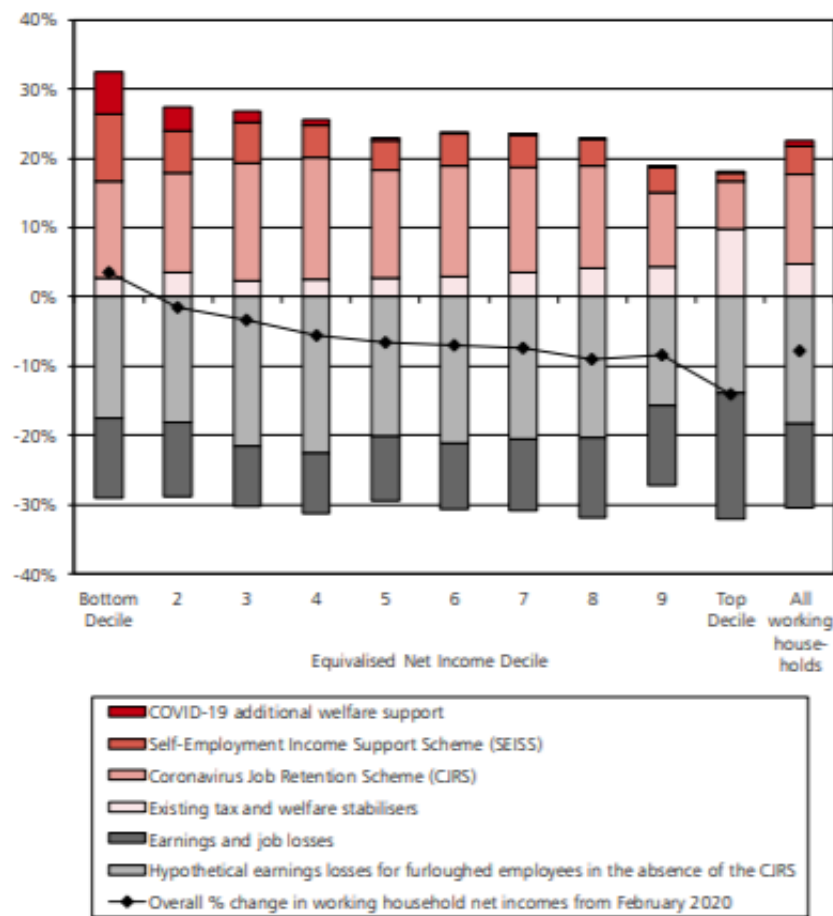
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98 Q640. There have been some concerns that those who have been given mortgage holidays might have their credit ratings impacted [see The Independent, [Tens of thousands of homeowners face difficulty remortgaging after taking payment holidays](#), 1 August 2020]. The Committee will raise this issue with the Financial Conduct Authority and the Government.

99 People who are self-employed and claiming Universal Credit are treated as though they are earning at least a certain amount, known as the "minimum income floor" (MIF), provided that they are deemed to be gainfully self-employed and their business has been running for more than 12 months. The MIF is calculated by using the National Minimum Wage for the claimant's age group, multiplied by the number of hours they are expected to look for and be available for work. It also includes a notional deduction for tax and National Insurance. The relaxation of MIF means that Universal Credit will continue to rise for the self-employed if earnings drop.

100 Measures listed in HM Treasury, [A Plan of Jobs](#), July 2020

Chart 1.A: Percentage change in household income, by working household net income decile, as of May 2020

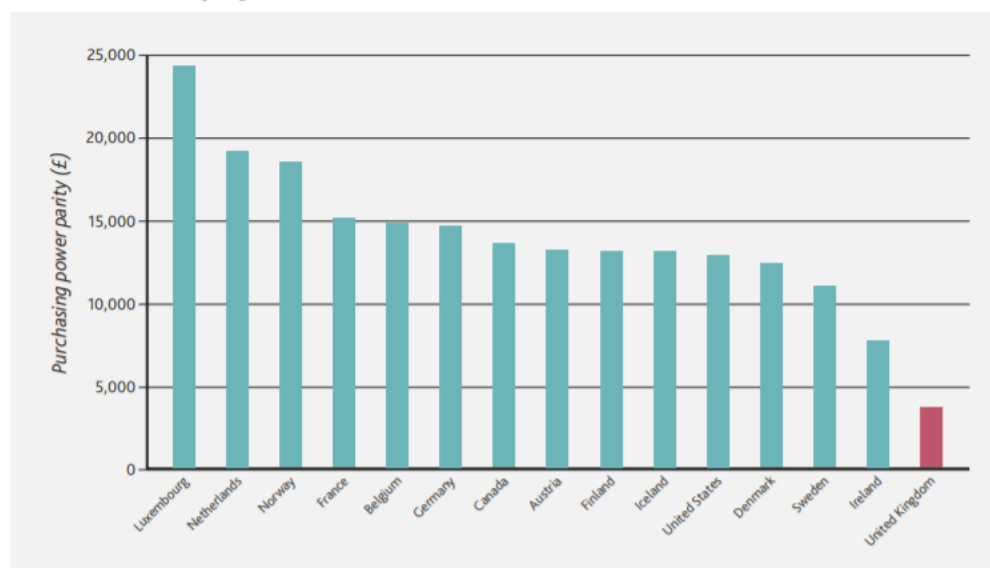


Source: HM Treasury distributional analysis model

Source: Reproduction of Chart 1.A in Impact of COVID-19 on working household incomes: distributional analysis as of May 2020, p6

74. Torsten Bell pointed out that though continental countries might not have implemented schemes as generous as the UK's Job Retention Scheme, they tended to have "much more generous social insurance-based welfare systems" in the first place.<sup>101</sup>

**Figure 6a: Net disposable income excluding housing allowances for a single unemployed person without children, previously employed on an average wage, reliant on unemployment insurance, 2012**



Sources: OECD country files except UK<sup>8</sup>; CSB-MIPI dataset, Version 2/2013. PPPs: OECD/Eurostat purchasing power parities

Source: Trade Union Congress, [Welfare States How generous are British benefits compared with other rich nations](#), 2015

75. He went on to say that the Government would “have some big choices to make with regard to Universal Credit” and:

There have been increases in the generosity of Universal Credit. It is a big choice: do those remain or do they go next April? The local housing allowance, which was, perversely, based on rents in 2012, is now based on rents today. It seems to me unlikely that we will go back to basing it on 2012 rents as a deliberate policy decision, but that leaves us with opportunities to think about the structure of welfare.<sup>102</sup>

76. Torsten Bell also pointed out that those newly claiming Universal Credit might also have higher rents than those typically on it. After nine months of claiming Universal Credit when the benefit cap<sup>103</sup> was removed, changes to their Universal Credit payment might well mean that they could not afford their rents. He argued that “[t]here will be lots of people with a rent gap not being covered by the state” and “[t]emporarily, at least, increasing the percentage of LHA [local housing allowance] would be a good idea”. Additionally, on the benefit cap, he said, “although people flowing out of work into Universal Credit are exempt from the benefit cap for the first nine months, lots of people are going to rely on this benefit to pay rent for a lot longer than nine months”.<sup>104</sup>

77. Kate Bell, Head of Rights, International, Social and Economics from the Trades Union Congress also argued that although the Government had changed the regulations for sick pay, so it was available from day one, sick pay levels were still too low and not enough people were eligible for it. She pointed out that “two million people still aren’t eligible

102 Q639

103 The benefit cap is a limit on the total benefits people can get but it does not apply for the first nine months of people receiving it.

104 Q640

because they don't meet the lower earnings limit. [ ... ] so if you are a low earner and you are expected to go to work at the moment—as, for example, many retail workers are—and you are working fewer than 16 hours, you may not qualify for sick pay if you fall sick.”<sup>105</sup>

78. The Government has recently announced that it is to implement a new payment for people on low incomes in areas with high rates of COVID-19, who need to self-isolate and cannot work from home. Payments of up to £182 will be made to people who have tested positive for COVID-19 and those they have been in contact with. The scheme started in Blackburn with Darwen, Pendle, and Oldham.<sup>106</sup>

79. **The crisis has hit different groups of people unequally. It is also likely that the differences in hours of paid work carried out between men and women observed during the lockdown may lead to a widening of the gender pay gap, especially if the differences in hours worked persist in the months ahead. *We recommend that the Treasury publishes an updated version of its distributional analysis in the Plan for Jobs in the next fiscal event, alongside an equality impact analysis of how the recession is impacting different groups (e.g. gender, race, region and socioeconomic status) and the extent to which Government measures are mitigating falls in incomes for those hardest hit. This analysis should also include a breakdown of how unemployment rates of these different groups have been impacted by the crisis.***

80. **The Government has raised Universal Credit and made it easier to access. However these changes are time-limited for a year. *The Government should consider extending the measures increasing the generosity and accessibility of Universal Credit put in place in March 2020. The Government should also conduct a study to examine the adequacy of and eligibility for sick pay, given that poor levels of statutory sick pay will make it harder for workers to isolate when needed.***

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105 Q14

106 Department of Health and Social Care Press Release, [New payment for people self-isolating in highest risk areas](#), 27 August 2020

### 3 Corporate debt

81. This Chapter explores the issue of corporate debt. Not only is it significant in itself, there is a risk that the recession may be prolonged because businesses burdened with debt choose not to employ or recruit more people.

82. The Government has initiated different types of business loan schemes to try to avoid businesses failing as a result of the pandemic:<sup>107</sup>

- *Coronavirus Business Interruption Loan Scheme (CBILS)*: The Scheme helped small and medium-sized businesses to access loans and other kinds of finance up to £5 million. The Government guaranteed 80% of the finance to the lender. £13.68 billion had been approved by mid-August.
- *Coronavirus Large Business Interruption Loan Scheme (CLBILS)*: The Scheme helped medium and large-sized businesses to access loans and other kinds of finance up to £200 million. £3.5 billion was approved by mid-August.
- *Future Fund*: This was aimed primarily at start-ups. The Government stated “[t]hese convertible loans may be an option for businesses that rely on equity investment and are unable to access other government business support programmes because they are either pre-revenue or pre-profit”.<sup>108</sup> The Fund provided government loans to UK-based companies ranging from £125,000 to £5 million, subject to at least equal match funding from private investors. £588.3 million had been approved by mid-August.
- *Bounce-back Loan Scheme*: The scheme helped small and medium-sized businesses to borrow between £2,000 and up to 25% of their turnover. The maximum loan available was £50,000. The Government guaranteed 100% of the loan, with no fees or interest to pay for the first 12 months. After 12 months the interest rate would be 2.5 per cent a year. £35.47 billion had been approved under the Scheme by mid-August.
- *Corporate Financing Facility*: This Scheme helped large businesses affected by coronavirus through the purchase of their short-term debt. Under the COVID-19 Corporate Financing Facility (CCFF), the Bank of England would buy short-term debt from large companies.

83. The Government also initiated some grant schemes, which were targeted at small businesses or the hospital and leisure industry:

- *Small Business Grant Fund*: Small businesses in England which paid little or no business rates were entitled to a one-off cash grant of £10,000 from their local council.
- *Retail, Hospitality and Leisure Grant Fund*: Businesses in England in the retail, hospitality and leisure sectors with a rateable value of up to £51,000 were entitled to a one-off cash grant of up to £25,000 from their local council.

