Fortieth Report of Session 2022-23

HM Revenue and Customs & HM Treasury

COVID employment support schemes

Introduction from the Committee

In March 2020, in response to the COVID-19 pandemic, HM Treasury and HM Revenue & Customs (HMRC) (collectively the Departments) put in place two schemes to provide financial support for jobs adversely affected by the COVID-19 pandemic and to avoid mass unemployment. The schemes were the Coronavirus Job Retention Scheme (CJRS) for businesses and their employees, and the Self-Employment Income Support Scheme (SEISS) for the self-employed. The Departments worked together to design the schemes, with HMRC responsible for administering them.

The schemes were extended several times before closing in September 2021. In total the schemes cost £96.9 billion. The Departments distributed £68.9 billion of furlough payments through CJRS to 1.3 million employers covering 11.7 million individual jobs, and £28.1 billion over five SEISS grants to 2.9 million self-employed people. The schemes' costs include an estimated £4.5 billion of error and fraud. The first three of the five SEISS grants paid £3.5 billion to people whose self-employed income did not reduce in 2020–21. Spending on CJRS by October 2020 included £1.5 billion paid to employers whose turnover did not fall, and who would not have cut their workforce even without the grant.

In December 2020, we published our first report on these schemes as part of our inquiry into COVID-19: Support for jobs. We commended the Departments for implementing the schemes at pace, but concluded that they could have done more to widen access to workers excluded, and to evaluate the schemes' impacts on different groups and to estimate their costs. We raised concerns that the levels of error and fraud were still not known and called on HMRC to outline the steps it would take to recover grants from recipients who made substantial profits or were not adversely affected by the pandemic.

Based on a report by the National Audit Office, the Committee took evidence on 17 November 2022 from HM Revenue & Customs and HM Treasury. The Committee published its report on 8 March 2023.This is the government's response to the Committee's report.

- NAO report: Delivery of employment support schemes in response to the Covid-19 pandemic (HC 656)
- PAC report: COVID employment support schemes – Session 2022-23 (HC 810)

Government response to the Committee

1: PAC conclusion: The Departments do not have a good enough understanding of the impacts of the £97 billion of taxpayers' money they spent on the COVID-19 employment support schemes.

1a: PAC recommendation: The Departments should, by December 2023, publish their final evaluations of CJRS and SEISS, which should cover their wider impacts including on business and people who were ineligible, economic inactivity amongst the over 50s, second jobs for furloughed staff and consequences of support for those not adversely affected by the pandemic.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: by December 2023

1.2 HM Treasury and HM Revenue and Customs (HMRC) will publish the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) final evaluations by December 2023. The final evaluations will build on the evidence published in the interim evaluations in October 2022, by assessing the entire impact of the schemes up until their closure in September 2021. The final evaluations will also include a value for money assessment, including a consideration of possible deadweight, for the schemes.

1.3 Through the CJRS final evaluation, evidence will be provided on the issues raised by the Committee, where data allows. The schemes were implemented at pace, and designed in such a way as to minimise fraud and error while not unnecessarily delaying payments. The CJRS final evaluation will assess the impact on employers who did not use the scheme, as well as employees not placed on furlough, as appropriate comparators in assessing the scheme's impact. For the SEISS, the ineligible self-employed population will be assessed as part of the evaluation.

1b: PAC recommendation: The Departments should, by December 2023, work with other relevant countries to develop a better understanding of how UK unemployment support schemes and those in other comparable countries compare and publish the results.

1.4 The government agrees with the Committee's recommendation.

Target implementation date: by December 2023

1.5 HM Treasury and HM Revenue and Customs will continue their engagements with other relevant countries, to understand their experiences and the impacts of implementing similar employment support schemes. Where applicable, comparative evidence will be included in the CJRS and SEISS final evaluations.

1.6 The departments will also look to factor in wider work from independent fiscal institutions and draw on relevant analysis on cross-country approaches.

2: PAC conclusion: Gaps and lags in HMRC's data contributed to the schemes providing excessive support to some, while others in need were ineligible.

2: PAC recommendation: The Departments should set out, by July 2023, their priorities for obtaining data which would enable the better targeting of economic support. In doing so, they should consider how they can keep burdens on customers proportionate.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 From July to October 2022, the government consulted on options for improving the range of data HMRC collects, uses and responsibly shares across government, to provide an accurate and up to date picture of citizens and businesses. Some options were focused on specific customer groups, such as the self-employed, whilst others proposed collecting a particular piece of information across different customer groups (e.g., occupation).

2.3 Following careful consideration of the views of respondents to the consultation, the government published a response on 27 April 2023. This set out a measured and proportionate approach to prioritising the collection of data that customers already hold, including specific options that will be taken forward in a future Finance Bill with the intention to collect this data from April 2024.

