HM Treasury

Tom Scholar
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

www.gov.uk/hm-treasury

Rt Hon Mel Stride MP
Chair of the Treasury Committee
House of Commons
London
SW1A 0AA

22 December 2020

Dear Mr Stride

Following the Committee hearing on 11 November on 'the work of HM Treasury', I am writing to reply to various questions raised by the Committee.

Analysis and Statistics

The Committee asked about the economic analysis prepared by the Treasury to support government decisions on the response to the pandemic, and I undertook to consult ministers and write in response. As you know, the government has now published its analysis of the health, economic, and social effects of COVID-19 and the approach to tiering, in the COVID-19 Winter Plan on 30 November. The Chancellor has also written to you about this, in his letter of 14 December.

The Committee asked about the DHSC and ONS publication *Direct and Indirect Impacts of COVID-19 on Excess Deaths and Morbidity*. The Treasury discussed this work with the ONS and DHSC on several occasions. To carry out their modelling, they needed assumptions on two key macroeconomic aggregates, GDP and unemployment. We explained that the Treasury does not prepare economic forecasts, but discussed with them the range of external forecasts, and the scenario analysis which the OBR published in July, and which the ONS and DHSC ultimately used as the basis for the modelling in Annex D of their paper.

Coronavirus Job Retention Scheme

The Committee asked about the cost of the extension to the Coronavirus Job Retention Scheme (CJRS). The OBR estimates that this extension will cost £22.1 billion in total and support a peak of up to 6 million jobs in November (declining thereafter). This forecast was not available at the time the decision was made, but we were able to use the average cost of the scheme during the spring lockdown (around £7.5 billion a month) as a guide. The final cost will be determined by the number of people furloughed and the average cost for each furloughed employee.

The Committee asked about the number of redundancies in the period before the furlough extension and the number of people subsequently reinstated to furlough. Staff can be reinstated to furlough if they were employed as of 23 September 2020 and on payroll (i.e. notified to HMRC on an RTI submission on or before 23 September), and were made redundant or stopped working for their employer afterwards; they can also qualify for the scheme if their employer re-employs them. It is not possible to say how many people were made redundant and then re-furloughed as HMRC are not notified of that information. According to ONS statistics[1], across the whole economy there were 314,000 redundancies in the three months prior to September, but we do not have official statistics on previously furloughed employees who were made redundant and then re-employed or re-furloughed by the same employer.

Spending control

The Committee asked about the spending framework. Since the start of the Covid-19 crisis, the Treasury has sought to ensure that all necessary responses to the crisis are properly resourced, working within the normal spending framework and the principles set out in *Managing Public Money*. The government has established some new decision-making structures to process approvals rapidly, while still applying scrutiny to manage risk. In some cases this has meant increasing departmental delegated spending limits, with additional conditions and governance. Additional safeguards are provided by partner functions in Cabinet Office through the formal delegation of specialist controls.

The Committee asked about compliance with Cabinet Office controls on contracts. Cabinet Office spending controls apply to major contract awards (typically above £10 million) across central government to ensure compliance with commercial standards. In 2020-21, the Cabinet Office has reviewed 282 business cases incorporating planned contracts worth approximately £100 billion. This has included a significant number of contracts required as part of the response to Covid-19, including vaccines and testing. On 19 November the Cabinet Office published a statement[2] on government procurement in the pandemic, following the recent NAO report. This set out that 'all procurement has been done under existing procurement regulations, which predate the pandemic and explicitly allow for emergency procedures'; and that 'the government has rigorous due diligence and robust processes in place for contracts; these processes are led by impartial officials with commercial expertise and as the NAO acknowledged, they found no evidence ministers were involved in procurement decisions'. The Cabinet Office are committed to learning lessons from recent experience, and will be addressing the report's recommendations in due course, and the Treasury will be working with them on that.

---

1 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2020

2 https://www.gov.uk/government/news/statement-on-government-procurement-following-this-weeks-nao-report

Covid related spending

The Committee asked how the Treasury had assessed the effectiveness of Personal Protective Equipment (PPE) spending and asked for details on the funding provided.