<sup>107</sup> [HM Treasury Coronavirus Business Loan Statistics](#); [Government guidance](#) for business loans

<sup>108</sup> [Government guidance](#) for Future Fund

- *Local Authority Discretionary Grants Fund*: This additional fund supported small and micro businesses that were not eligible for other grant schemes.<sup>109</sup>

84. In a letter to the Chancellor,<sup>110</sup> we asked the Government to show greater transparency about loan disbursements, as there were concerns about their access and speed in the early stages of the crisis. We also urged the Government to reconsider its position on guarantees.<sup>111</sup>

85. Dr Adam Marshall, Director General of the British Chamber of Commerce told us the CBILS and CLBILS schemes “had a bit of a slow and rocky start [ ... ] Response times were rather difficult, and then a backlog appeared as well [ ... ] which left a number of businesses frustrated.”<sup>112</sup> The initiation of the Bounce Back Loan Scheme, which had a 100 per cent Government backed guarantee, meant that disbursements speeded up for the most part. Dr Marshall pointed out that “[c]ash has been getting out to the front line much more quickly from that particular scheme” and “[m]any businesses are reporting that they had a simple application process and they had the cash within 48 hours, as was expected”.<sup>113</sup> However Giles Wilkes, Senior Fellow at the Institute for Government, thought the speed with which the Bounce Bank loans had been issued was “an incredible red flag”, with “something like 750,000 small companies and some £20 billion straight out”, and noted that it “is very rare for state money to be drawn out that quickly without it meaning something has gone slightly wrong”.<sup>114</sup>

## Risk of a balance sheet recession

86. Lord O’Neill of Gately stated that he would have preferred to have “had an approach that was more grant-based” and “considered forms of potential equity injection for those that really needed it for a longer period, rather than this very wide, scattergun debt approach”. He could not “imagine how that many companies are going to be able to repay a lot of it”.<sup>115</sup>

87. We received significant evidence that there was a risk the recession could be prolonged through a balance sheet recession in which businesses, overburdened by debt, would not recruit or invest. A report on recapitalisation, (changing the structure of companies so that they are more equity based) initiated by TheCityUK concluded that “up to 3 million jobs across the UK and 780,000 SMEs are at risk if urgent action isn’t taken to tackle the projected £35bn of unsustainable debt from Covid-19 loans”.<sup>116</sup>

88. Jon Moulton, Chair of finnCap described the scale of the problem as “enormous, unless we have a very good, strong economy and very, very low interest rates”.<sup>117</sup> Dr Marshall observed that companies could either end up “under-trading and unable to repay their debts” or “over-trading, run out of cash and find themselves in difficulty as well”.<sup>118</sup>

109 HM Treasury [Guidance](#) on business support grants

110 [Letter](#) to the Chancellor, 11 May 2020

111 [Chair comments on Chancellor’s announcement of Bounce Back Loans](#), Treasury Committee press release, 27 April 2020

112 Q663

113 Q663

114 Q623

115 Q663

116 TheCityUK, [Supporting UK Economic Recovery Recapitalising businesses post Covid-](#), 19 July 2020

117 Q666

118 Q666

89. Torsten Bell from the Resolution Foundation warned that history shows that “balance sheet recessions have weaker recoveries than just straight income shock recessions.” He also pointed out that even if loans were written off in the future, lack of clarity for businesses going forward about how to resolve their debt might have a lasting effect on their behaviour over the course of the early phase of the recovery which was “deeply suboptimal”.<sup>119</sup> Both he and Paul Johnson were concerned that market concentration would go up during the crisis, due to the failure of small firms. Paul Johnson said:

One of the biggest risks of this crisis is that we move into a world in which we have much more concentration of market power than we have had hitherto, because it is the bigger companies and very big multinationals, and indeed big national companies, that can survive because they have the balance sheets that enable them to.<sup>120</sup>

90. In contrast, the Chancellor told us he was “not completely persuaded of the scale of the problem at the moment” and gave the following reasons:

- corporate debt levels in the UK were in a relatively healthy place coming into this crisis;
- looking at corporate debt levels as a percentage of GDP relative to Organisation for Economic Co-operation and Development (OECD) countries, UK ranked relatively favourably; and
- corporate cash balances had increased quite significantly through the crisis as people have been able to access liquidity and build up cash buffers.<sup>121</sup>

91. The Chancellor’s evidence to us contrasted with other information we received, in particular with TheCityUK’s *Final Report on Recapitalisation* which highlighted the following statistics:

- around £100 billion could arise in unsustainable debt by the end of March 2021;
- £32–36 billion of lending provided through Government lending schemes could become unsustainable, with borrowers struggling to repay these loans;
- SMEs were estimated to incur around half of the total unsustainable debt, amounting to around £50–56 billion by the end of March 2021; and
- regions outside of London could be particularly hard-hit, given that nearly 75 per cent of unsustainable debt is estimated to be held outside London, and that regional SMEs have reduced access to equity finance on favourable terms.<sup>122</sup>

92. TheCityUK’s report also indicated that the private sector could not provide a solution.

The volume of SME equity finance is low, at under £10bn per annum, and currently only a very small fragment of UK SME equity investment is allocated to rescue/turnaround (approximately 2 per cent in 2019) with

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119 Q625

120 Q635

121 Q863

122 The CityUK, [Supporting UK Economic Recovery Recapitalising businesses post Covid-19](#), 19 July 2020

the majority focused on growth capital. There are also large differences in equity investment levels across UK regions with around 75 per cent of SME equity investment (and half of all equity deals) skewed to London.<sup>123</sup>

93. The Bank of England's *Financial Stability Report August 2020* also expressed concerns about corporate indebtedness warning that: "While the current low level of interest rates supports the sustainability of UK corporate debt", higher leverage make the corporate sector more vulnerable to interest rate or earnings shocks.<sup>124</sup> The Bank also indicated "equity finance likely has a role to play [to support] entry of new companies and growth of incumbents".<sup>125</sup>

## Potential solutions for smaller businesses

94. For large businesses, the Government could potentially intervene in reducing their debt levels by taking equity stakes in them and reducing their debt. However witnesses told us that it was not viable for the Government to take equity stakes in lots of small businesses. Professor Philip Booth, Senior Academic Fellow at the Institute of Economic Affairs, pointed out:

I think I am right in saying that, on average, about one in 600 microbusinesses turns into a large business. To the idea that the state should be taking an equity stake in these businesses and guiding their decisions, first, it is practically impossible.<sup>126</sup>

95. Dr Joshua Ryan-Collins, Senior Research Fellow at the University College London, rebutted:

I am obviously not suggesting that a state investment bank takes equity stakes in small firms. Small firms are clearly not suited to that type of support. They need debt and grants.<sup>127</sup>

96. The Chancellor said that he was not sure "it would necessarily be sensible for the Government to have individual equity stakes in millions of very small businesses."<sup>128</sup>

97. In its Report on recapitalisation, TheCityUK recommended the establishment of a new state entity, a "UK Recovery Corporation", to administer the options below:

- Business Repayment Plan: Converts loans into a tax obligation, administered by HMRC and repaid through the tax system;
- Business Recovery Capital: Converts Government-guaranteed loans into subordinated debt (an unsecured loan that ranks below others) or preferred share capital (that provides fixed dividends ahead of ordinary shareholders);and

123 The CityUK, [Supporting UK Economic Recovery Recapitalising businesses post Covid-19](#), 19 July 2020

124 Bank of England, [Financial Stability Report](#), August 2020, p 19

125 Bank of England, [Financial Stability Report](#), August 2020, p 19

126 Q497

127 Q497

128 Q864

- Growth Shares for Business: A mix of instruments, including preference shares, to provide growth capital to rebuild cash reserves, invest in working capital and relaunch after the crisis.<sup>129</sup>

These were very similar to options described by Jon Moulton to us in June 2020.<sup>130</sup>

98. Dr Marshall, Torsten Bell and Paul Johnson also favoured a “contingent tax-liability-type structure” for the smaller SMEs. Paul Johnson described this:

rather like student loans, in a sense. If you do well, having had the loans, you may well be asked to pay quite a lot back, but if you do not then you will not.<sup>131</sup>

99. George Osborne argued that the best way of dealing with corporate indebtedness would be a straightforward debt forgiveness programme, though he recognised that it would be unpopular with Treasury officials:

If there are loans that are just not going to be paid back, either you write them off or, as I suspect will happen in practice, every six or 12 months the Chancellor of the time announces that the lending terms are pushed out, the rates are kept very low and so on, but they still sit on a company balance sheet. A big act of debt forgiveness would be better. After all, as Alistair was saying, we lent to keep these companies going while we deliberately shut down the economy.<sup>132</sup>

100. It remains unclear how the Government expects businesses to pay back loans in the future. The crisis and the lockdown of the economy meant that businesses have largely forgone revenue which many are unlikely to make up in the future and revenue is also likely to be suppressed in some sectors for some time.

101. We are concerned that there may be a significant lack of capacity and willingness for the private sector to step in to provide solutions for corporate indebtedness especially amongst small and medium-sized enterprises (SMEs). Viable SMEs struggling with debt will prolong the recession and so the Government must develop solutions for ensuring the recapitalising of their balance sheets. *The Government must outline a plan for this within the next three months. It should think creatively (as it has around other support measures) and consider a wide range of potential interventions, such as contingent tax liability or student loan type structures in relation to debt for SMEs, where repayments are conditional on them demonstrating appropriate financial health. TheCityUK has already carried out a comprehensive review on the recapitalisation of businesses, which should provide a starting-point for the Treasury’s work.*

## Equity stakes for larger businesses

102. For larger businesses, there is the possibility of the Treasury investing in equity stakes. Through Project Birch, the Treasury is handling bespoke bailouts of “viable companies

129 TheCityUK, [Supporting UK Economic Recovery Recapitalising businesses post Covid-19](#), 19 July 2020

130 Q666

131 Q635

132 Q550

which have exhausted all options”, including government loan schemes. Celsa, a steel company, has been granted an emergency loan of £30 million from the Government in what was believed to be the first such deal.<sup>133</sup>

103. We received mixed evidence on how interventionist the Government ought to be when investing in businesses. Professor Jagjit Chadha, Director at the National Institute of Economic and Social Research (NIESR), pointed out that the state might not be best placed to allocate capital, and if it were to actively invest in companies it might also inadvertently impede the effectiveness of the market mechanism:

Asset prices give information about firms that are doing well, firms that are doing badly and how we should allocate capital. If it is felt that the state is controlling those asset prices, there would be a concern there on an ongoing basis. What kind of criteria would we use for deciding which firms we would invest in and to what extent? Who in Whitehall would we send to sit on these boards?<sup>134</sup>

104. However, Lord O’Neill argued that the state should consider taking the opportunity to deploy a more interventionist industrial strategy now, as other countries have done, by taking active investments in companies strategically, though at arm’s length:

You would have to create an arm’s-length investment body. [ ... ]. The investments are undertaken by experienced professional people. Around the world there are equity-based entities where the Government are the 100 per cent shareholder, Singapore’s Temasek being one that has some parallels, but the investments are made by experienced investors. The remit is given by the Government but the actual investing is done at arm’s length.<sup>135</sup>

When challenged on whether there was expertise within Government on picking the right investments, he argued that there was capacity in the Treasury.<sup>136</sup>

105. We also received differing views on what sort of conditions the Government should impose when it invested. George Osborne expressed scepticism about imposing conditions. He pointed out that businesses needed help because they had been asked to shut down, through no fault of their own.<sup>137</sup> However Lord O’Neill thought that Project Birch was an opportunity for the Government to use equity stakes in businesses to pursue its “levelling up” and decarbonisation agendas. He argued that:

for many of those kind of industries, this is an ideal chance to help gear them towards further appropriate financial investments, to help accelerate a move towards net zero climate goals. The second one would be very specifically, on a regional basis, to support the so-called levelling-up agenda. [ ... ] For example, a bit of research has been done by a few people to suggest that advanced manufacturing, alternative energies and life sciences are three

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133 The Financial Times, [Steelmaker Celsa strikes first bespoke UK deal](#), 2 July 2020

134 Q496

135 Q668

136 Q676, Q672

137 Q562

things that the north of England has, in theory, the potential to be world class in, but there were not really the resources to do it. The Government have the chance, in this mess, to do that through such a vehicle.<sup>138</sup>

106. The Chancellor made clear to us that the Government would only bail out companies in “exceptional circumstances”. He said bail outs would only occur in “situations where a company has some strategic value, clearly has a long-term viable future and the existing equity holders and creditors have shared in the burden and are not just looking for a free ride on the taxpayer”. He also indicated that there would be conditions attached to it such as on “executive pay, climate change, [and the] treatment of suppliers”.<sup>139</sup>

## Need for new state structures

107. Some witnesses indicated that the crisis highlighted a need for the UK to have a state investment bank. Philip Hammond pointed out that the UK had some structures at the moment such as the British Business Bank but:

