

Twelfth Report of Session 2021-22

HM Treasury

COVID 19: Cost Tracker Update

Introduction from the Committee

Shortly after the World Health Organisation declared COVID-19 to be a pandemic on 11 March 2020, government began announcing a series of measures to support public services, workers and businesses. The National Audit Office (NAO) has been collecting and publishing information on the government's COVID-19 response measures—the COVID-19 cost tracker—first published in September 2020 and updated in January 2021 and May 2021. The cost tracker presents the range of government measures (categorised by lead department and the nature of the measure), the estimated lifetime cost for implementing the measure, and how much has been spent to date. In May 2021, the cost tracker revealed that the total cost of government's measures was estimated to be £372 billion, with £172 billion reported spent. The total value of loans guaranteed by government was estimated to be £92 billion, and the write-off costs associated with loan schemes was estimated to be £26 billion. The cost tracker does not capture every aspect and consequence of government's actions, which potentially underplays the true cost of the response. To make decisions and disburse funding more quickly, government relaxed the usual rules over the management of public money and took on significant financial risks, which government may have to manage for many years and which will have implications for future spending decisions.

Based on the National Audit Office's COVID-19 cost tracker, the Committee took evidence on Thursday, 27 May 2021 from HM Treasury. The Committee published its report on 25 July 2021. This is the government's response to the Committee's report.

Relevant reports

- NAO [COVID-19 cost tracker](#)
- PAC report: [COVID-19 cost tracker update](#) – Session 2021-22 (HC 173)

Government response to the Committee

1: PAC conclusion: The NAO's COVID-19 cost tracker shows the importance and value of capturing, sharing and presenting timely data on government's actions and costs during a crisis.

1a: PAC recommendation: HM Treasury should develop a closer partnership with the NAO to produce the next, and future, updates to the cost tracker, through sharing its COVID/non-COVID categorised data, and the reconciliation to its own data.

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 HM Treasury has worked closely with the National Audit Office (NAO) to support the publication of each version of the COVID-19 cost tracker and has shared information to help them identify new COVID-19-related measures. HM Treasury teams work closely with departments to assist their returns to the NAO and to reconcile these to internal HM Treasury data.

1.3 HM Treasury continues to develop closer partnerships with the NAO to produce cost tracker updates, including through regular meetings during and after the planning and project phases.

1b: PAC recommendation: By the end of the year, the Government should write to us and explain how it will monitor the costs of other large cross-government programmes that would benefit from an approach similar to the cost tracker, for example, the drive to achieve net-zero greenhouse emissions, and the ongoing costs of EU exit.

1.4 The government agrees with the Committee's recommendation.

Target implementation date: Winter 2021

1.5 HM Treasury will write to the Committee by the end of the year detailing the structures it uses to monitor the costs of other large cross-government programmes, including through Government Major Projects Portfolio managed by the Infrastructure & Projects Authority.

2: PAC conclusion: The value of the cost tracker is lessened by poor data from some government departments and functions.

2: PAC recommendation: To support the next iteration of the cost tracker, and in advance of the autumn Spending Review, HM Treasury should continue working with departments to develop robust methodologies for identifying and capturing the full cost of COVID-19, including economic impacts and the extent of displaced activity, to have a clear basis for future fiscal decisions and recovery plans.

2.1 The government agrees with the Committee's recommendation

Recommendation implemented

2.2 HM Treasury has continued to work closely with departments to develop robust methodologies for identifying and capturing the cost of COVID-19 in support of the latest [publication of the cost tracker](#). The quality of the data has improved in the September 2021 update following this continued collaboration.

2.3 The government set out its spending plans and choices up to 2024-25 in the Autumn Budget and Spending Review 2021 document. This included a comprehensive recovery plan. As part of the Spending Review 2021 process, departments provided HM Treasury with information on costings of interventions to support the response to, and recovery from, the COVID-19 pandemic, including an assessment of the strategic, economic, commercial, financial and management cases for investment through supporting business cases. This process prioritised building back better from COVID-19 by investing in public services, jobs and growth, and the transition to Net Zero. This included providing funding for services most affected by COVID-19 – such as the health and education systems – to continue to respond to the impacts of the virus.

