House of Commons

Treasury Committee

Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee’s Eighth Report of Session 2019–21

Fifth Special Report of Session 2019–21

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The Treasury Committee

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Fifth Special Report

On 11 September 2020, the Treasury Committee published its Eighth Report of Session 2019–21, *Economic impact of coronavirus: the challenges of recovery* (HC 271). On 3 November 2020 we received the Bank of England's response to the report, and on 16 November 2020 we received the Government Response, both of which are appended below.

Appendix 1: Government Response

Thank you for sending a copy of your recent report *Economic impact of coronavirus: the challenges of recovery.* This letter constitutes HM Treasury's response on the broad range of issues mentioned in your report.

Throughout this crisis, the government's economic priority has been to protect people's jobs and livelihoods. The government has spent over £200 billion to protect jobs and businesses. Since the publication of your report, the Prime Minister has announced new national restrictions that will prevent further spread of the virus.

In response to these restrictions, the government is extending a generous and broad ranging support package for individuals and businesses. This includes:

- **Extending the Coronavirus Job Retention Scheme:** The Coronavirus Job Retention Scheme (CJRS) has been extended until March 2021. The scheme operates on the same terms as the previous scheme and mirrors the levels of support available under the scheme in August–this means that the government will pay 80 per cent of wages up to a cap of £2,500 for hours not worked. Employers do not have to make any contribution to their employees' wages for the hours not worked - they will only be asked to cover National Insurance and Employer pension contributions, which for the average claim accounts for just 5 per cent of total employment costs (or £70 per employee per month).

- **Support for self-employed:** the government has provided more generous support to the self-employed. We are now increasing government support to the self-employed to an overall level of 80 per cent of average trading profits for the third SEISS grant, covering November 2020 to January 2021. The maximum grant will now increase to £7,500. The government has already announced that there will be a fourth SEISS grant covering February to April 2021. The government will set out further details, including the level of the fourth grant, in due course.

- **Support for local businesses in England:** Businesses which are forced to close due to the new restrictions will receive up to £3,000 per month–this is worth over £1 billion a month under the new national restrictions and will benefit over 600,000 businesses. Businesses in the hospitality, leisure and accommodation sectors that have been suffering from reduced demand for a while will receive back dated grants at 70 per cent of the value of closed grants (up to £2,100 per month) for this period. We are also providing one-off funding of £1.1 billion to local authorities to further support businesses more broadly over the coming months.

- **Funding for Local Authorities:** Up to £500 million will be provided to local councils for local public health initiatives, such as additional contact tracing, testing for hard-to-reach groups and communications. The Contain Outbreak Management Fund has already supported several English Upper Tier Local Authorities to fund local public health initiatives. Where necessary, they will have this funding topped up to a maximum of £8 per head of population. If they have not received any to date, they will be entitled to the full £8 per head.

- We are also providing additional funding to local authorities to **support the Clinically Extremely Vulnerable** now that revised guidance is in place nationally. Funding will be provided of up to £14.60 per Clinically Extremely Vulnerable person for the 28-day period that the restrictions are in force. We will review this funding after the 28-day period should the strictest guidance remain in place in any one area once that 28-day period is over.

- **Mortgage payment holidays:** Mortgage payment holidays will continue to be available for homeowners. Borrowers who have been impacted by coronavirus and have not yet had a mortgage payment holiday will be entitled to a six-month holiday and those that have already started a mortgage payment holiday will be able to top up to a maximum of six months without this being recorded on their credit file. The FCA published draft guidance on 2 November with further details on the scheme, including how customers can continue to apply for this support. The FCA will also provide a similar extension for consumer credit products, such as personal loans and car finance.

- **Extension of our loan schemes:** We have extended our loan schemes–the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, Coronavirus Large Business Interruption Loan Scheme and the Future Fund–to the end of January 2021. We will also adjust the Bounce Back Loan Scheme rules to allow those businesses who have taken out less than their maximum (i.e. less than 25 per cent of their turnover) to top-up their existing loan. Businesses will be able to take up this option from next week; they can make use of this option once.