If the requirement is very widespread across huge swathes of industry for recapitalisation of companies and the markets are not in a position to do that [ ... ] we might have to look at other structures.<sup>140</sup>

108. Giles Wilkes told us the UK had “always been a bit of an outlier in having such a laissez-faire system,” and argued that in the current crisis situation “the UK had to work through the private sector” which meant “quite a slow process of contracting and vetting” and not getting money out very quickly.<sup>141</sup>

109. TheCityUK’s *Report on recapitalisation* also supported the creation of a new state bank which it referred to as the UK Recovery Corporation which could be used to administer solutions for indebtedness in SMEs.<sup>142</sup>

**110. *The Treasury should evaluate whether there needs to be a new state body or a remodelling of the British Business Bank, to provide loans at speed in a crisis if required, and to also play a part in recapitalising businesses including investing strategically in large businesses.***

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138 Q673

139 Q899

140 Q561

141 Q61

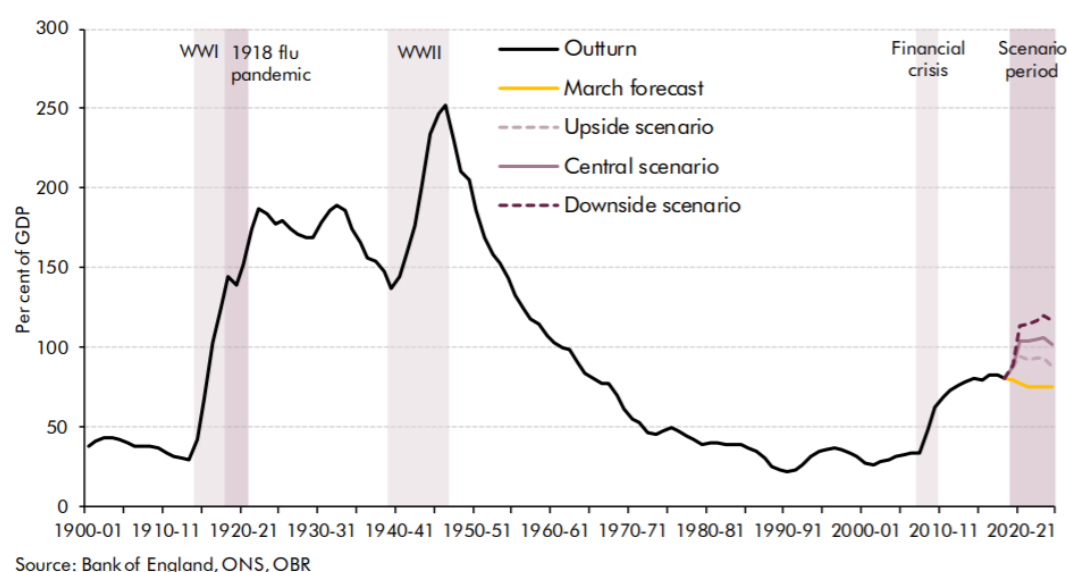
142 TheCityUK, [Supporting UK Economic Recovery Recapitalising businesses post Covid-](#), 19 July 2020

## 4 Longer term challenges

111. This chapter focuses on longer term challenges, including Government debt sustainability, the commitment to “levelling up” and the international dimension.

### Government debt sustainability

112. The OBR in its *Fiscal Sustainability Report 2020* stated that there would be an “unprecedented peacetime rise in borrowing this year to between 13 and 21 per cent of GDP”, lifting debt above 100 per cent of GDP in all but the upside scenario.<sup>143</sup>



Source: Reproduction of Chart 1 in OBR, [Fiscal Sustainability Report](#), July 2020, p3

### Prevailing low interest rates

113. Several witnesses thought that Government debt was sustainable at least in the short run. They focused on the combination of the UK being a large, creditworthy economy, prevailing low interest rates and also the credibility of the Bank of England. Lord Darling told us, “We are going to have very high debts like we had at the end of the Second World War, but a Government like ours, because we are a large economy and no one doubts our creditworthiness, can carry that for some period”.<sup>144</sup> Philip Hammond agreed, and said “We all accept that the UK as a creditworthy, mature, very large economy can carry more debt in the context of a short-term crisis.”<sup>145</sup>

114. Karen Ward, Chief Market Strategist, Europe, Middle East and Africa, JP Morgan Asset Management, told us, “It is worth recognising that, yes, we are issuing record levels of debt, but we are issuing it at record low interest rates”.<sup>146</sup> Philip Hammond also pointed out:

<sup>143</sup> Office for Budget Responsibility [Fiscal Sustainability Report](#) 2020, p3, para 2

<sup>144</sup> Q551

<sup>145</sup> Q553

<sup>146</sup> Q468

We have much longer tenor on our public debt than any other country, so we have more stability. That means we are not immediately affected by short-term changes in interest rates.<sup>147</sup>

115. There was also a focus on the credibility of the UK's institutional framework, including the Bank of England. Karen Ward noted:

One of the tremendous strengths we have is the institutional credibility of the Bank of England. There are no questions in the international community about its independence, or its focus on doing the right thing within the confines of its inflation mandate. That has opened up tremendous scope for the type of policy action we have seen, which has helped deliver those low interest rates, while at the same time not unsettling the international investor community.<sup>148</sup>

116. Dr Posen also referred to “the management of the Bank of England” as well as “low interest rates” making it very possible to get “the economy so that it is growing faster than the debt is growing”.<sup>149</sup>

### ***Risks of elevated debt***

117. However not everyone was unperturbed about future increases in the UK's Government debt levels. Professor Booth warned that the “debt dynamics going forward are very difficult, unless we are quite lucky”. He also pointed out that the cost of servicing the debt would increase if inflation rises:

The inflation we generated in the 1960s and 1970s caused huge damage. The debt portfolio today includes 25 per cent to 30 per cent index-linked bonds, and another 30 per cent short-term bonds, so if you increase inflation you will more or less simultaneously increase the cost of servicing quite a big proportion of debt.<sup>150</sup>

Philip Hammond told us that he too would be “uncomfortable” with a strategy that said where debt was to “run to more than 100 per cent of GDP and just to leave it there forever”.<sup>151</sup>

### ***Timing of fiscal consolidation***

118. The consensus appeared to be that public debt sustainability, though an issue, was one that needed to be tackled only after the economy was recovering. Lord Darling said he “would be very concerned if we got ourselves into a situation where, in the recovery stage, we start clamping down on things prematurely, stop the growth and drive the country back into a recession”.<sup>152</sup> Philip Hammond said there would not be “anybody seriously advocating increases in taxes at the moment”.<sup>153</sup>

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147 Q553 - Tenor is the length of time until a loan is due.

148 Q468

149 Q461

150 Q465

151 Q554

152 Q551

153 Q553

119. Witnesses acknowledged that tax rises and/or fiscal consolidation would likely be needed in the long term. Professor Chadha explained:

The appropriate response to a large, temporary increase in fiscal expenditure is something the economists call tax smoothing. We will raise taxes, but not today. We will do it at some point in the future. To talk about it now would unduly restrain demand further. We have a [ ... ] credible fiscal monetary system [ ... ] If we say, “We will raise taxes in the future,” we probably will, as a country. It is not something we do not tend to do. We can deploy that flexibility, make those plans for further on down the line and not worry about that too much now. We all need a bit more certainty, if possible, in planning in very difficult times.<sup>154</sup>

120. Professor Gita Gopinath, Chief Economist at the International Monetary Foundation, agreed and told us:

Now is not the time to implement plans for consolidation, but now could certainly be the time for planning for what would look like a more medium-term fiscal consolidation going forward.<sup>155</sup>

121. **One legacy of the crisis will be a sharp rise in the level of public debt and, possibly, an ongoing rise in borrowing. This has been and will be necessary to contain the economic damage from Coronavirus and does not raise immediate debt sustainability concerns. However, it will make the job of stabilising the public finances in the long term more difficult.**

122. *The Chancellor should, at the next fiscal event, set out an initial roadmap of how he intends to place Government finances on a sustainable footing. The milestones on that roadmap will need to be flexible—tax increases imposed too early are like to stifle economic recovery. A reassurance that the Government intends to take steps to ensure fiscal sustainability in future will underpin market confidence and reduce uncertainty for households and businesses that may fear immediate tax rises*

123. **We have launched an inquiry into ‘Tax after coronavirus’, which will look at long-term challenges to the tax system.**<sup>156</sup>

## “Levelling up” in the context of the coronavirus outbreak

124. In his first speech after becoming Prime Minister in 24 July 2019, the Prime Minister stated his intention was to answer “at last the plea of the forgotten people and the left behind towns”, “to level up across Britain” and that “it is time we unleashed the productive power not just of London and the South East but of every corner of England, Scotland, Wales and Northern Ireland”.<sup>157</sup> This promise to “unite and level up” the country was also given in his first speech after winning the election on 13 December 2019.<sup>158</sup> In the *March*

154 Q494

155 Q782

156 Tax after coronavirus inquiry Launch, Treasury Committee [Press Release](#), 17 July 2020

157 Boris Johnson’s first [speech](#) as Prime Minister, 24 July 2019

158 Boris Johnson [speech](#), 13 December 2019

*Budget* the Government announced an ambitious infrastructure plan which it related to the “levelling up” agenda including “the largest ever investment in English strategic roads”.<sup>159</sup>

125. “Levelling up” still continues to be key part of the Government’s agenda. One of the priorities of the Spending Review launched in July was:

levelling up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation and people—thus closing the gap with our competitors by spreading opportunity, maximising productivity and improving the value add of each hour worked.<sup>160</sup>

However in the acceleration of infrastructure projects announced in the *Plan for Jobs* in July 2020, the emphasis was on “shovel ready” projects, critical for local growth and job creation, rather than “levelling up”.<sup>161</sup>

126. It is not yet clear how the Coronavirus outbreak has affected regional imbalances. Paul Johnson told us that: “It is not obvious that this crisis will widen geographic inequalities, in the sense of inequality between London and the Midlands or the north, particularly in terms of overall labour market performance”. He pointed out the sectoral dimension of the crisis meant that “some of the more prosperous areas” were hard hit as “they have more of the relatively low-paid hospitality and retail jobs”. In a similar vein, more prosperous local authorities might be “more dependent on the income streams that have reduced” such as parking charges and charges for leisure facilities”.<sup>162</sup> He also flagged that coastal areas could be particularly badly affected as those were areas where there might not necessarily be alternative employment opportunities to the hospitality and tourism sectors.<sup>163</sup>

127. The Coronavirus outbreak might have given the Government more levers to achieve its “levelling up” agenda. Should the Government take strategic equity stakes in businesses, it could, as a stakeholder of these businesses, have greater leverage to insist they pursue a “levelling up” agenda. Lord O’Neill told us in relation to Project Birch:

this is an ideal chance to help gear them towards further appropriate financial investments, to help accelerate a move towards net zero climate goals [ ... ] and to support the so-called levelling-up agenda.<sup>164</sup>

128. However, as we discussed in Chapter 3,<sup>165</sup> the Chancellor does not appear to have any appetite for pursuing a more interventionist industrial strategy. Given existing imbalances within the economy and the Government’s need to help all areas to boost economic growth, we also heard that it may be far more challenging to implement “levelling up” in the current crisis. For instance, the British Business Bank, which administers the Future Fund, reported that more than half of the Future Fund money was lent to companies

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159 HM Treasury, *Budget 2020*, p5

160 HM Treasury Press Release, *Chancellor launches Comprehensive Spending Review*, 21 July 2020

161 HM Treasury, *A Plan for Jobs*, July 2020, Para 2.67

162 Q648

163 Q629

164 Q673

165 Para 106

with headquarters in London, with a further 22 per cent in the South, highlighting the numbers of tech groups clustered in and around the capital. Only 11 per cent of funds went to the North East, North West and Yorkshire.<sup>166</sup>