3: PAC conclusion: The COVID-19 response means government will be exposed to significant financial risks for decades to come.

3: PAC recommendation: HM Treasury should develop a single cross-government framework for monitoring and managing the risks to public finances stemming from government's COVID-19 response. HM Treasury should then explain in the autumn Spending Review how it plans to manage these risks and any fiscal trade-offs that will need to be made.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The government is already committed to active management of fiscal risks, including risks stemming from its COVID-19 response. HM Treasury surveys these from the centre of government, including through its Fiscal Risks Group (FRG), which reviews the most important fiscal risks and actions being taken to manage them. The FRG sits alongside groups responsible for the oversight and management of risks to the economy, tax, and spending. HM Treasury works directly with other government departments to assess risks to the public finances, in line with the principles set out in HM Treasury's Orange Book.

3.3 Since 2016, the government has asked the Office for Budget Responsibility (OBR) to publish a fiscal risks statement to improve disclosure and management of fiscal risks. The statement draws on contributions from government and other stakeholders, and has been recognised by the International Monetary Fund and Organisation for Economic Cooperation and Development as one of the most comprehensive of its kind. The 2021 Fiscal Risks Report included a chapter on risks stemming from COVID-19; the government is committed to respond within 12 months.

3.4 The government set out its spending plans and choices up to 2024-25 in the Autumn Budget and Spending Review 2021 document. The pandemic has highlighted the importance of ensuring the right capability is in place to manage contingent liabilities in the public sector. The last 12 months have seen the launch of the Contingent Liabilities Approvals Framework and Contingent Liabilities Central Capability and they will provide tools to mitigate and manage contingent liabilities risks before they arise.

4: PAC conclusion: Achieving value for money from government expenditure during COVID-19 is being compromised by poor quality impact assessments and Accounting Officer assessments.

4a: PAC recommendation: HM Treasury should report back to this Committee by the end of 2021 on its progress improving the quality of impact assessments and Accounting Officer assessments, and its roll out of training on Managing public money, so that proper emphasis on achieving value for money is restored.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

4.2 The fundamental principles and the accountability framework set out in Managing Public Money have proved enduring through the pandemic. However, HM Treasury recognises that accounting officers would benefit from more detailed guidance in specific areas. This includes when circumstances merit departments assuming a greater level of risk appetite than they would in usual conditions, and clarifying respective roles where more than one department is involved in the design and delivery of a service. These areas will be covered in more detail in updated accounting officer assessment guidance, to be published by the end of the year. The department will write to the Committee when this updated guidance is available.

4.3 In addition, the department will continue to publicise these requirements through seminars and training events, including emphasising the importance of the accounting officer assessment process as part of the induction training delivered to all new accounting officers. These actions should ensure the requirements are well understood across central government.

4b: PAC recommendation: HM Treasury should review major COVID-related spending decisions to identify cases where decisions made during the pandemic have resulted in poor value for money. It should report its findings back to this Committee by the end of 2021, and use the lessons learnt to produce guidance to minimise the risk of this happening in the future.

4.4 The government disagrees with the Committee's recommendation.

4.5 Whilst the government agrees with the Committee's recommendation that lessons learnt from the experience of the pandemic should inform the approach in future, and similar situations, it believes that maintaining a proper division of roles between Accounting Officers, HM Treasury, and the National Audit Office is the best way to do so. That division is founded on HM Treasury setting the framework in which Accounting Officers make *ex ante* judgements on the value for money of spending, but having the independent National Audit Office – which is not involved in any way in the decisions themselves – undertake *ex post* assessments of the value for money realised in practice.

4.6 The COVID-19 pandemic has been a health emergency that has demanded a response without precedent, particularly in terms of speed and scale. As a result, HM Treasury has used the spending control framework more flexibly than it otherwise would have done. The basis on which an accounting officer made decisions did not change – at all times they needed to be satisfied that a decision met the standards set out in Managing Public Money – but those decisions had to be made amidst unusually high levels of uncertainty.

