House of Commons

Treasury Committee

Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee's Eleventh Report

Sixth Special Report of Session 2019–21

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The Treasury Committee

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Sixth Special Report

On 15 February 2021, the Committee published its *Eleventh Report of Session 2019–21, Economic impact of coronavirus: gaps in support and economic analysis* (HC 882). On 15 April we received the Government Response, which is appended below.

Appendix: Government Response

Dear Mel,

Thank you for sending a copy of your recent report 'Economic impact of coronavirus: gaps in support and economic analysis'. This letter constitutes HM Treasury's response on the broad range of issues mentioned in your report.

The challenges faced by the UK over the past twelve months have been substantial. Responding to the emergence of a new and more transmissible variant of COVID-19, the Government took the necessary decision to increase restrictions in order to protect the NHS and save lives. The economic impacts of these restrictions have been substantial, though the impact would have been worse without the unprecedented steps the Government has taken throughout the pandemic to protect jobs and livelihoods, support businesses and boost public services across the UK.

Since the publication of your report, the Government has published its roadmap for the cautious reopening of the economy. It has also announced the Budget, which sets out the next phase of economic support to protect the jobs and livelihoods of the British people. It does so by providing security and certainty for the hardest hit sectors and workers across the UK and boosting investment and growth as the economy recovers. Taking into account the significant support confirmed at Spending Review 2020 and the Budget, total support for the economy is £352bn across 2020/21 and 2021/22 (or around 17% of 2020 GDP). Once also accounting for support provided at Spring Budget 2020, which includes a step change in capital investment, total fiscal stimulus comes to £407 billion. The Budget lays the foundations for a strong recovery and greener economy, levelling up the country and spreading prosperity across every part of the UK.

The Government's roadmap sets out a plan for lifting restrictions slowly over the coming months. The vaccine rollout is progressing at pace and vaccination of the most vulnerable groups will allow for life and work to start returning to normal.

GDP as a measure of the impact of the coronavirus

In your report, you recommend that the Treasury and the Office for Budget Responsibility provide a commentary at the time of the Budget on the use of GDP as a measure of the impact of COVID-19, and the implications that these measurement issues have for comparisons between the UK and other countries. The Government has addressed this recommendation in the Budget, which features a commentary on international comparisons of economic performance and the use of GDP as a measure. This can be found across pages 11 and 12 of the Budget document.[1]

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf

Extension of support schemes

On your recommendation regarding the Coronavirus Job Retention Scheme (CJRS) and the Self-employment Income Support Scheme (SEISS), you noted that the Government had made the right decision to extend this support to April 2021. The Government recognises that it will take longer for demand to return for some parts of the economy, and that is why we have extended CJRS and SEISS even further, until September. The CJRS has helped to pay the wages of people in 11.4 million jobs across the country, with more than £53 billion paid out in grants across the UK, protecting jobs that might otherwise have been lost. Meanwhile, the SEISS extension provides certainty to business as the economy reopens and means the SEISS continues to be one of the most generous schemes for the self- employed in the world; the fourth and fifth SEISS grants are an estimated £13.5 billion of additional support, taking total support for the self-employed to over £33 billion since the start of the pandemic.

Under the CJRS and SEISS extensions, more people will be able to access support. The Government has moved the cut-off date on which employees need to be with their employer to be eligible for the CJRS. For claims starting on 1 May 2021, the cut-off date has been moved from 30 October 2020 to 2 March 2021. This means that those employed on 2 March 2021 are now eligible for CJRS if the other eligibility criteria are met. Based on early estimates, this means around 2.4 million more employees are potentially eligible for CJRS. The Government has also announced a major improvement in access to the self-employed scheme; as the deadline for 2019–20 tax returns has now passed, HMRC will use these tax returns for the fourth and fifth SEISS grants, provided they were submitted by 2 March. This means more than 600,000 people, many of whom became self-employed in 2019–20, may now be able to claim the fourth and fifth grants, bringing the total number of people who could be eligible to 3.7 million.

At the Budget the Government also announced an additional £65 billion of further measures. This includes a new Restart Grant of up to £18,000 to over 680,000 business premises, giving small business owners the cash certainty they need to plan ahead and relaunch trading safely and effectively over the coming months.