- Even prior to the extension, over 1 million businesses had been supported by the Bounce Back Loan Scheme, many of which have not previously taken out finance. The government has always been clear that these are loans, not grants, but it has also given businesses flexibility in repaying them, by extending the repayment terms to 10 years under the Pay as you Grow initiative, reducing the monthly repayments by almost a half. Under this scheme, we have also given businesses the option to move temporarily to interest-only payments for a six-month period or to pause their payments entirely for six months. For those who choose to use their Pay as you Grow options, the government will ensure their credit files are not adversely impacted.

- **Support in Scotland, Wales and Northern Ireland:** The extension of CJRS, SEISS, Loans and Mortgage Holidays are all UK wide and funding to local authorities and businesses are England-only so will attract Barnett consequentials. Rather than provide the devolved administrations with Barnett funding on an ad-hoc basis as we respond to coronavirus, we have sought to give them certainty over their funding for the year upfront. That is why we provided the devolved administrations with a £12.7 billion upfront funding guarantee in July to enable them to decide how and when to provide support in devolved areas in Scotland, Wales and Northern Ireland. We increased this guarantee to £16 billion on 5 November.

Universal Credit

On your recommendation regarding extending the generosity and accessibility of Universal Credit, the government has also been supporting individuals through enhanced welfare provisions, as noted in your report. The £20 increase in the standard Universal Credit award will continue until April 2021. The government has also put in place a substantial package of support for those told they must self-isolate, including enhanced Statutory Sick Pay and the Test and Trace Support Payment, for those in employment or self-employed on low incomes who are told to self-isolate and who cannot work from home.

Our economic support package is one of the most generous in the world. Despite this, we recognise that no government can fully alleviate the hardships of this pandemic. We remain alert to the needs of people and stand ready to adapt our approach to match the situation.

Recapitalisation of SMEs

In relation to your comments on recapitalisation of SMEs, the government has always been clear the private sector should be the first port of call for any business looking to refinance or restructure their debt. The government welcomed TheCityUK's Recapitalisation Group report on supporting businesses through the economic recovery as a useful contribution to discussions on how businesses can be best supported through this difficult time. Whilst we have considered their proposals, alongside similar suggestions in your report such as contingent tax liabilities and student loan type structures, we remain of the view that accredited lenders, not the government, are best placed to support borrowers repay government-guaranteed loans. The government recognises the creativity and insight that industry brings to these discussions, so we welcome further ideas and initiatives, led by the private sector, to recapitalise businesses.

British Business Bank

The British Business Bank (BBB) has also been a key element of the government's response to the COVID-19 crisis. It has responded swiftly to the economic shock caused by the pandemic and continues to deliver financial support to businesses on an unprecedented scale, alongside other government and Bank of England interventions. The government will consider what lessons can be learnt from this experience in order to inform the next phase of the recovery and beyond. As part of its normal operations the government has also always considered providing support to strategically important companies that can reasonably be expected to have a long-term viable future, and whose failure or distress could cause disproportionate harm to the UK economy or society. Companies must have exhausted all other options before being considered, and any support given is on terms that protect the taxpayer, with existing lenders and shareholders expected to contribute to, and share in, the financial burden. Companies receiving support also need to agree to appropriate conditions, including those relating to tax, supplier payment terms, climate change and corporate governance.

Kickstart

On your comments on the Kickstart scheme, I would highlight that gateway organisations, who collect bids on behalf of employers who require fewer than 30 roles, play a vital role in ensuring smaller employers find the Kickstart process easier to manage. DWP implemented a new system to allow organisations to register with the government and be included in an online list of Kickstart gateways. To date almost 500 organisations have registered as gateways, including The Federation of Small Businesses. The FSB's National Chairman Mike Cherry said, 'We have successfully worked with the government to develop the new Kickstart Scheme, and help small employers be part of the solution.' As the Kickstart scheme is rolled out, the government will continue to respond and adapt to ensure it delivers the greatest impact for employers and young people.