### Defining “levelling up”

129. Although the Government frequently refers to ‘levelling up’, it has not yet spelled out which regional imbalances in particular it wants to tackle. Giles Wilkes from the Institute for Government told us, “levelling up [ ... ] was meant to be a geographical statement, but it really is just a slogan”. He continued, the Government “had not got round, to working out really what it meant or how to go about doing it before coronavirus came” and “[t]here may be an opportunity to provide them with some better content”.<sup>167</sup>

130. In terms of how to gauge the success of “levelling up”, Andy King from the Office for Budget Responsibility told us, “[i]f the Government [ ... ] think through what levelling up means in a statistical sense [ ... ], it is easy enough for Treasury officials, or any other Department officials, to monitor against a metric once it has been set.”<sup>168</sup>

131. Paul Johnson told us that increased investment in transport is not the only strategy that should be used to reduce regional imbalances:

In terms of regional distribution, it is really important that we do not end up seeing investment in a silo, where the answer to lower productivity in the north-east is building more road and rail in the north-east. It is part of an answer, but only a relatively small part, alongside social investment, educational investment, industrial strategy and all those sorts of things. The fact that 24% of the workforce in the north-east and 47% in London are graduates is not going to be changed by building more roads and rail in the north-east. That is a whole series of things that you need to move to change. It is really hard and I do not know the answer, but it is far more than doing things on the investment side.<sup>169</sup>

132. A letter to the Chair from the Chief Secretary to the Treasury dated 7 September 2020 stated that the Comprehensive Spending Review would “prioritise improving outcomes linked to levelling up, by ensuring all departments have the appropriate structures and processes in place to deliver upon their outcomes and commitments”.<sup>170</sup>

**133. *In order to prevent “levelling up” becoming an empty slogan, the Government should produce a strategy underpinning it that defines clear objectives and includes the indicators it will use to gauge success at the next fiscal event. The Government needs to clarify whether it is planning to close the productivity gap, the income gap, the gap in health outcomes, the gap in educational outcomes or all of these. It also needs to define the strategies it will use to close different imbalances: strategies to close productivity gaps may well be different to those aimed to close income gaps or those gaps in health outcomes.***

166 Peer2peer Finance News, [252 diverse firms approved for future fund](#), 23 June 2020

167 Q650

168 Oral evidence taken on 17 March 2020, Spring Budget 2020, [HC \(2019–21 \)214](#), Q5

169 Oral evidence taken 16 March 2020, [HC \(2019–21\) 214](#), Q25

170 [Letter](#) to the Chair from the Chief Secretary to the Treasury, 7 September 2020

### *The importance of regional data*

134. Our predecessor Committee in the 2017–19 Parliament inquired into regional data.<sup>171</sup> The differentiated impact of the crisis on different sectors and the possibility of more localised outbreaks in the future, makes getting good regional data on output, incomes and other indicators such as health outcomes a greater priority. The Office for National Statistics started producing quarterly regional output indicators for the first time in 2019 (previously they were produced on an annual basis with a significant time lag).<sup>172</sup>

135. In the March Budget documentation, the Treasury published regional unemployment data to highlight regional disparities.<sup>173</sup>

136. The Bank of England also have a regional dimension to their work with a Regional Agents network spread across the country who publish a *Summary of Business Conditions* four times a year.<sup>174</sup> Each summary reflects discussions with around 1,000 businesses across the UK, covering all sectors of the economy. At present, the Bank’s Agents’ publications just give a summary of the data rather than highlighting differences between regions. In September 2019, Andy Haldane described this “regional network of intelligence” as an absolute “goldmine” for finding out for instance how prepared businesses were for Brexit, and said a further “regional cut” of data may be useful.<sup>175</sup> Professor Jonathan Haskel, member of the Monetary Policy Committee told us that in addition to Agents Reports, the Bank was cooperating with the University of Nottingham and Stanford University, on what it terms “the Decision Maker Panel dataset, which asks 8,000 firms every month for information”. He told our predecessor Committee:

We are making a number of steps, along with academic researchers, to try to bring us to a position where we have datasets so we can make these regional cuts that before we might not have been able to do.<sup>176</sup>

137. *Both the OBR and the Bank have previously emphasised to our predecessor Committees that their responsibilities are national and they only look at regional data to inform their national predictions. Dr Carney, the previous Governor of the Bank of England, pointed out that monetary policy is* “exclusively a national lever, at least as per the remit Parliament gives us”.<sup>177</sup> Robert Chote told our Committee in the last Parliament that “implications of regional developments are not core to our purpose”.<sup>178</sup>

138. **We welcome initiatives by the ONS to improve the quality of its regional data, for instance by producing quarterly regional GDP figures. The Treasury publishing regional data in its March Budget is also a good first step towards increasing the profile of regional data. Such data will be vital in the wake of the crisis to assess the impact on different regions and sectors. While the OBR’s and Bank’s remits are primarily national, showing regional variations can enrich users’ understanding of**

171 Treasury Committee, Regional imbalances in the UK Economy inquiry, [Written Evidence](#) published 3 September 2019, 4 October 2019

172 ONS News Release, [Quarterly GDP figures for Wales and English regions published for first time](#), 5 September 2019

173 HM Treasury, [Budget 2020](#), Table 1.1.

174 Bank of England, [Summary of Agents’ Business Conditions](#)

175 Oral evidence taken on 4 September 2019, [HC \(2017–2019\)473](#), Q529

176 Oral evidence taken on 4 September 2019, [HC \(2017–2019\)473](#), Q529

177 Oral evidence taken on 4 September 2019, [HC \(2017–19\) 473](#), Q531

178 Oral evidence taken on 17 March 2020, [HC \(2019–21\) 214](#), Q53

the economy and enable policy makers to better understand the differentiated impact of the coronavirus on various regions and sectors of the UK economy and how best to implement and measure the Government's "levelling up" strategy.

139. *The Treasury and the OBR should consider raising the profile of regional data in their publications. We also recommend that the Bank of England develop their datasets from their Regional Agents network and Decision Maker panel and endeavour to highlight disparities in regions in their publications. We recommend that the Treasury also review the remits of both the OBR and Bank in the next year to see whether they need changing to reflect the Government's "levelling up" agenda.*

## International dimension

140. The UK's success in dealing with the health pandemic is partially dependent on success in dealing with the global crisis. Paul Johnson noted:

We are dependent, from a health point of view, on every other country in the world doing better than we do, or doing a good job of it. We are also dependent on international supply chains and all those things reopening properly.<sup>179</sup>

## Extent of the global crisis

141. The Bank of England's *Monetary Policy Report August 2020* forecast that "following a sharp fall in the first half of the year, global GDP picks up in latter stages of 2020". The profile of the recoveries varied significantly across countries, reflecting differences in public health and associated actions to control the spread of the coronavirus, as well as the magnitude of policy responses. For example, the Bank assumed the recovery in the US would be a little slower as a result of the increase in coronavirus cases in recent weeks.<sup>180</sup>

142. Professor Gita Gopinath, Chief Economist, International Monetary Fund (IMF), observed that the economic impact arising from the coronavirus for developing countries would be felt far more severely than in an economy like the UK:

If you look at, for instance, the World Bank numbers for people who will live with less than \$3.20 a day, that number could increase by about 40 million to 150 million. You are going to see deep distress. A country like the UK having a negative growth rate of 10 per cent is very different from a low-income country having a negative growth rate of 10 per cent, having started out with very low per-capita incomes, and the debt distress is tremendous.<sup>181</sup>

## Efficacy of the international response

143. Whereas the financial recession of 2008 was met with a co-ordinated international response from the G20, first impressions indicate the coronavirus crisis has seen a more limited cross-border response. Laurence Boone, Chief Economist of the OECD, told us:

179 Q661

180 Bank of England, [Monetary Policy Report](#), August 2020, p 5

181 Q748

Governments have been very swift and efficient in beefing up their healthcare systems and then shielding people and firms.

At the international level, it is true that we have not had the equivalent of the London summit. There has been a lot of discussion about co-operation but the most concrete action that we have seen is the debt service moratorium [ ... ] for low-income and developing countries.<sup>182</sup>

144. Dr Posen observed that there were four issues in the international dimension that needed to be dealt with:

- i) “preventing huge financial spill-overs and financial panic”;
- ii) “co-ordination on intellectual property sharing, investment and distribution of these healthcare innovations and future need for future pandemics”;
- iii) “preventing own goals in the trade area, starting with issues such as health, medicine and food”; and
- iv) “dealing with the incredible devastation [ ... ] in the poorer countries of the world because there has been such a large capital outflow, a collapse in tourism, in trade and in remittances from migrant workers back to those countries, as well as the burden”.<sup>183</sup>

145. Dr Posen thought that this first issue had been dealt with well. In a joint paper with Professor Maurice Obstfeld, former Chief Economist at the International Monetary Fund, he pointed out:

So far, the G20, and particularly the working group of central bankers within it, has been remarkably quick to take on [ ... ] stopping financial panic. Within advanced economies’ financial markets, at least, their stabilization measures have been effective.<sup>184</sup>

146. The IMF has also noted that Central Banks in emerging economies had taken similar action, though of a lower magnitude:

Thailand, Mexico, and South Africa eased monetary policy during this cycle. In a few cases, limited room to cut policy rates further and distressed market conditions induced use of unconventional monetary policy measures for the first time. These included purchases of government and corporate bonds, although the amounts remain modest so far compared to the larger advanced economies. Emerging market economies have also relaxed their fiscal stance in an attempt to tackle the health crisis, support people and firms, and offset the economic shocks. While more modest than that of advanced economies, these efforts were significantly greater than during the global financial crisis.<sup>185</sup>

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182 Q749

183 Q474

184 Obstfeld and Posen, [The G20 not only should but can be meaningfully useful to recovery from the COVID-19 pandemic](#), 13 April 2020

185 International Monetary Fund blog, [COVID-19 Response in Emerging Market Economies: Conventional Policies and Beyond](#), 22 August 2020

147. The second issue highlighted by Dr Posen, the co-ordination of information sharing, investment and distribution of healthcare innovations, has yet to be tested. When asked what was her greatest wish regarding the international response, Professor Gopinath hoped that “when treatment and a vaccine are available, they are globally available and affordable to all countries.”<sup>186</sup>

148. With regard to the lifting of restrictions of healthcare, medicine and food, Dr Laurence Boone observed:

there has been a rise in barriers to trade during the crisis, which has prevented the delivery of protective equipment, medicines, drugs and treatments to developing and emerging economies, as well as advanced ones. These barriers should disappear for the benefit of everybody.<sup>187</sup>

149. On preventing catastrophic recessions in developing countries, Dr Posen observed that for developed nations investing in public health in developing countries would be “very small amount of money for potentially huge benefits.”<sup>188</sup>

### **International Monetary Fund resources**

150. Professor Gopinath observed that the IMF was in a “much stronger position entering this crisis” than it was entering the global financial crisis. She told us:

on the eve of the global financial crisis the IMF had a lending capacity of about \$250 billion. Thanks to the actions taken by the members, the IMF now has a lending capacity of \$1 trillion.<sup>189</sup>

151. She added that there “have been the rapid financing facilities that we have provided”.<sup>190</sup> So far, the IMF has provided 22 emerging market economies with approximately \$72 billion [ ... ] in financial assistance.<sup>191</sup>

152. In terms of an increase to the IMF’s Special Drawing Rights (SDR), which was a centrepiece of the 2009 G20 package, she told us “there is no broad consensus on having new SDR allocations”, but there “is consensus on better use of the existing SDR allocations through a transfer from higher-income members to lower-income members”. She emphasised that though the IMF is well resourced at present:

If there is a major second wave and greater market turbulence, those resources could be seriously tested and, at that point, we would have to see what the international appetite is for doing more”.<sup>192</sup>

**153. *We call on the Government to throw its diplomatic weight behind the global community in investing in public health systems in developing countries; ensuring that testing, treatment and a vaccine when developed is made as widely available as possible to emerging economies. The Government should also consider increasing the resources***

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186 Q752

187 Q752

188 Q475

189 Q750

190 Q750

191 International Monetary Fund blog, [COVID-19 Response in Emerging Market Economies: Conventional Policies and Beyond](#), 22 August 2020

192 Q750

*available to the International Monetary Fund, should it be needed to maintain countries' international financing in the event of renewed market turbulence or further waves of the virus.*

## 5 Overall approach

154. This Chapter explores the Treasury's overall approach to the crisis and the level of flexibility and transparency being shown in respect of the forthcoming Spending Review or Budget process, decisions about ongoing restrictions and manifesto commitments.