The Government is also providing English local authorities with an additional £425 million of discretionary business grant funding on top of the £1.6 billion already allocated. This comes in addition to the extension of the previous VAT reductions and business rates reliefs for sectors heavily impacted by the pandemic, and of the temporary £20 per week increase to the UC Standard allowance for a further 6 months. The Government announced a £500 one-off payment to provide support to eligible Working Tax Credit claimants. Finally, the Government is doubling payments for apprentices to £3,000 for all new hires and providing £126 million to triple the number of traineeships next year.

This builds on an existing package which included £68 billion in affordable finance to firms through business loan schemes, a temporary £7 billion increase to welfare, mortgage holidays and help with council tax payments. This is all part of a comprehensive Plan for Jobs, protecting, creating and supporting employment in every region and nation of the UK. As the public health situation has developed, the Government has ensured that businesses and people have certainty by extending income and business support schemes.

Support for limited company directors

With regards to your recommendations on support for limited company directors, the principles underlying the Government's approach to CJRS and the SEISS are to target support to those who need it most and protect taxpayers' money against error and fraud, whilst reaching as many people as possible. Importantly, these schemes are based around matching claims submitted to data already on HMRC's systems.

3.3 million people report dividend income on their self-assessment tax returns, and we cannot accurately or fairly identify who within that population should receive support. This 3.3 million covers a diverse population including working Directors but also inactive Directors (such as the spouses or children of working Directors who are jointly listed as Directors of companies) and general investors. Given some external estimates suggest an active Director population of 710,000, providing financial support to the entire 3.3 million self-assessment population with dividend income could result in more than 3 out of 4 grants going to people for whom income support is not intended.

We also do not have data to verify what parts of a Director's income to support, as dividend income could be coming from multiple sources including investments, and not just dividends in lieu of salary. Relying on self-certification to identify Directors or determine income sources could open any scheme up to unacceptable levels of fraud and error. This means there is no practical way to identify directors who have been unable to access the SEISS or CJRS, or identify the value of support they should receive, without exposing the taxpayer to significant fraud, legal risk and poorly targeted use of public money. Similarly, the same concerns remain in relation to the Directors Income Support Scheme (DISS) proposal, which Ministers and officials in HMT and HMRC have considered at length. The DISS proposal is not workable in its current form because unlike the SEISS which is based on data from the Self-Assessment system, HMRC does not hold the necessary information that would be required to implement the DISS. The DISS would need information on who is a working Director of a company, their remuneration amount from that company, and whether they are a director of one company or several. HMRC does not hold this information.

The Government has considered using alternative datasets such as those provided by Companies House. Even with these sources of information, it is not possible to identify accurately an eligible population of companies or adequately target support to those directors in need. Any such scheme would require additional self-certification, potentially requiring significant manual operation and carrying with it a significant error and fraud risk.

You have also asked the Government to provide an assessment of the level of fraud which it believes would arise from the implementation of the DISS. The Government often considers fraud and error together where it makes sense to do so, as here. A draft error and fraud planning assumption, based on nearest proxies, suggests that the error and fraud range for the DISS is wide and could be as high as 20%.

Directors who are ineligible for the SEISS and CJRS may still be eligible for other elements of the support available, including Restart Grants, the Recovery Loan scheme, business rates relief, and other business support schemes.

Eligibility criteria for SEISS

Your report makes several recommendations regarding eligibility criteria for SEISS. You have recommended that the Government should reconsider the criteria that requires applicants to have trading profits that are at least equal to their non-trading income, in order to widen support. The design of the SEISS, including this requirement, is intended to target support at those who need it the most. HMRC data shows that of the people with profits from self-employment who do not meet the 50% self-employed income test, the majority (60%) of people had income from employment, over a third (37%) had pension income, around quarter (24%) had dividend income and around a fifth (21%) had property income. During the design stage of the schemes, the industry groups and organisations that we engaged with were supportive of a higher threshold of at least 60 per cent of income having to come from self-employment. This is a less generous threshold than the 50 per cent threshold that the Government ultimately used.

You asked specifically about freelancers. The SEISS is available to freelancers who meet the eligibility criteria. Those freelancers who are ineligible for the SEISS are likely to be those who get less than half of their income from self-employment. Freelancers and those on short term contracts may be eligible for the CJRS however, if they are on PAYE and meet the usual criteria.

You recommended the removal of the £50,000 threshold criteria and introduce a taper up to the total monthly support cap of £2,500. The existing arrangement is designed to target the scheme at those who need support the most. With 2019–20 returns taken into account, we estimate around 95 per cent of those with more than half their income from self- employment could be eligible for this scheme. The Government does not think that it is proportionate to introduce a taper to the SEISS, given the complexity of introducing and administering such a taper and the relatively small number of people who would benefit.