2.4 The government will prioritise three options: collection of data on employee hours worked via Real Time Information PAYE reporting, dividends received from owner-managed businesses via the Self-Assessment return and start and end dates of self-employment, as set out in the consultation. The government also previously set out plans for the introduction of Making Tax Digital for Income Tax, which will provide a more up-to-date data picture of the income and expenditure levels of self-employed customers with a qualifying income of more than £50,000 per annum from 2026 and £30,000 from 2027, through quarterly updates.

2.5 The government will continue to review the data it collects to ensure future policy measures requiring economic support are effectively targeted whilst also balancing the cost of collection.

3: PAC conclusion: HMRC's performance in recovering the £2.3 billion incorrectly paid to employers claiming furlough for employees who continued to work has been woeful.

3: PAC recommendation: HMRC should set out, in its Treasury Minute response, how it will improve its ability to recover furlough claimed for employees who continued to work.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2024

3.2 HMRC will continue to address COVID-19 schemes compliance risks where it is cost effective to do so. Following two years of a taskforce approach, targeting the highest value and riskiest claims, HMRC will transition COVID-19 scheme compliance activity to be worked alongside business-as-usual tax compliance by September 2023. This is the most cost-effective way to ensure taxpayers' money continues to be protected and recovered, as it enables HMRC to deal with all aspects of a customer's potential non-compliance in a single check.

3.3 With the schemes closed, as action has already been taken on the riskiest claims, HMRC expects to start seeing diminishing returns, with cases of lower value and risk in the pipeline – such as the remaining profile of 'employers claiming for employees who are working'. Therefore, HMRC has assessed that it is more cost effective for these risks to be worked on alongside business-as-usual tax compliance activity. This approach enables HMRC to deal holistically and efficiently with all aspects of a customer's potential non-compliance issues, related to the COVID-19 schemes and more widely.

3.4 HMRC has developed a unit of expertise to ensure that knowledge gained in tackling COVID-19 scheme risks as part of the taskforce can be used to support the wider business-as-usual teams going forward.

4: PAC conclusion: HMRC's decision to close the Taxpayer Protection Taskforce in 2023–24 puts at risk the recovery of taxpayers' money paid out as a result of error and fraud.

4a: PAC recommendation: HMRC should continue compliance work on the COVID-19 employment support schemes while it remains cost-effective to do so. It should set out, in its Treasury Minute response, how it will assess the cost-effectiveness of continuing compliance work after September 2023, and how it would compare to addressing fraud on other government spending.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2024

4.2 Following an investment at Budget 2021, the Taxpayer Protection Taskforce (TPT) was formed to further combat error and fraud in the COVID-19 schemes. The taskforce prioritised tackling the riskiest cases. Up to February 2023, the TPT recovered over £490 million of overpaid COVID-19 employment scheme grants, in addition to the £534 million recovered prior to the taskforce being established. With the schemes closed, as action has already been taken on the riskiest claims, HMRC expects to start seeing diminishing returns, with cases of lower value and risk in the pipeline.

4.3 Therefore, HMRC has assessed that it is more cost effective to deploy TPT resource to business-as-usual tax compliance, and for COVID-19 scheme risks to be worked alongside other tax compliance activity. For 2021-22, the TPT outturn yield was around £0.20 million per full time equivalent (FTE) officer and for 2022-23 the TPT yield is forecast to be £0.28 million per FTE. This is lower than business-as-usual tax compliance work, where HMRC has delivered around £1.15 million yield per FTE in recent years.

4.4 HMRC will continue to monitor performance metrics on COVID-19 scheme compliance activity to ensure that it continues to pursue this risk whilst it remains cost effective to do so.

4.5 HM Treasury will assess the effectiveness of future counter-fraud spending proposals through both appraisal before funding is committed, and evaluation after funding is committed, using the approaches set out in the Green and Magenta books. The spending review process allows HM Treasury to compare the relative cost effectiveness of interventions in different areas.

4.6 The mandate of the Public Sector Fraud Authority (PSFA) commits them to work closely with HM Treasury to review business cases and investment bids for funding on initiatives for countering fraud to consider their effectiveness and deliverability. This means HM Treasury's appraisal and evaluation will be supported by the analysis of the PSFA's counter-fraud experts.

4b: PAC recommendation: HMRC should report annually in its Report and Accounts the yield it obtains from COVID-19 employment support schemes and the levels of unrecovered error and fraud until it stops its COVID19 grants compliance activity all together.

4.7 The government agrees with the Committee's recommendation.

Target implementation date: July 2024

4.8 As planned, HMRC has started the transition of the COVID-19 scheme compliance activity undertaken by the Taxpayer Protection Taskforce into business-as-usual tax compliance activity. Therefore, from September 2023, all COVID-19 scheme risks will be reviewed alongside business-as-usual tax risks. HMRC will continue to collect performance metrics, including yield, for the duration of the compliance activity in the COVID-19 schemes.