From the start of the pandemic, the Treasury provided DHSC with delegated funding to support their procurement of PPE. The increased delegated funding came with additional conditions and reporting requirements, the purpose being to support the rapid action needed, while ensuring that as robust a procurement process as possible was followed in the time available. DHSC made several requests for additional funding, and on each occasion the Treasury reviewed progress on the delegated fund and the supply and demand of PPE before advising ministers.

On 2 June the Chief Secretary agreed to raise the delegated PPE envelope to £13.8 billion[3], following a further review and Treasury agreement that there was an urgent need for the additional funding, based on DHSC demand estimates. Additional governance and assurance arrangements were also established, to provide constructive challenge and scrutiny. The programme has now stabilised the UK PPE supply chain and stockpile, and secured PPE supply for the winter within the envelope provided.

The Committee also asked about the amount spent on Test and Trace and the amount set aside for the mass testing initiative. The government's testing strategy was set out in the Winter Strategy document published on 23 November. This includes regular (twice weekly) testing of high-risk individuals, including in the NHS and adult social care (staff, residents, and visitors), and the Community Testing initiative for local authorities in tier 3. In 20/21, the Treasury has allocated £22 billion for Test and Trace with a further £15 billion in 21/22. These allocations cover all activities including those relating to mass testing. The government will keep the NHS Test and Trace budget under review, closely aligning plans with the distribution of vaccines.

As set out in the Spending Review document, £16 billion has also been allocated to the devolved administrations (DAs), to support their Covid-19 response; Barnett consequentials of the England-only spending for PPE and Test, Trace, Contain and Enable (TTCE) are included within this. This money is added to the block grants, and the DAs can spend it as they wish across their devolved responsibilities.

The Committee asked about Eat Out to Help Out and measures to ensure that it was safe. All businesses eligible for support under the scheme were required to make their premises safe and Covid-compliant by implementing all applicable health and safety measures, including social distancing guidelines. The scheme was designed to boost demand when it is typically lowest – during the week, Monday-Wednesday – rather than at the weekend

3 In addition to the £13.8 billion envelope, £1.375 billion for freight, logistics and warehousing has been supplied on an England-only basis. See *Table 2.1: Covid-19 spend summary (Total DEL) - public services* in the Spending Review document.

when restaurants are much more likely to be crowded. It did not include spending on alcohol.

External wall fire review (EWS1) certificates

The Committee asked about external wall fire review (EWS1) certificates for those living in cladded properties. The Treasury is working closely with MHCLG and the FCA on supply and demand issues with regard to EWS1 forms. The government recently announced £700,000 funding to enable more assessors to qualify to undertake EWS1 assessments. The intention is to train an additional 2,000 assessors within 6 months, to speed up the valuation processes where EWS1 forms are required.

In addition MHCLG, working with the Treasury, the Royal Institute of Chartered Surveyors and lenders, is encouraging surveyors to take a more proportionate approach and reduce the number of buildings where an EWS1 assessment is needed. The Treasury, FCA and MHCLG work closely together to ensure a common understanding of the regulatory responsibilities mortgage lenders have when assessing the affordability of a mortgage for a borrower. The Treasury is also working with MHCLG and industry to address concerns about the availability of professional indemnity insurance.

Financial Services

The Committee asked about the Financial Services consultation, and the possible future role of ministers in financial regulation policy development. The Treasury's consultation on the second phase of the Future Regulatory Framework (FRF) Review explores how best to ensure a robust accountability and scrutiny framework. As part of this, the consultation highlights the importance of adapting coordination arrangements between the Treasury and the regulators to become a more systematic part of the UK regime, and provides several options for stakeholders to consider, including changes to requirements in legislation and a potential Memorandum of Understanding.

The government will carefully consider all responses to the consultation, to inform a second consultation in 2021. This will include specific proposals and details on how enhanced coordination will work in practice, including the possible contribution of Ministers to policy development, and the associated framework for governance and transparency.

Tom Scholar

Tom Scholar