4.7 The National Audit Office has already undertaken a number of studies on the value for money of particular COVID-19 expenditure, including test and trace and local government finance, and has plans in place to undertake further studies, including the roll-out of the COVID-19 vaccine. The government looks forward to the conclusions of those further individual studies on lessons to be learned, and to any overall assessment the NAO may choose to make on the spending undertaken in the pandemic response.

4.8 Meanwhile HM Treasury has been considering carefully the lessons learnt from the pandemic for the spending framework, so that we can face a future crisis better prepared to respond whilst ensuring value for money. The previous Chief Secretary to the Treasury (CST) [wrote to the Chair of the Treasury Select Committee](#) in April 2021 reviewing the performance of the framework as it was applied to major COVID-19 related spending decisions, and reflecting on how the government can face future crises even better prepared. In addition, the government's response to the recommendations of the Boardman review into COVID-19 pandemic procurement will consider how government may minimise the value for money risks relevant to future crises.

5: PAC conclusion: The total value of government-backed loans has increased greatly during the pandemic.

5: PAC recommendation: Through the autumn Spending Review, HM Treasury should set out how it is managing the significant expansion of the value of government loan guarantees and the associated risk of write-offs, and the steps being taking to reclaim the taxpayer's investment.

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 HM Treasury has provided the resources for the British Business Bank (BBB) to deliver the ongoing administration of the government loan schemes and manage the associated risks to the taxpayer. Spending Review 2021 provides funding for the operating expenditure of the COVID-19 schemes, such as the running costs of the operations centre, developing the BBB's financial crime capability and delivering the COVID-19 schemes audit and assurance programme. It additionally provides funding for BBB's programme to transform its Data, IT, Outsourcing and Risk functions, which are critical to mitigating the risks linked to the COVID-19 schemes. This is on top of the funding provided to the Department of Business, Energy and Industrial Strategy at Spring Budget 2021 and Spending Review 2021 to support counter fraud and strengthen enforcement for Bounce Back Loans. Further details on the loan schemes will be published in the Department of Business, Energy and Industrial Strategy's annual report and accounts.

5.3 The government is also working closely with lenders to monitor and manage the government guaranteed loan scheme portfolios. Lenders are responsible for the recovery of these loans in line with the standards and legal obligations set out under the scheme. Lenders' performance of their obligations is subject to a robust audit programme overseen by the British Business Bank. If lenders do not meet their obligations, the government has the right not pay out on any guarantee claims in scope.

6: PAC conclusion: it will become increasingly important to distinguish between spending that is aimed at economic and societal recovery from COVID-19, from spending in direct response to COVID-19.

6: PAC recommendation: Government should, through the autumn Spending Review, set out a fully costed plan for recovering from the COVID-19 pandemic and returning to 'business as usual'

6.1 The government agrees with the Committee's recommendation.

Recommendation implemented

6.2 The government set out its spending plans and choices up to 2024-25 in the Autumn Budget and Spending Review 2021 document. These plans prioritise building back better from the COVID-19 pandemic, including by investing in public services, levelling up, and leading the transition to net zero.

6.3 HM Treasury has not set a COVID-19 policy ringfence for funding provided at Spending Review 2021 because most of the ongoing COVID-19 costs now form part of departments' ongoing activities or may be indirect impacts of COVID-19, making it difficult to distinguish them from departments' core costs so it is optimal to manage these together.

6.4 However, it has provided funding for the recovery from the pandemic, such as committing £9.6 billion across the Spending Review 2021 period for Covid-19 health related spending including for vaccines and potential boosters; more than £8 billion to tackle the elective backlog in the NHS; a further £1.8 billion to support education recovery; £225 million

to fund the criminal justice system's recovery from COVID-19; and an additional £1.6 billion of grant funding for local authorities in each of the next three years to meet pressures in social care and other services, which is on top of the £5.4 billion funding announced in September to implement the social care reform over the three-year Spending Review 2021 period.

6.5 Spending Review 2021 also provides funding to strengthen local government delivery. This includes additional funding to support councils improve their cyber security, and funding to strengthen the sector's procurement and commercial capacity, alongside funding to establish the Audit Reporting and Governance Authority (ARGA) as the new local audit systems leader.