155. In the first stage of the crisis, the Chancellor often updated and refined measures to reflect concerns we and others had expressed. For instance, along with business representatives, we urged the Government to reconsider guarantees on loan schemes and expressed concerns about slow disbursement rates.<sup>193</sup> In response to criticisms of slow disbursement within the Coronavirus Business Interruption Loan Scheme (CBILS), the Government introduced easy to apply for Bounce Back Loans which had a 100 per cent backed Government guarantee (see Chapter 3).<sup>194</sup>

156. Lord Darling emphasised the importance of the Chancellor continuing to refine and adapt his policies in response to events:

I would say to the Chancellor, “Do not be afraid of coming back to the House of Commons again and again. Changing your mind and adapting is far better to do, but do it in advance. Do not wait.”<sup>195</sup>

### Spending Review

157. The next Spending Review or the forthcoming budget process, if the Spending Review is not fully implemented, will be critical to maintaining the Government's capacity and flexibility to respond to local outbreaks or indeed a second wave. The Treasury announced the beginning of the Spending Review on 21 July. This Review will set Government departments' resource budgets for the years 2021–22 to 2023–24 and capital budgets for the years 2021–22 until 2024–25, along with devolved administrations' block grants for the same period.<sup>196</sup>

158. However, some witnesses were sceptical whether this would be delivered. Dr Tetlow told us in June that she believed that the Treasury might not have the capacity to set a Spending Review and that the level of uncertainty might be so high that a three year Spending Review would be difficult to establish:

[ ... ] we were expecting the Government, pre-coronavirus, to have a three-year spending review happening later this autumn. That seems increasingly unlikely to happen, because we do not really know what the pressures on the state are going to be for the next few years, and therefore it is hard to set out firm spending plans at the moment. To run a full spending review also requires Departments and the Treasury to spend a lot of time looking at spending bids and figuring out where the money goes. Obviously, Departments and the Treasury have lots of other things going on at the moment, which mean they have not had the time needed to do that fully. It would not be surprising if we did not see a multiyear spending review

193 [Chair comments on Chancellor's announcement of Bounce Back Loans](#), Treasury Committee press release, 27 April 2020

194 HM Treasury, [Small Businesses boosted by bounce-back loans](#), 27 April 2020

195 Q557

196 HM Treasury, [Treasury launches Comprehensive Spending Review](#), 21 July 2020

happening later this year and it probably would be the right outcome, because if we set out multiyear spending plans and then things move on, and we find out that our priorities for public spending are different, we would want those to be able to be reassessed.<sup>197</sup>

### *Supporting local authorities in the face of local outbreaks*

159. According to the Institute for Fiscal Studies, cuts to funding from central government have led to a 17 per cent fall in councils' spending on local public services since 2009–10—equal to 23 per cent or nearly £300 per person.<sup>198</sup> Dr Marianne Sensier and Dr Elvira Uyarra from the University of Manchester stated:

Local government in the UK is financially crippled after years of austerity, and the loss of commercial income and the day-to-day costs of fighting the pandemic (including extra costs for social care, buying PPE) are threatening the delivery of essential local services<sup>199</sup>

160. Giles Wilkes noted that when he worked in the Treasury, local authority spending was often treated as the residual in the Spending Review:

the CLG budget, as we called it back then, was simply the residual, whatever was left. Nobody ever sat down to ask, “What does this budget need to be?” and build it up.<sup>200</sup>

161. The Chancellor agreed that after 2010, “local government took a very heavy share of the burden of bringing our public finances back to a sustainable position”. However he also pointed out before the crisis, they had just experienced two years of budget growth that was higher than inflation.<sup>201</sup>

162. On 22 June, the Government announced that Leicester would have to remain in lockdown, given the level of its infection rate, and restrictions continued there for four weeks.<sup>202</sup> On 31 July, greater social restrictions were announced for the Greater Manchester, East Lancashire, Preston and West Yorkshire areas regarding the mixing of households following an increase in cases there.<sup>203</sup> And on 5 August restrictions were reimposed in Aberdeen.

163. We wrote to the Chancellor in relation to the outbreak in Leicester asking him what additional support he was giving the local authority. He replied:

Leicester City Council has already received over £85 million, and the other Local Authorities in Leicestershire have together received over £55 million in funding for the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. Leicester City Council have been provided with an additional £3.5m as part of the Discretionary Grant Fund to provide

197 Q642

198 Institute for Fiscal Studies, [English local government funding: trends and challenges in 2019 and beyond](#), 13 November 2019

199 [EIC0560](#) (Dr Marianne Sensier and Dr Elvira Uyarra)

200 Q642

201 Q914

202 HC Deb, 29 June 2020, [col 111](#)

203 Government guidance, [North of England, local restrictions](#), 31 July 2020

support for local businesses (incorporated and sole traders) and charities. The other Local Authorities in Leicestershire have been allocated over £2.5m for their discretionary grant schemes. We have provided an additional £1m of extra support for the affected councils to, amongst other things, increase their communications, ensure materials are translated into locally relevant languages and provide additional local support for contact tracing.<sup>204</sup>

164. Apart from the £1 million, it was not clear what proportion of the funding referred to was directly related to the localised outbreak and additional to the funding the council would have received already. A letter from the Secretary of State for Health and Social Care to Neil O'Brien MP, Member of Parliament for Harborough, Oadby & Wigston indicated that the Government did give additional help to Leicester in the form of a £2.6 million grant to Leicester City Council and £400,000 to Oadby and Wigston.<sup>205</sup>

**165. Local authorities are critical in responding to local outbreaks effectively. *In the forthcoming Spending Review or budget process, local government spending must not be treated as a residual and must be costed based on the submissions put forward by local authorities.***

**166. *The Government should as soon as possible set out in a public document the type of support available to local authorities in the event of a localised lock-down and how it will work with local authorities to support local businesses.***

## Transparency on trade-offs facing Government

167. In late May, the Prime Minister announced five tests for easing restrictions on the lockdown:

- “protect the NHS’s ability to cope, so that we are confident that we are able to provide sufficient critical care and specialist treatment right across the UK”;
- “see a sustained and consistent fall in the daily death rates from COVID-19 so we are confident that we have moved beyond the peak”;
- “receive reliable information, reliable data from SAGE showing that the rate of infection—the number of people catching Covid—is decreasing to manageable levels across the board”;
- “confiden[ce] that the range of operational challenges, including on testing capacity and Personal Protective Equipment, are in hand, with supply able to meet future” demand; and
- “confiden[ce] that any adjustments to the current measures will not risk a second peak of infections that overwhelms the NHS.”<sup>206</sup>

168. We were told that a Government objective of simply minimising the deaths from coronavirus at all costs was unlikely to be a realistic option. For example Dr Gerard Lyons,

204 [Letter](#) to the Chair from the Chancellor, 15 July 2020

205 [Letter](#) to Neil O'Brien MP from Minister of State, Health and Social Care, 29 July 2020

206 [Prime Minister's Statement](#) on Coronavirus, 28 May 2020

Chief Economic Strategist at Netwealth, and Senior Fellow at Policy Exchange made the analogy that we could minimise road deaths by stopping road travel altogether but we would never do this because of its harmful impact on the economy.<sup>207</sup>

169. He added: “there is also a huge social cost with locking: mental health, domestic abuse and loneliness, and [ ... ] people [ ... ] being deterred from going to hospital”. He argued that the challenge for the Government “getting the right balance between lives and livelihoods, accepting that we need to bring the virus under control and also, at the same time, recognise the social and economic cost associated with the lockdown”.<sup>208</sup>

**170. It is too simplistic to say that a compulsory lockdown is a trade-off between the people’s health and the economy. The very presence of the virus, and how people respond to it regardless of what the Government mandates, has an economic impact. And lockdowns don’t just affect the economy—they have health implications as well, positive and negative, beyond just combatting coronavirus.**

**171. *When it imposes and removes social restrictions, the Government needs to be as clear as possible that a) there are harms in restrictions and there is a trade-off between these harms and the harms of the virus spreading; and b) how they have made that balance, recognising this is going to be a matter of judgment.***

## Treasury’s forecasting capacity and its relationship with the OBR

172. The OBR’s *Fiscal Sustainability Report* published on 14 July 2020 did not take into account the tax changes announced in the Chancellor’s *Plan for Jobs* on 8 July. Robert Chote stated:

Alas we received details of the measures too late to include them in the scenario calculations, and to be able to discuss them fully in the main document.<sup>209</sup>

173. The pace of events and the Government’s policy changes also highlights the need for the Treasury to have some further in-house modelling capability. In the last Parliament, Clare Lombardelli, Chief Economic Adviser at the Treasury, told our predecessor Committee the “OBR were best placed to do short-term analysis, on the basis that in the Treasury and across Whitehall there is no short-term forecasting macro capability any more”.<sup>210</sup> This year, in a letter to the Chair, the Permanent Secretary of the Treasury stated that the “Treasury does not publish forecasts of the economy or the public finances. We undertake a wide range of internal analysis to support policy development and advice to ministers.” It was left unclear whether this internal analysis includes short-term macroeconomic forecasting.<sup>211</sup>

174. The Memorandum of Understanding between the OBR and the Treasury states that the “Model unit” in the Treasury will be responsible for fulfilling HMT’s obligations to

207 Q263

208 Q263

209 Robert Chote, [Speaking Notes](#), Fiscal Sustainability Report 2020

210 Oral evidence taken on 4 December 2018, The UK’s economic relationship with the European Union, [HC \(2017–19\) 473](#), Q1104

211 [Letter to the Chair from the Permanent Secretary](#), 15 April 2020

maintain and develop its macroeconomic model, as well as using the model and other analytical tools to help the Treasury provide economic advice to the Chancellor as and when is required.<sup>212</sup>

175. Torsten Bell stated there was a “little bit of a challenge in terms of the degree to which the Treasury has outsourced its forecasting function”. He pointed out that “when politicians and ministers are being asked to make swift decisions [ ... ] a more iterative engagement with your forecasters and people with lots of understanding is more valuable.”<sup>213</sup>

176. **It is notable that the synchronisation of the OBR’s analysis and the Government’s announcements appears to have been challenged in the crisis. The OBR scenario analysis undertaken in the Fiscal Sustainability Report did not include the Government’s measures in its Plan for Jobs announced just a week before. This could be because the crisis requires a rapid policy response, which means that it was not always possible to inform the OBR of policy announcements in the normal working timetable.**

177. *We suggest that by the next fiscal event the Treasury clarifies its relationship with the OBR, in particular what the process is for declaring a Treasury announcement to be a fiscal event requiring an OBR economic and fiscal forecast.*

178. **The Treasury’s macroeconomic forecasting ability appears to have eroded since the formation of the OBR. The Treasury needs to maintain sufficient forecasting capacity outside the OBR so that it can ensure that it can adapt policy responses rapidly to an urgent situation. In its response to this report, the Treasury should explain in detail its short-term macroeconomic forecasting capabilities, and how macroeconomic forecasting analysis has informed the design, scope and scale of its interventions during the crisis.**

## Insurance

179. During our inquiry we received evidence from many businesses expressing their frustration and disappointment that their insurance claims for business interruption had been rejected by insurers. While some businesses did not have the correct cover in place to trigger successful claims, other policy wordings were less clear.