Your report suggests that this threshold disadvantages the self-employed compared to the employed. The SEISS and CJRS are very different schemes, making such comparisons challenging. For example, CJRS pays for hours which are not worked, meaning that people eligible for the CJRS cannot work for the employer that is furloughing them, while people who are eligible for SEISS may still be able to work alongside claiming. Both schemes have been generously designed to address a particular population.

The report requests that the Treasury provides several statistics in relation to these recommendations. Regarding those requests:

- HMRC periodically publishes comprehensive statistics on the Self Employment Income Support Scheme (SEISS). The last update was on the 25th February 2021.[2] The next update is provisionally set to be published in June 2021.
- You asked how many people had self-employed income as their main source of income in the 2019–20 financial year. The most complete data that we hold is for 2018–19. Just over 5 million people reported income from self-employment in 2018–19. Of those, 1.4 million did not get the majority of their income from self- employment.

2 https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-february-2021

- You also asked for the proportion of the self-employed who had more than £50,000 trading profits in 2019–20. While we do not hold a figure for the entirely of 2019- 20, Table 5 in the supplementary statistics shows that there were 186,000 people with trading profits above £50,000 at the end of October 2020. This is just under 4% of the total population of people who reported income from self-employment in 2018–19.

- You asked for the median income of those above the £50,000 trading profits threshold in 2019–20 who earned the majority of their income from self-employment. While we do not hold a figure for the entirely of 2019–20, the mean and median income of this group were £267,000 and £118,000 in 2018–19.[3] These statistics will be updated in due course.

The Government has considered various options through the policy development of the SEISS. We do not have an assessment of the costs of implementing the package of recommendations that you set out in your report.

On your recommendation that the Government look at alternative models to SEISS used by the devolved administrations, the UK Government continues to work closely with stakeholders to explore how we can support different groups and has engaged with various proposals put forward by stakeholder groups to see if any are viable. For example, the Government has looked at the Northern Ireland Directors' support scheme, but has concluded that it is more reliant on self-certification than the SEISS, and so is likely to have higher levels of fraud and error. The practical issues that prevented the Government from being able to include Company Owner Managers in the SEISS, namely the difficulty in defining the eligible population, as well as the inability of HMRC to verify the source of their dividend income without introducing unacceptable levels of fraud risk, still remain.

Economic analysis

Your report makes a number of recommendations regarding the Government's economic analysis relating to the impact of COVID-19. Since the onset of the pandemic, the Government has taken decisions based on the health, economic and social impact of COVID-19 and associated public health measures. The Government has also studied the outputs of the academic literature on epi-macro modelling and benefited from discussions with leading academics.

The Government has published a significant amount of analysis of the health, economic and social impact of COVID-19 and public health measures throughout the pandemic. This includes the analysis that underpinned the steps announced as part of the Government's Roadmap out of lockdown. For the economy, this included the impacts on GVA and jobs in those sectors affected by restrictions over the last year, as well as information about the distribution of those impacts. The Government also commissioned advice and modelling from SAGE and its sub-groups in order to inform the pace and sequencing of the Roadmap.[4]

3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/964649/SEISS_-_OFFICIAL_Supplementary_statistics_final_tables.ods

4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/963565/S1130_SPI-M-O_Summary_of_further_modelling_of_easing_restrictions.pdf

The March 2021 Budget document also provided detailed analysis of the impact that the tiered system of restrictions and lockdowns had on the economy last year. Alongside this, the OBR's Budget forecast provided their own assessment of how the economy will evolve under the Roadmap. In its central forecast, the OBR expects that GDP will grow by 4.0% in 2021 and it assumes some long-term scarring in the economy of around 3% of GDP.

This analysis built on previous publications, including the 'Analysis of the health, economic and social effects of COVID-19 and the approach to tiering', as more data became available. This analysis will of course be subject to significant uncertainty as any analysis of this sort is inevitably only partial, dependent on the circumstances at the time, and imprecise, given the unprecedented and evolving nature of the situation.

Thank you again for sending your comprehensive report on the economic recovery from the COVID-19 pandemic. I hope that this letter has addressed your key recommendations by demonstrating the actions that the Government has taken to support individuals and businesses, to protect jobs and to do so in a fiscally responsible manner, and the actions that we will continue to take as we progress along the roadmap to recovery.

Best wishes,

RISHI SUNAK