4.9 For 2022-23, HMRC will publish COVID-19 compliance outcomes in the upcoming HMRC Annual Report and Accounts alongside the final estimates of error and fraud within the schemes.

4.10 For future years, reporting will be in line with HM Treasury reporting requirements. Reporting COVID-19 scheme compliance outcomes will be subject to the level of on-going compliance activity and decisions on cost effectiveness.

4.11 HMRC will, however, continue to pursue compliance work on the COVID-19 schemes and maintain internal management information.

5: PAC conclusion: We are concerned that in the absence of effective criminal and civil sanctions there is little incentive for those who overclaimed COVID-19 employment support to make repayments.

5a: PAC recommendation: HMRC should increase the number of employers it penalises for making excessive claims; and incentivise other employers to repay grants they have wrongly claimed.

5.1 The government disagrees with the Committee’s recommendation.

5.2 In line with the recommendation, HMRC will continue its compliance activity on COVID-19 schemes and consider whether penalties can be charged within the legal framework. However, HMRC is unable to pre-determine case outcomes and as a result, is unable to determine whether there will be an increase in penalties in the future.

5.3 Legislation was included in Finance Act 2020 to enable HMRC to carry out compliance activities in relation to those claiming support from the COVID-19 employment support schemes. The legislation specifically provided that penalties would only be charged where grants were deliberately overclaimed. The compliance approach, supported by Parliament, was designed to recognise that claimants might make mistakes given the new and changing obligations under the schemes.

5.4 The test for charging penalties in the COVID-19 employment schemes is for HMRC to show, on the balance of probability, that the person knew either at the point of claim that they were not entitled to the Covid grant, or that they had ceased to be entitled to the grant. Penalties can only be applied where it is lawful for HMRC to issue them, and there is sufficient evidence of deliberate behaviour that could be shown in a tribunal or in court.

5.5 Since the start of compliance activity on the HMRC-administered COVID-19 employment support schemes, HMRC has charged over £12.8 million in penalties in addition to recovering over £1 billion of overclaimed support through its compliance checks. Claimants also have the chance to put things right, without fear of sanctions by repaying their claim, and HMRC has received over £1 billion in repayments outside its compliance checks.

5b: PAC recommendation: HMRC should set out, in its Treasury Minute response, its estimates of the number and value of furlough claims where it suspects, but cannot prove, that employers intentionally overclaimed; and its latest data on the amounts it has recovered from those employers.

5.6 The government disagrees with the Committee’s recommendation.

5.7 HMRC already publishes an estimate of the value of fraudulent claims, and data about the amounts recovered from employers who made incorrect claims, which partly meets this recommendation.

5.8 HMRC is unable to identify or pre-determine behaviours that resulted in an overpayment based on the risk data alone and can only do so through evidence gathered during its compliance checks. Therefore, HMRC cannot set out an estimate of instances where it suspects, but cannot prove, that employers have intentionally overclaimed.

5.9 HMRC opens compliance checks into COVID-19 claims where it identifies there is a potential overpayment of the grant. This is based on a risk profile developed through intelligence gathered and bulk data analysis.

5.10 HMRC's compliance approach is to support claimants who have made honest mistakes to come forward without fear of penalty and to penalise those who deliberately set out to misuse the schemes.

5.11 The government was clear when it introduced the legislation in Finance Act 2020 that HMRC would not penalise those who had made honest mistakes when claiming COVID-19 scheme grants. In this situation HMRC can recover 100% of the overpaid grant to put things right.

5.12 Up to February 2023, HMRC has undertaken over 58,000 compliance interventions into the furlough scheme and recovered over £762 million.

6: PAC conclusion: The Departments have yet to fully capture the lessons that must be learnt from the employment support schemes to inform future large-scale government financial interventions.

6: PAC recommendation: The Departments should, by December 2023, publish the lessons that can be learned from the schemes for large-scale financial interventions in the future, and what actions they will take as a result.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: by December 2023

6.2 HM Treasury and HM Revenue and Customs will always look to learn lessons from any major economic events or interventions. The departments will include lessons learned, where appropriate, from the CJRS and the SEISS in the final evaluation reports to be published in 2023.

6.3 HM Treasury and HMRC have developed CJRS and SEISS playbooks, allowing for the rapid deployment of new employment and income support schemes in the future, if required. These playbooks are kept updated and will be amended as necessary upon publication of the CJRS and SEISS evaluations, considering lessons learned and key takeaways.

6.4 Decisions on future large-scale financial interventions – should they be needed – will be for Ministers at the time, based on the circumstances of the economic shock the country is facing. When producing future policy advice, HM Treasury and HMRC officials will consider a full range of feasible approaches, using the playbooks to do so.