180. The OECD stated:

The closure of manufacturing plants, restaurants, retail establishments and other places of business to limit the spread of COVID-19 will result in significant business interruption (BI) losses. The vast majority of these losses are likely to be absorbed by policyholders as, unless governments (or courts) intervene, few companies have business interruption coverage that is likely to respond to these types of losses<sup>214</sup>

212 [Memorandum of Understanding](#) between the Office for Budget Responsibility and HM Treasury – the macroeconomic model, 2013

213 Q660

214 OECD, [Responding to the COVID-19 and pandemic protection gap in insurance](#), 28 May 2020

181. The FCA recognised it had a role to play in seeking clarity for businesses and instigated legal action via a test case to resolve the contractual uncertainty around the validity of many business interruption claims. Legal deliberations have now concluded, and the Court's judgement is awaited so we will not comment on those.<sup>215</sup>

182. Sam Woods, Deputy Governor of the Bank of England and CEO of the Prudential Regulation Authority, told us that pandemics are “not as readily insurable as many other sorts of risk”, though “it is insurable to a degree”. He also suggested that “this is an area where it makes sense to have some kind of Government-backed or Government-associated pooling of risk”, though he pointed out that it is too late for this time around.<sup>216</sup>

183. In July, the Government announced a £500 million fund to kickstart film and television production struggling to secure insurance for coronavirus-related costs.<sup>217</sup>

184. **We are concerned about the implications of the pandemic for insurance, given that businesses will need the confidence that insurance cover provides if they are to resume normal activities.**

185. *The Treasury should consider whether Government intervention is required to support the insurance industry in finding a solution for pandemic insurance cover; and whether such support would be an effective use of public money. We also recommend that the Treasury investigates whether it needs to mitigate the risk of insolvencies in the insurance sector, should the Court's ruling find in favour of policyholders.*

## Manifesto commitments

186. The Conservative Party Manifesto 2019 pledged to maintain the State Pension Triple Lock, and also not to raise either Income Tax, National Insurance Contributions or VAT.<sup>218</sup> When asked for reassurances by the Chair at the Liaison Committee whether the Government was going to meet all its manifesto pledges, the Prime Minister stated:

We are going to meet all our manifesto commitments. Unless I specifically tell you otherwise, Mel, the manifesto you and I fought on is—it is an important point.<sup>219</sup>

187. We received some evidence that the Triple Lock on pensions might need to be revisited on a temporary basis next year because the increase in average earnings will be artificially high because of the Government's Job Retention Scheme.<sup>220</sup> The Triple Lock guarantees that pensions may increase by the highest of the following three measures: average earnings; prices as measured by the Consumer Prices Index; and 2.5 per cent.

188. If the Job Retention Scheme and recession result in the increase in average earnings being atypically high from 2020 to 2021, this will make pension payments more generous than they would otherwise have been. This study from the LSE “The changing size and shape of the UK state” explains how the Triple Lock for state pensions has already increased welfare spending significantly:

215 <https://www.fca.org.uk/firms/business-interruption-insurance> accessed 13 August 2020

216 Q229

217 “Dowden: ‘Jump-start’ for UK's leading creative industries”, Press Release, 28 July 2020

218 Conservative Party Manifesto 2019

219 Oral evidence taken on 27 May 2020 before the Liaison Committee, [HC \(2019–21\) 426](#), Q 83

220 Q643

the introduction of the ‘triple lock’ in 2011 (whereby the value of the State Pension grows each year by highest of inflation, earnings or 2.5%) alongside roughly £12 billion of cuts to working-age benefits has led to a situation in which the State Pension now accounts for 44% of all welfare spending, up from 37% just ahead of the financial crisis.<sup>221</sup>

**189. The Government must be willing to be flexible, even on manifesto commitments, in response to the crisis. Lifting the Triple Lock on pensions next year is a sensible proposal and should be carefully considered.**

## Recent intransigence

190. Our first Report in this inquiry, published on 15 June 2020, focused on gaps in two key schemes, the Coronavirus Job Retention and the Self-Employment Income Support Schemes, which were designed to protect livelihoods during lockdown. The Government chose not to implement our recommendations and over a million people are still affected by the significant gaps that remain. We have received significant evidence of the difficulties individuals continue to face.

191. On 15 July the Chancellor told us that he had “drawn a line” under any possibility of changing the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme.<sup>222</sup>

192. No one knows: if there will be a second pandemic wave or the impact and frequency of localised outbreaks; how long it will take to develop treatments or a vaccine, or even whether a viable vaccine will ever be developed; and experts are divided on the full impact on the world economy as the virus continues to spread. In addition, the details of the UK’s future relationship with the European Union are still not settled. It is vital that the Government continues to be willing to refine its economic policies in the face of such uncertainty.

**193. One of the clear strengths of the Treasury’s response in the initial stages of the crisis has been its willingness to listen and adjust its policies in response to feedback. However, we are disappointed in its refusal to implement recommendations from our first Report and hope that this does not indicate growing intransigence going forward. The continued uncertainty about the virus and the impact on economic recovery means that the Chancellor must show continued flexibility in his measures.**

221 London School of Economics, [The changing size and shape of the UK state](#), 6 December 2019

222 Q887

## Conclusions and recommendations

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### Recovery of consumption

1. In the first half of this year the UK suffered its worst recession in modern history. The latest GDP figures suggest a bounce back has begun. But the path of the economy does not only depend on the course of the virus and Government restrictions or lockdowns, but on how the population views the risk from the virus and their job security, and how that in turn impacts on consumer and business confidence. Combatting the virus is an economic as well as a health priority. (Paragraph 31)
2. Consumption is returning following the lifting of Government restrictions. However, continued consumer caution around re-engaging with the economy, the prospect of more localised outbreaks and a second wave are dampening a full recovery to pre-pandemic levels of consumer spending. The Government has to contain the virus as best it can, but at the same time it has to boost consumer confidence and job security without causing the virus to spread—this is a difficult balancing act. The outlook for the economy remains exceptionally uncertain. Some level of economic scarring is now almost certain. (Paragraph 32)
3. The Chancellor was right to begin stimulating consumption at the time of the Chancellor's Plan for Jobs, especially in the hospitality and tourism sector, to ensure these businesses, often reliant on summer months, did not start cutting jobs. However the Eat Out to Help Out Scheme has now ended and the continued VAT cut on hospitality and leisure may not be enough to encourage consumers to continue to spend as the threat of the virus continues and they face rising job insecurity. *The Chancellor needs to consider whether additional measures to stimulate consumption are warranted at the next fiscal event.* (Paragraph 42)

### Avoiding long term unemployment

4. We believe the Chancellor was right to start measures to combat long term unemployment in July. Rising unemployment becoming structural and permanent is a critical risk arising from the crisis. (Paragraph 58)
5. As the crisis moves beyond full lock-down, it is important to effectively target assistance to those businesses and individuals who need it. The ability of labour to move from sector to sector will not be a painless process and will be dependent on the growth of sectors matching the shrinkage of sectors. *The Government should set out how it will manage the transition to mitigate the crisis and prevent exacerbating further inequalities that undermine the "levelling up" agenda.* (Paragraph 59)
6. A large proportion of businesses in sectors such as hospitality and leisure that are suffering most from social distancing may still have a viable long-term future at the end of October. It is not clear to us that the Job Retention Bonus, which all businesses are eligible for, is value for money, given that most of the funds will be spent on workers who would be retained anyway. *The Chancellor needs to carefully consider whether a targeted extension of the CJRS and/or other targeted support measures might be required and to explain his conclusion.* (Paragraph 60)

7. It is vital that workers made redundant have the opportunity to reskill. We heard evidence that the poor reputation of schemes in the 1980s actually reduced participants' employment prospects. *Even though the Treasury is unlikely to be responsible for delivering vocational or reskilling schemes, given the role of these schemes in reducing long term unemployment, we recommend that the Treasury ensures that their quality and reputation is monitored. We recommend an evaluation of these schemes every six months afterwards to assess whether they genuinely increase job prospects.* (Paragraph 61)
8. *The Government also needs to make sure that the requirement for employers interested in offering fewer than 30 Kickstart roles to apply through a representative organisation does not make the scheme inaccessible to SMEs and charities.* (Paragraph 62)
9. The crisis has hit different groups of people unequally. It is also likely that the differences in hours of paid work carried out between men and women observed during the lockdown may lead to a widening of the gender pay gap, especially if the differences in hours worked persist in the months ahead. *We recommend that the Treasury publishes an updated version of its distributional analysis in the Plan for Jobs in the next fiscal event, alongside an equality impact analysis of how the recession is impacting different groups (e.g. gender, race, region and socioeconomic status) and the extent to which Government measures are mitigating falls in incomes for those hardest hit. This analysis should also include a breakdown of how unemployment rates of these different groups have been impacted by the crisis.* (Paragraph 79)
10. The Government has raised Universal Credit and made it easier to access. However these changes are time-limited for a year. *The Government should consider extending the measures increasing the generosity and accessibility of Universal Credit put in place in March 2020. The Government should also conduct a study to examine the adequacy of and eligibility for sick pay, given that poor levels of statutory sick pay will make it harder for workers to isolate when needed.* (Paragraph 80)

### Corporate debt

11. It remains unclear how the Government expects businesses to pay back loans in the future. The crisis and the lockdown of the economy meant that businesses have largely forgone revenue which many are unlikely to make up in the future and revenue is also likely to be suppressed in some sectors for some time. (Paragraph 100)
12. We are concerned that there may be a significant lack of capacity and willingness for the private sector to step in to provide solutions for corporate indebtedness especially amongst small and medium-sized enterprises (SMEs). Viable SMEs struggling with debt will prolong the recession and so the Government must develop solutions for ensuring the recapitalising of their balance sheets. *The Government must outline a plan for this within the next three months. It should think creatively (as it has around other support measures) and consider a wide range of potential interventions, such as contingent tax liability or student loan type structures in relation to debt for SMEs, where repayments are conditional on them demonstrating appropriate financial health. TheCityUK has already carried out a comprehensive review on the recapitalisation of businesses, which should provide a starting-point for the Treasury's work.* (Paragraph 101)

13. *The Treasury should evaluate whether there needs to be a new state body or a remodelling of the British Business Bank, to provide loans at speed in a crisis if required, and to also play a part in recapitalising businesses including investing strategically in large businesses. (Paragraph 110)*

### Longer term challenges

14. One legacy of the crisis will be a sharp rise in the level of public debt and, possibly, an ongoing rise in borrowing. This has been and will be necessary to contain the economic damage from Coronavirus and does not raise immediate debt sustainability concerns. However, it will make the job of stabilising the public finances in the long term more difficult. (Paragraph 121)
15. *The Chancellor should, at the next fiscal event, set out an initial roadmap of how he intends to place Government finances on a sustainable footing. The milestones on that roadmap will need to be flexible—tax increases imposed too early are like to stifle economic recovery. A reassurance that the Government intends to take steps to ensure fiscal sustainability in future will underpin market confidence and reduce uncertainty for households and businesses that may fear immediate tax rises. (Paragraph 122)*
16. *In order to prevent “levelling up” becoming an empty slogan, the Government should produce a strategy underpinning it that defines clear objectives and includes the indicators it will use to gauge success at the next fiscal event. The Government needs to clarify whether it is planning to close the productivity gap, the income gap, the gap in health outcomes, the gap in educational outcomes or all of these. It also needs to define the strategies it will use to close different imbalances: strategies to close productivity gaps may well be different to those aimed to close income gaps or those gaps in health outcomes. (Paragraph 133)*
17. We welcome initiatives by the ONS to improve the quality of its regional data, for instance by producing quarterly regional GDP figures. The Treasury publishing regional data in its March Budget is also a good first step towards increasing the profile of regional data. Such data will be vital in the wake of the crisis to assess the impact on different regions and sectors. While the OBR’s and Bank’s remits are primarily national, showing regional variations can enrich users’ understanding of the economy and enable policy makers to better understand the differentiated impact of the coronavirus on various regions and sectors of the UK economy and how best to implement and measure the Government’s “levelling up” strategy. (Paragraph 138)
18. *The Treasury and the OBR should consider raising the profile of regional data in their publications. We also recommend that the Bank of England develop their datasets from their Regional Agents network and Decision Maker panel and endeavour to highlight disparities in regions in their publications. We recommend that the Treasury also review the remits of both the OBR and Bank in the next year to see whether they need changing to reflect the Government’s “levelling up” agenda. (Paragraph 139)*
19. *We call on the Government to throw its diplomatic weight behind the global community in investing in public health systems in developing countries; ensuring that testing, treatment and a vaccine when developed is made as widely available*