Insurance

On your suggestion regarding pandemic insurance cover, HM Treasury is working closely with insurers, trade bodies and the regulators to understand what more the sector can do to help businesses and support the immediate economic recovery, as well as to learn lessons for potential future pandemics. HM Treasury also remains in close contact with the Prudential Regulation Authority following the test case judgement to monitor the solvency of the insurance sector and will take all necessary steps to maintain financial stability.

Levelling up

With regards to your recommendation on levelling up, the government is committed to levelling up opportunity in every region and nation of the UK and levelling up represents a common priority across departments, both in what they do and how they do it. For example, the government intends to establish a new approach to link departments' spending proposals to the outcomes they intend to achieve as part of a new Public Value Framework (PVF). HMT announced at Budget 2020 that the government is currently developing the medium- to long-term priority outcomes that it is seeking to deliver for priorities such as levelling-up, as well as the metrics that will be used to measure and improve performance against these outcomes. The government also intends to make decisions differently: for example, we are currently undertaking a review of the Green Book, and at Budget 2020, the Government committed to relocating 22,000 civil service roles from London and the Southeast to the rest of the UK by 2030.

On your recommendation regarding the OBR's role in monitoring levelling-up, the OBR have a clearly defined mandate, outlined in the Budget Responsibility and National Audit Act 2011. As part of this, the OBR's responsibilities are examining and reporting on the sustainability of the public finances at a national level although they do undertake work on a sub-national level; they publish devolved tax and spending forecasts alongside each of their main UK forecasts and provide the Welsh Government with independent scrutiny of its forecasts in the Welsh taxes outlook. There have been three reviews of the OBR to date, all of which have recommended caution be exercised in considering the expansion of the OBR's mandate. The OECD Review published in September 2020 highlighted mission creep as one of four ongoing and potential risks for the OBR, highlighting how additional responsibilities could change the character of the OBR from the focused and agile institution it currently is.

The Bank of England's network of agents provide the Monetary Policy Committee (MPC) with a view of economic conditions and prospects across the UK. This helps inform the MPC's decisions in order to achieve price stability for the UK as a whole (measured by the 2% CPI inflation target). The remit of the MPC is set by the Chancellor and is reaffirmed yearly. Subject to achieving the primary objective of price stability, the MPC's remit also requires it to support the government's economic objectives for strong, sustainable, balanced growth, which includes levelling up opportunity in all regions of the UK.

International support

On your recommendation concerning international support, I can assure you support for the most vulnerable countries suffering from the devastating health and economic impacts of the pandemic remains a key focus for the UK government. We have committed over £1 billion of UK aid so far, including £306 million to build resilience in vulnerable countries. The UK government championed the development of the Debt Service Suspension Initiative (DSSI) through the G20 and Paris Club of official creditors. This landmark initiative has to date made available around an additional $5 billion to requesting low-income countries so they can focus resources on their coronavirus response, and has been extended for a further six months.

With regards to UK support for the IMF's response to COVID-19, I strongly agree with the importance of ensuring the IMF has sufficient resources to respond to the crisis. The IMF has confirmed that it is currently adequately resourced, with a total lending capacity of about £1 trillion and resource demands will be kept under review. The government has recently passed legislation to increase the UK commitment to the IMF's resources by £4.7 billon, in line with a 2019 agreement negotiated amongst IMF members. The UK has also contributed £150 millon to the IMF's Catastrophe Containment and Relief Trust (CCRT) which provides debt relief to the world's most vulnerable countries, and has committed a new additional £2.2 billion loan to the IMF's Poverty Reduction and Growth Trust (PRGT), providing the IMF with additional concessional lending capacity to support low-income countries. I agree with the committee on the importance of ensuring rapid and equitable global access to safe and effective COVID-19 vaccines, treatments, and diagnostics, including for emerging economies. The UK has led the way globally, pledging £1 billion of UK aid to end the coronavirus pandemic as quickly as possible, including the £500 million the Prime Minister announced at the UN General Assembly which supports low and middle-income countries access to any eventual COVID-19 vaccines.

