EIC0891

Written evidence submitted by Andrew Keenan (Strategy consultant)

In this document I address two of the questions posed by the Committee:

To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?

To what extent are Government measures value for money for the taxpayer?

Bottom line up front:

SEISS criteria were written at pace in the expectation of lasting for no more than twelve weeks.

Over thirty weeks later, they have not been evidenced, reviewed, modelled or updated - unlike every other part of the Government's economic response.

Policy decisions that might have been prudent for the public finances in March 2020 are now no longer fit for purpose in a fundamentally different economic context.

A systematic review of the SEISS criteria that models the economic impact of all options must be undertaken immediately. Without this, Government risks a long-term impact on the economy that will far outweigh any short-term savings to HMT if no action is taken.

Full submission:

There are gaps and ill-informed policy decisions in the Government measures which risk the destruction of viable jobs and increase the likelihood of endemic unemployment.

Specifically, the eligibility criteria for the CJRS and SEISS are poorly formulated, resulting in several constituencies of taxpayers being left without meaningful income support for at least eight months, and potentially a year.

The nature of those constituencies is well-established, and are listed below for reference.

My specific criticism is the lack of evidence, review or flexibility in these criteria, in particular for the SEISS - an omission that undermines the UK's economic recovery and harms the public finances.

Eligibility for rounds two, three and four of the SEISS (and likely any other rounds) is based on eligibility for round one.

Eligibility for round one was drawn up at pace, at a time when the funding was expected to last two or three months at most. That expected duration was clearly a factor in the variables and thresholds chosen by the Chancellor and the Treasury, as they sought to balance the health of the public finances against the need for income support in the short term.

In the eight months since then, the SEISS criteria have not been reviewed or updated despite the wider economic context evolving beyond recognition.

Hard decisions that may have been financially prudent in the expectation of an eight or twelve week lockdown - such as the £50,000 or 50% earnings criteria - are no longer reliable, fair or prudent thirty or forty weeks into economic disruption.

With other schemes being extended to March 2021, the SEISS eligibility criteria will be left unchanged for a full year while other schemes have been iterated, reviewed and replaced to keep up with economic developments.

The Government and Treasury, as well as the Treasury Committee chair, rightly want to rely on economic expertise as well as epidemiological in the response to Covid-19.

The SEISS criteria as they currently stand (November 2020) are no longer economically sound and have not been evidenced or debated in any detailed way.

No detailed evidence has ever been provided to MPs or the wider public about the potential microeconomic and macroeconomic implications of the current SEISS criteria or any other potential updated criteria. In basic terms, the Treasury has not shown its working in regards to its claims about the 'need' for specific criteria. For example:

- Accepting 2019/20 tax returns, and therefore helping the newly self-employed, has been described as a fraud risk. However, an extension was offered to those who had not yet completed their 2018/19 return, and 'extra checks' were performed on those.

    - The estimated level of fraud, and how that estimate was reached, has not been declared.
    - The estimated level of fraud has not been compared to estimates of fraud for the CJRS, BBLs and other schemes - schemes which the Treasury has robustly defended as 'getting the money out to those who need it' when issues of fraud are raised.
    - Accepting 2019/20 returns may have been problematic in May 2020, which led to their exclusion from the SEISS calculations. However by November or December 2020, the balance of complexity facing HMT against the desperate situation of taxpayers has surely swung in the other direction.

- The opportunity cost of not providing SEISS to each of the constituencies excluded from support has not been modelled. Without it, there cannot be an informed decision about whether the SEISS criteria are correct or not.

- Any money distributed through widened SEISS criteria would have the same positive effect as CJRS and original SEISS grants - it would increase demand in an economy that desperately needs it.
- After a recession, the creation and growth of microbusinesses and SMEs is the engine of national economic recovery. However, these are also the traders businesses that are excluded from SEISS and CJRS. Failure to extend the criteria has a force-multiplier effect in harming our future economic recovery, by snuffing out the businesses and punishing the risk-takers who would otherwise drive our recovery.
- If SEISS is not extended in eligibility, the pressure on the welfare system and Universal Credit will grow, and people will be left unemployed in the long-term (with considerable cost to public health and the economy) rather than having the brief income support that would enable them to resume their businesses in 2021.

There is a remarkable paucity of detailed modelling and evidence regarding the costs of failing to extend the SEISS. Without that information, there can be no informed debate or decision about this critical matter.

As time goes on and the economic situation develops, the Government is at serious risk of failing to seize opportunities to reinforce the economy, prime the UK for growth in jobs, and rebuild the wide and vibrant tax base that it will need to restore sound public finances.

Without updated modelling, shown to MPs and open to challenge or improvement by economists, Government and Parliament are at risk of a major false economy.

Without an informed and rigorous review of SEISS criteria, the Govt is likely to make decisions that are extremely poor value for money for the taxpayer - saving a comparatively small sum for the public finances, at the cost of a much bigger dent in the tax base in the medium to long term.

My recommendation is that the Treasury Committee call for an independent, expert review of the SEISS eligibility criteria, with a remit to deliver updated criteria that are designed to offer the maximum value for money for the taxpayer in the medium to long term.

Appendix

Groups excluded from CJRS & SEISS.

- Newly self-employed (those without 2018/19 tax returns)
- PAYE freelancers
- Directors of limited companies who manage their cashflow and profitability by taking dividends for a portion of their income
- Those who changed employer at the ‘wrong time’ and whose former employers have declined to furlough them.
- Self-employed people with earnings of over £50,000, a cliff-edge that has no tapering
- Self-employed people who earnt over 50% of their income from other sources than their self-employment, even if that ‘income’ was several years ago and for non-work reasons, such as pension withdrawals, redundancy payments, settlement agreements and other scenarios
- Those who took parental leave in the past three years which artificially lowers their income for those times
- And others

Many of the above will also have been excluded from Universal Credit, local authority grants, ERDF grants, and all other schemes.

I myself have had no support:

- No SEISS (began trading 2019)
- No CJRS (sole trader)
- No local authority grant (no rateable premises and LA unwilling to cater for this group)
- No Universal Credit (spouse’s income puts us over the threshold, despite us relying on two incomes to live)
- No ERDF grant (local authority restricted grants to those trading before 1 March 2019)

November 2020