*as possible to emerging economies. The Government should also consider increasing the resources available to the International Monetary Fund, should it be needed to maintain countries' international financing in the event of renewed market turbulence or further waves of the virus. (Paragraph 153)*

## Overall approach

20. Local authorities are critical in responding to local outbreaks effectively. *In the forthcoming Spending Review or budget process, local government spending must not be treated as a residual and must be costed based on the submissions put forward by local authorities. (Paragraph 165)*
21. *The Government should as soon as possible set out in a public document the type of support available to local authorities in the event of a localised lock-down and how it will work with local authorities to support local businesses. (Paragraph 166)*
22. It is too simplistic to say that a compulsory lockdown is a trade-off between the people's health and the economy. The very presence of the virus, and how people respond to it regardless of what the Government mandates, has an economic impact. And lockdowns don't just affect the economy—they have health implications as well, positive and negative, beyond just combatting coronavirus. (Paragraph 170)
23. *When it imposes and removes social restrictions, the Government needs to be as clear as possible that a) there are harms in restrictions and there is a trade-off between these harms and the harms of the virus spreading; and b) how they have made that balance, recognising this is going to be a matter of judgment. (Paragraph 171)*
24. It is notable that the synchronisation of the OBR's analysis and the Government's announcements appears to have been challenged in the crisis. The OBR scenario analysis undertaken in the Fiscal Sustainability Report did not include the Government's measures in its Plan for Jobs announced just a week before. This could be because the crisis requires a rapid policy response, which means that it was not always possible to inform the OBR of policy announcements in the normal working timetable. (Paragraph 176)
25. *We suggest that by the next fiscal event the Treasury clarifies its relationship with the OBR, in particular what the process is for declaring a Treasury announcement to be a fiscal event requiring an OBR economic and fiscal forecast. (Paragraph 177)*
26. The Treasury's macroeconomic forecasting ability appears to have eroded since the formation of the OBR. *The Treasury needs to maintain sufficient forecasting capacity outside the OBR so that it can ensure that it can adapt policy responses rapidly to an urgent situation. In its response to this report, the Treasury should explain in detail its short-term macroeconomic forecasting capabilities, and how macroeconomic forecasting analysis has informed the design, scope and scale of its interventions during the crisis. (Paragraph 178)*
27. We are concerned about the implications of the pandemic for insurance, given that businesses will need the confidence that insurance cover provides if they are to resume normal activities. (Paragraph 184)

28. *The Treasury should consider whether Government intervention is required to support the insurance industry in finding a solution for pandemic insurance cover; and whether such support would be an effective use of public money. We also recommend that the Treasury investigates whether it needs to mitigate the risk of insolvencies in the insurance sector, should the Court's ruling find in favour of policyholders.* (Paragraph 185)
29. The Government must be willing to be flexible, even on manifesto commitments, in response to the crisis. Lifting the Triple Lock on pensions next year is a sensible proposal and should be carefully considered. (Paragraph 189)
30. One of the clear strengths of the Treasury's response in the initial stages of the crisis has been its willingness to listen and adjust its policies in response to feedback. However, we are disappointed in its refusal to implement recommendations from our first Report and hope that this does not indicate growing intransigence going forward. The continued uncertainty about the virus and the impact on economic recovery means that the Chancellor must show continued flexibility in his measures. (Paragraph 193)

# Formal minutes

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## Formal minutes of meeting

The following declarations of interest relating to the Economic impact of coronavirus were made:

### 15 April 2020

Anthony Browne declared that he previously held the role of Chief Executive of the British Bankers' Association.

### 29 April 2020

Steve Baker declared a non-pecuniary interest, that his wife was a locum doctor.

### 4 May 2020

Julie Marson declared that she previously worked for NatWest and for the Royal Bank of Scotland.

Anthony Browne declared that he previously held the role of Chief Executive of the British Bankers' Association.

### 15 May 2020

Harriett Baldwin declared that she previously worked at JP Morgan Asset Management. Felicity Buchan declared that she previously worked at JP Morgan.

### 20 May 2020

Steve Baker declared a pecuniary interest in relation to Glint pay.

Harriett Baldwin declared that she had been Economic Secretary to the Treasury when Andrew Bailey was appointed as Chief Executive Officer to the Financial Conduct Authority and that Elisabeth Stheeman was a long-standing personal friend.

Anthony Browne declared that when he previously held the role of Chief Executive of the British Bankers' Association he had worked closely with many of the witnesses.

### 3 June 2020

The Chair declared that he had been Financial Secretary to the Treasury when Philip Hammond was Chancellor of the Exchequer.

### 8 July 2020

The Chair declared that Bridget Rosewell had been his economic tutor at university.

Anthony Browne declared that he had worked with Bridget Rosewell while he was employed at the Mayor of London's Office.

## 2 September 2020

Steve Baker declared a pecuniary interest in relation to Glint pay.

Anthony Browne declared that he previously held the role of Chief Executive of the British Bankers' Association.

## Tuesday 8 September 2020

Members present:

Mel Stride, in the Chair

|                  |                 |
|------------------|-----------------|
| Rushanara Ali    | Angela Eagle    |
| Mr Steve Baker   | Mike Hill       |
| Harriett Baldwin | Julie Marson    |
| Anthony Browne   | Alison Thewliss |
| Felicity Buchan  |                 |

Draft Report (*Economic impact of coronavirus: the challenges of recovery*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 193 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Wednesday 9 September at 2.00 p.m.]

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

## Tuesday 31 March 2020

**Kate Bell**, Head of Rights, International, Social and Economics, Trades Union Congress; **Rain Newton-Smith**, Chief Economist, Confederation of British Industry (CBI)

[Q1–65](#)

## Wednesday 8 April 2020

**Jim Harra**, First Permanent Secretary and Chief Executive, HM Revenue and Customs; **Cerys McDonald**, Director, CV-19 policy co-ordination, HM Revenue and Customs

[Q66–151](#)

## Wednesday 15 April 2020

**Stephen Jones**, CEO, UK Finance; **Stephen Haddrill**, Director General, Finance and Leasing Association

[Q152–186](#)

**Sam Woods**, Deputy Governor, Prudential Regulation; **Sarah Breeden**, Executive Director, UK Deposit Takers Supervision; **Christopher Woolard**, Interim CEO, Financial Conduct Authority

[Q187–229](#)

## Tuesday 21 April 2020

**Kate Nicholls**, CEO, UKHospitality; **Andy Chamberlain**, Director of Policy, Association of Independent Professionals and the Self-employed

[Q230–257](#)

**Dr Gerard Lyons**, Chief Economic Strategist, Netwealth, Senior Fellow, Policy Exchange; **Ian Mulheirn**, Executive Director and Chief Economist, Tony Blair Institute for Global Change

[Q258–294](#)

## Wednesday 29 April 2020

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

[Q295–379](#)

## Monday 4 May 2020

**Amanda Murphy**, Head of Commercial Banking UK, HSBC; **Paul Thwaite**, CEO of Commercial Banking, Royal Bank of Scotland; **David Oldfield**, Group Director and CEO of Commercial Banking, Lloyds Banking Group; **Matt Hammerstein**, CEO, Barclays Bank UK; **Anne Boden**, CEO, Starling Bank

[Q380–454](#)

## Friday 15 May 2020

**Professor Philip Booth**, Professor of Finance, Public Policy and Ethics, St. Mary's University, Senior Academic Fellow, Institute of Economic Affairs; **Jagjit Chadha**, Director, National Institute of Economic and Social Research (NIESR); **Adam Posen**, President, Peterson Institute for International Economics (PIIE), Former member, Bank of England's Monetary Policy Committee; **Joshua Ryan-Collins**, Senior Research Fellow in Economics and Finance, Institute for Innovation and Public Purpose (University College London); **Karen Ward**, Chief Market Strategist, Europe, Middle East and Africa, JP Morgan Asset Management

[Q455–498](#)

## Wednesday 20 May 2020

**Andrew Bailey**, Governor, Bank of England; **Ben Broadbent**, Deputy Governor, Monetary Policy, Bank of England; **Sir Jon Cunliffe**, Deputy Governor, Financial Stability, Bank of England; **Elisabeth Stheeman**, External Member, Financial Policy Committee, Bank of England; **Jonathan Haskel**, External Member, Monetary Policy Committee, Bank of England

[Q499–545](#)

## Wednesday 3 June 2020

**Rt Hon. the Lord Darling of Roulanish**, former Chancellor of the Exchequer; **Rt Hon. George Osborne**, former Chancellor of the Exchequer; **Rt Hon. Philip Hammond**, former Chancellor of the Exchequer

[Q546–616](#)

## Tuesday 9 June 2020

**Torsten Bell**, Chief Executive, Resolution Foundation; **Paul Johnson**, Director, Institute for Fiscal Studies; **Dr Gemma Tetlow**, Chief Economist, Institute for Government; **Giles Wilkes**, Senior Fellow, Institute for Government

[Q617–661](#)

## Wednesday 17 June 2020

**Adam Marshall**, Director General, British Chambers of Commerce; **Jon Moulton**, Chair, finnCap; Lord O'Neill of Gatley

[Q662–739](#)

## Wednesday 1 July 2020

**Laurence Boone**, Chief Economist and G20 Finance Deputy, OECD; **Gita Gopinath**, Chief Economist and Economic Counsellor and Director of Research Department, IMF

[Q740–795](#)

**Wednesday 8 July 2020**

**Professor Hamish Low**, Professor of Economics, University of Oxford; **Lord Macpherson of Earl's Court**; **Bridget Rosewell CBE**, Commissioner, National Infrastructure Commission

[Q797–854](#)

**Wednesday 15 July 2020**

**Rt Hon Rishi Sunak MP**, Chancellor of the Exchequer, HM Treasury; **Dan York-Smith**, Director of Strategy, Planning and Budget, HM Treasury

[Q855–926](#)

**Wednesday 2 September 2020**

**Andrew Bailey**, Governor, Bank of England; **Dame Colette Bowe**, External Member, Financial Policy Committee, Bank of England; **Alex Brazier**, Executive Director, Financial Stability Strategy and Risk, Member, Financial Policy Committee, Bank of England; **Dave Ramsden**, Deputy Governor, Markets and Banking, Member, Monetary Policy Committee, Bank of England; **Dr Gertjan Vlieghe**, External Member, Monetary Policy Committee, Bank of England

[Q927–987](#)

## Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

EIC numbers are generated by the evidence processing system and so may not be complete.