Fiscal sustainability

On your recommendation about setting out a roadmap towards fiscal sustainability, given the unprecedented circumstances, it is right that the government's economic response has focused on limiting the extent to which there is permanent damage to the economy, which would lead to higher structural borrowing over the medium-term. Although this will lead to a rise in borrowing and debt in the near-term, with borrowing costs now close to record lows, this is affordable and sustainable. Over time and as the economy recovers, the government will take the necessary steps to ensure the long-term health of the public finances. The government will set out further details on its plans for sustainable and balanced fiscal policy, including a revised fiscal framework, in due course, as the economic and fiscal outlook becomes clearer.

The Treasury is continuing to monitor trends in consumer spending and our economic response will continue to evolve and adapt to ensure the economy gets the support it needs at the right time. On your comments on the Treasury's role in monitoring and evaluating the reskilling programmes, we agree that we should evaluate the effectiveness of schemes that have been put in place, and we will be putting in a framework for gathering evidence and evaluating programmes as part of the Spending Review process.

Distributional analysis

On your recommendation on publishing an updated version of our COVID-19 distributional analysis (published alongside Plan for Jobs), we have taken note and will consider doing so at an appropriate point. The modelling underpinning this analysis was designed to illustrate the extent to which cumulative government measures are mitigating falls in incomes across households of different income levels. It would be very challenging to produce this analysis to the same quality across a range of wider characteristics. Firstly, many of the characteristics we are interested in are held by individuals (e.g. gender), whereas government support, and living standards more generally, tend to be determined at household level. On gender, for example, the Institute for Fiscal Studies have said "because most people live in households with others, and we don't know how incomes are shared, it is very hard to look at effects separately for many men and women." Secondly, even where assumptions on income sharing within households are less important (e.g. for regional breakdowns), data availability and survey sample sizes can limit how meaningful and representative these results are, concealing a very wide range of outcomes within broad averages. With regards to the recommendation to "include a breakdown of how unemployment rates of these different groups have been impacted by the crisis", the Office for National Statistics already publish labour market data by various protected characteristics, including gender, age, ethnicity and disability.

Macro-forecasting

Finally, on your recommendation on the Treasury's relationship with the OBR and its role in macro-forecasting, the OBR produces independent forecasts for the Government. The Treasury does not produce forecasts for the economy or public finances. The Treasury and the OBR jointly maintain and develop a large-scale macroeconomic model, and the arrangements are set out in a Memorandum of Understanding. Beyond this, policy advice to Ministers covers the economic context, including the sectoral and regional dimensions, and draws on official ONS data and official forecasts (by the Bank of England and OBR), as well as external forecasts, to give Ministers a sense of the possible range of impact of the policy measures being considered. In looking at the economic impact on particular sectors, we draw on information provided by the relevant departments.

Thank you again for sending through your comprehensive report on the recovery from coronavirus. In this letter, I hope to have addressed your key recommendations with the actions that the government has taken and continues to take. I have described the government's work to protect jobs, our continued increased support for individuals, the comprehensive support we've provided to businesses of all sizes, our continued commitment to levelling-up, and that the government continually acts with fiscal responsibility at the heart of its actions.

Appendix 2: Bank of England Response

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)

The Bank's objectives are to achieve price and financial stability for the UK. Subject to achieving its primary objectives, the Bank is also required to support the government's economic policy objective to achieve strong, sustainable and balanced growth, in all regions and sectors of the economy. In addition, the Bank of England Act notes that the Monetary Policy Committee should collect the regional, sectoral and other information necessary for the purposes of formulating monetary policy.

The Bank draws on many sources of information when setting policy, including the very valuable information provided by the Agents and the DMP survey. The Bank's Agents collect quantitative and qualitative information from companies around the UK, and the DMP survey gathers quantitative data from a large sample of businesses.

The Bank aims to be as transparent as possible and publishes information from the Agents and DMP on a regular basis to aid public understanding. The Bank will consider whether more information could be published on a regional basis. As part of that, the Bank will reflect on some of the issues around the regional aspects of the information gathered by the Agents and DMP. For example, while the companies from which intelligence and data are gathered are often located in certain areas of the UK, many of them operate across the country. As a result, some of the information they provide will not reflect only local conditions.