- 1 A&M curtain fitters (Mr Mark Whittaker, Self employed curtain fitter) ([EIC0682](#))
- 2 a-n The Artists Information Company ([EIC0497](#))
- 3 Acme Artist Studios Ltd ([EIC0839](#))
- 4 ADS ([EIC0474](#))
- 5 Advertising Producers Association ([EIC0492](#))
- 6 Advertising Producers Association ([EIC0001](#))
- 7 Aeromet International Limited (Mr Howard Kimberley, CEO) ([EIC0161](#))
- 8 Aesthetica Ltd (Audra Humphrey, Owner director) ([EIC0409](#))
- 9 Age UK ([EIC0747](#))
- 10 Age UK (Angela Kitching and Hannah Pearce, Angela Kitching and Hannah Pearce) ([EIC0002](#))
- 11 Age UK (Robert Henderson, Senior Public Affairs Manager) ([EIC0463](#))
- 12 Aiken, Mr Adam ([EIC0649](#))
- 13 Airbus ([EIC0803](#))
- 14 Airport Operators Association ([EIC0003](#))
- 15 Allardyce, Mr Ian ([EIC0569](#))
- 16 AMIFA Limited (Mr Jerry Williams, Managing Director) ([EIC0648](#))
- 17 Anderson, Mr Gavin ([EIC0675](#))
- 18 Anderson, Ms Rachel ([EIC0675](#))
- 19 Ann Summers (Miss Ashton Reynolds, Allocator) ([EIC0742](#))
- 20 Annis, Mrs Victoria ([EIC0453](#))
- 21 Anonymous ([EIC0578](#))
- 22 Aris, Mrs (Small Business Owner) ([EIC0820](#))
- 23 Arts Scape Limited (trading as ArtsScape) ([EIC0808](#))
- 24 ASLI (Association of Sign Language Interpreters) ([EIC0475](#))
- 25 Association of Circus Proprietors (ACP) ([EIC0004](#))
- 26 Association of Convenience Stores ([EIC0810](#))
- 27 Association of Genealogists and Researchers in Archives ([EIC0048](#))
- 28 Association of Illustrators (The AOI) ([EIC0498](#))
- 29 Association of Illustrators (The AOI) ([EIC0459](#))
- 30 Association of Illustrators Limited ([EIC0005](#))
- 31 Association of Independent Museums ([EIC0006](#))
- 32 The Association of Independent Professionals and the Self-Employed ([EIC0045](#))
- 33 Association of Independent Showmen ([EIC0499](#))

- 34 Association of Independent Showmen ([EIC0007](#))
- 35 Association of Independent Venue Producers ([EIC0440](#))
- 36 Association of Lighting Designers ([EIC0010](#))
- 37 The Association of Optometrists (Mr Tony Stafford, Policy Director) ([EIC0388](#))
- 38 Association of Photographers ([EIC0826](#))
- 39 Association of Photographers Limited ([EIC0011](#))
- 40 Association of Professional Staffing Companies (Global) Ltd ([EIC0437](#))
- 41 Association of Scotland's Self-Caterers (Fiona Campbell, Chief Executive) ([EIC0429](#))
- 42 Association of Scottish Genealogists & Researchers in Archives ([EIC0500](#))
- 43 Association of Scottish Genealogists & Researchers in Archives ([EIC0012](#))
- 44 Association of UK Payment Institutions ([EIC0501](#))
- 45 Association of UK Payment Institutions ([EIC0548](#))
- 46 Authors' Licensing and Collection Society ([EIC0123](#))
- 47 Authors' Licensing & Collecting Society ([EIC0170](#))
- 48 Avanti Cars (Mrs Janet Platten, Partner) ([EIC0878](#))
- 49 Badder, Miss Zoe ([EIC0559](#))
- 50 Badder, Zoe ([EIC0150](#))
- 51 Bagnall, Mr Patrick ([EIC0228](#))
- 52 Balmain, Paul ([EIC0520](#))
- 53 Barker, Mr Ed ([EIC0396](#))
- 54 Barker, Mr Ed ([EIC0396](#))
- 55 Bates, Mr Simon ([EIC0626](#))
- 56 Batt, Mr Bruce Nicholas ([EIC0327](#))
- 57 Beaufort House Chelsea Limited (Mr Simon Oldham, Director) ([EIC0317](#))
- 58 Bectu ([EIC0014](#))
- 59 Bedwell, Mrs Tracy ([EIC0644](#))
- 60 Bettes, Mr Nick ([EIC0299](#))
- 61 Betting and Gaming Council ([EIC0015](#))
- 62 Beyond Books Media Ltd (Mr Anthony Higginson, owner/director) ([EIC0273](#))
- 63 Bikebox Online Ltd (Mr Kerr Mackie, Managing Director) ([EIC0690](#))
- 64 Bilverstone, Hannah ([EIC0164](#))
- 65 Birkdale Acupuncture ([EIC0700](#))
- 66 Bitz 'n' PC'z Ltd (Mr Kevin Walker, Director) ([EIC0267](#))
- 67 Black Dog Post Production (Mr Adam Harvey, Editor TV/Film) ([EIC0725](#))
- 68 Blake, Mr Stuart ([EIC0199](#))
- 69 Blundell, Mr Jack ([EIC0818](#))
- 70 Board of Deputies of British Jews ([EIC0016](#))

- 71 Bookham Chartered Physiotherapy Limited (Mrs Katy Trott, Practice Manager) ([EIC0279](#))
- 72 Brace Design Limited (Mr Jayson Winters, Director) ([EIC0205](#))
- 73 Bradbury, Mr Chris ([EIC0710](#))
- 74 Breen, Mr Alistair ([EIC0607](#))
- 75 The Bridge Group ([EIC0531](#))
- 76 Bridge Group ([EIC0080](#))
- 77 Bridle, Mr David ([EIC0274](#))
- 78 Brilliant White Solutions Ltd (Simon White, Director) ([EIC0345](#))
- 79 Bristol InfoTech Solutions Limited/Classic Connections (Mr Michael Platten, Director/ Partner) ([EIC0868](#))
- 80 British Beer and Pub Association ([EIC0081](#))
- 81 British Beer and Pub Association ([EIC0450](#))
- 82 British Chambers of Commerce ([EIC0789](#))
- 83 British Cider Makers ([EIC0017](#))
- 84 British Dental Association ([EIC0767](#))
- 85 British Film Institute ([EIC0870](#))
- 86 British Photographic Council ([EIC0503](#))
- 87 British Private Equity and Venture Capital Association ([EIC0079](#))
- 88 British Retail Consortium ([EIC0454](#))
- 89 Brownhill Nurseries Ltd. (Mr Crispian Huggill, Director) ([EIC0599](#))
- 90 Buckeridge, Corin ([EIC0821](#))
- 91 Callander, Mr Ryan ([EIC0306](#))
- 92 Campaign for Broadcasting Equality CIO ([EIC0018](#))
- 93 Canavan, Sarah ([EIC0426](#))
- 94 Cancer Research UK ([EIC0861](#))
- 95 Cannon ([EIC0266](#))
- 96 Caruso ([EIC0743](#))
- 97 Causeway Boats (Skipper Richard Connor, owner) ([EIC0333](#))
- 98 Centre for Microsimulation and Policy Analysis (CeMPA), University of Essex ([EIC0855](#))
- 99 Centre for the Study of Media and Culture in Small Nations, University of South Wales ([EIC0082](#))
- 100 Chan, Adam ([EIC0150](#))
- 101 The Change Group International Plc (Mr sacha zackariya, CEO) ([EIC0486](#))
- 102 Chapman, Ms Sarah ([EIC0298](#))
- 103 Charity Tax Group ([EIC0019](#))
- 104 Chartered Institute of Management Accountants (CIMA) (Mr Ross Archer, Lead Manager – Public Policy) ([EIC0556](#))
- 105 Chartered Institute of Taxation ([EIC0020](#))

- 106 The Children's Society (Mr Mark Russell, Chief Executive) ([EIC0283](#))
- 107 Citizens Advice ([EIC0506](#))
- 108 Citizens Advice ([EIC0021](#))
- 109 Citizens Advice Scotland ([EIC0860](#))
- 110 City of London Corporation ([EIC0863](#))
- 111 City of London/Innovate Finance Fintech Strategy Group (Iain Anderson, Chair) ([EIC0504](#))
- 112 Clarke, Louize ([EIC0688](#))
- 113 CLIC Sargent ([EIC0451](#))
- 114 Cohen, Robert ([EIC0230](#))
- 115 Coleman, Dr Nathaniel Adam Tobias ([EIC0191](#))
- 116 Collective Voice ([EIC0023](#))
- 117 Colley, Mr Ian ([EIC0773](#))
- 118 Collins, Deloris ([EIC0718](#))
- 119 Colliss Harvey, Ms Jacky ([EIC0156](#))
- 120 Comfort Health (Mr Matt Comfort, Director) ([EIC0227](#))
- 121 Commedia of Errors Theatre Company (Ms Sally Visick, Chair of Board) ([EIC0430](#))
- 122 Community Leisure UK (Cate Atwater, Chief Executive Officer) ([EIC0524](#))
- 123 Community Leisure UK (formerly Sporta) ([EIC0024](#))
- 124 Community Union ([EIC0740](#))
- 125 Community Union ([EIC0025](#))
- 126 Concept Designs (Scotland) Ltd (Mrs Julie Reid, Co-Owner) ([EIC0309](#))
- 127 Connor, Caroline ([EIC0288](#))
- 128 Construction (Mr Luke Duggan, Carpenter/joiner) ([EIC0686](#))
- 129 Coombes, Miss Jane ([EIC0421](#))
- 130 The Corporate Finance Network (Ms Kirsty McGregor, Chairman) ([EIC0141](#))
- 131 Countryside Alliance ([EIC0026](#))
- 132 Coventry University (Dr Lorenzo Pasculli, Associate Head of Research at Coventry Law School and Associate of the Centre for Financial and Corporate Integrity) ([EIC0792](#))
- 133 Creative Industries Federation ([EIC0493](#))
- 134 Creative Industries Federation ([EIC0047](#))
- 135 Creative Industries Federation ([EIC0027](#))
- 136 Creative Industries Federation ([EIC0561](#))
- 137 Crick, Miss May ([EIC0311](#))
- 138 Cultural Sector organisations and individuals ([EIC0028](#))
- 139 Culture Central ([EIC0507](#))
- 140 Cystic Fibrosis Trust ([EIC0029](#))
- 141 Daffodil Soup Ltd (Ms Linda Galloway, Director) ([EIC0739](#))

- 142 Daly, P ([EIC0148](#))
- 143 Darragh Neely Ltd (Mr Darragh Neely, Managing Director) ([EIC0400](#))
- 144 Darton, MR Paul ([EIC0206](#))
- 145 Davies, Mr William Huw ([EIC0624](#))
- 146 Davis, Michael ([EIC0195](#))
- 147 Davis, Mr Gary ([EIC0699](#))
- 148 Davis, Mr Stephen ([EIC0615](#))
- 149 Davis, Mr Gary ([EIC0302](#))
- 150 De'Ath, Lauren ([EIC0291](#))
- 151 Dean, Mrs ([EIC0290](#))
- 152 Design and Artists Copyright Society ([EIC0536](#))
- 153 Design Construct & Exhibitions Group Ltd (Mr David Cox, Chairman) ([EIC0183](#))
- 154 Directors UK ([EIC0030](#))
- 155 Directors UK (Mrs Victoria Morris, Head of Communications and Public Affairs) ([EIC0435](#))
- 156 Douglas, Lady Alice ([EIC0261](#))
- 157 Dr Jennifer H Cearns ([EIC0886](#))
- 158 Dry, Mrs Patricia ([EIC0177](#))
- 159 Dufton, Mr Raymond ([EIC0574](#))
- 160 DYCE Engineering Services Ltd (Mr David Yates, Managing Director) ([EIC0592](#))
- 161 Elianna Business Strategies Ltd (Ms Tracy Griffiths, MD) ([EIC0250](#))
- 162 Embado Ltd (Rory Jenkins, Owner and Director) ([EIC0204](#))
- 163 emBold Ltd (Ms K McGhee, MD) ([EIC0793](#))
- 164 Enterprise Investment Scheme Association (Mark Brownridge, Director General) ([EIC0126](#))
- 165 Enterprise Nation ([EIC0508](#))
- 166 Enterprise Nation ([EIC0031](#))
- 167 Entrepreneurs Network ([EIC0083](#))
- 168 Epic Photobooths (Mrs Michelle Holding, Owner (sole trader)) ([EIC0293](#))
- 169 EPS Associates Ltd (Eleanor Parnell-Smith, Owner/director) ([EIC0367](#))
- 170 Equity ([EIC0032](#))
- 171 Equity (Ms. Louise McMullan, Head of the General Secretary's Department) ([EIC0394](#))
- 172 ES Promotions (Mrs Alison Starmer, Director) ([EIC0251](#))
- 173 Escott, Harry ([EIC0219](#))
- 174 Evans, Mr Gary ([EIC0380](#))
- 175 Evans, Time Back Accounts & Payroll Ltd Amanda ([EIC0344](#))
- 176 Everitt, Ms Sharon ([EIC0477](#))
- 177 Evolve Housing + Support ([EIC0033](#))

- 178 ExcludedUK ([EIC0678](#))
- 179 Fabian Computers Ltd ([EIC0586](#))
- 180 Falconer, Mr Andrew ([EIC0341](#))
- 181 Federation Master Builders ([EIC0127](#))
- 182 Federation of Scottish Theatre ([EIC0034](#))
- 183 Federation of Small Businesses ([EIC0869](#))
- 184 Finance & Leasing Association (FLA) ([EIC0035](#))
- 185 Finance & Leasing Association ([EIC0154](#))
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