



COVID-19

UK Political Analysis

By Tim Hames, Senior Adviser | 2nd October 2020



Known Unknowns. 10 key questions in Whitehall for the rest of 2020.

The atmosphere in Parliament and with the public at large towards the measures being imposed to control the second outbreak of COVID-19 is clearly coming under huge strain. The contrast with the strong sense of national unity and almost universal support for the introduction of the lockdown back in March is striking. The pace of events means that local conditions are being reassessed and in some cases dramatic rules handed down at very little notice. There may come a point when there are so many “local” lockdowns of various forms that the whole notion of there being a national set of regulations of any meaningful kind becomes close to an irrelevance. This is quicksand terrain for ministers.

Yet despite all this, the list of key questions that will determine policy for the remainder of 2020 is becoming clearer, even if the answers to them remain matters of speculation. This framework of “known unknowns” is unlikely to alter much before January 2021, although Whitehall will be hoping and praying that its ability to start settling on definitive answers and then its capacity to deliver the required solutions by then will be improved. It is scant compensation that there are numerous other countries throughout Europe and beyond who have very similar challenges and few can be confident that they have the resources to limit the damage of the second wave and move back towards normality.

This edition of the FTI Weekly UK Political Analysis will, therefore, set out ten central questions and issues which No. 10 and the main departmental players are considering.

EXECUTIVE SUMMARY

- The key questions which Downing Street, the Department for Health and Social Care and HM Treasury face over the next three months are clear, even if the full answers to those questions will take time to emerge.
- There is a considerable degree of interdependence between these questions which further complicates the formation and execution of public policy.
- The core immediate questions relate to whether new infections rates can be stabilised at close to their current levels, whether the impact of additional cases continues to have a relatively limited effect on hospitalisation and deaths and the extent to which public compliance with existing and new rules will hold.
- To a perhaps surprising degree much depends on when Winter arrives across the country and whether it is of a milder, standard or harsher form this year.
- The next set of questions relate to when a vaccine will come on stream and the speed at which effective distribution of it can be administered.
- The core economic issues are the extent of the rise in unemployment during the remainder of the year, whether it can be assumed that almost all of the extra debt will have been endured in 2020/2021 and the size of the increase in public spending triggered by the virus crisis that will have to be maintained afterwards.
- The final and potentially rogue element is whether they will be a EU-UK Free Trade Agreement of some form and if not what the implications would be of attempting to manage the virus crisis and a switch to WTO rules simultaneously.

Donald Rumsfeld's fabled dictum about there being "known knowns, known unknowns and unknown unknowns" has endured rather more successfully than his wider record as Secretary of State for Defence in the George W. Bush administration. In practice, because known knowns are known and unknown unknowns are inherently impossible to know, the bulk of public administration, especially in a crisis, focuses on known unknowns with some considerable degree of ad hoc policy rewriting in the light of

amended information (which is a polite way of stating that there is a lot of making it up as we go along here).

What then are the key known unknowns with which the Whitehall machine is wrestling?

Are new case levels stabilising and if so are they likely to remain at current levels?

On September 21st, Sir Patrick Vallance, Chief Scientific Adviser to the Government, and Professor Chris Whitty, Chief Medical Officer for England, made their joint appearance at which it was stated that the number of new cases was doubling about every seven days and that without remedial measures, therefore, the figure would reach 50,000 cases a day by mid-October. As an immediate statement of statistical fact this was difficult to dispute (the preceding week had seen the new caseload double) but as a prediction for the future it was more open to debate as countries such as Spain and France, which had seen a very sharp increase in numbers, had not witnessed a consistent pattern of figures doubling every week (although that might have been because more restrictions at a local if not a national level had been introduced). The plausibility of their co-prophecy was, nonetheless, enhanced when almost instantly the numbers of new cases jumped from a range of 4,000-5,000 to 6,000 to 7,000 a day. Furthermore, ONS data, based on medical tests on volunteers conducted over a lengthy period of time, indicated that the real number was probably closer to 10,000 new cases a day with the difference explained by the fact that the younger an infected person is the more asymptomatic they tend to be.

As of now, though, the suggestion of a doubling every week seems more contestible. On Thursday September 24th, the number of new cases announced was 6,604. Yesterday, that figure was 6,914. Even allowing for inevitable fluctuations, that is not a doubling. Added to which, as was clear from the data presented at the Prime Minister's press conference on Wednesday, there is a very sharp differentiation in case rate increases according to locality, region and nation with Scotland, which has broadly had harder restrictions than England throughout the crisis, seemingly among the worst affected. Furthermore, a study involving 84,000 people conducted by Imperial College, London and released yesterday hinted that the rate of increase in new cases may be slowing.

As set out in the FTI Analysis last week, we are probably still 10-14 days short of the moment when at least a provisional assessment can be made of the direction and the likely duration of new case figures. What sort of numbers are containable without having to resort to much more draconian rules concerning private personal mobility and/or to increase the restrictions being placed on the hospitality sector further? No one will admit publicly what that threshold might be, but privately it has been suggested that the system could cope with a stable level of 20,000 to 25,000 cases per day and avoid an outright national lockdown but that depends on the answer to the next question.

Will the impact of rising case numbers still have only a mild effect on the death rate?

Although the numbers of declared fatalities obviously fluctuates, there has been nothing to suggest that even if case numbers were to double if not weekly then, for instance, every ten days that death rates would follow the same trajectory. This is because new cases are largely occurring among the young, the most vulnerable are manifestly still engaged in a form of shielding if not complete isolation and the treatments available to those who do become infected are considerably better than was true six months ago. A very sharp rise in new cases would, though, be more likely to have a larger impact on the death rate than has transpired so far. Some additional knock-on effect would be certain.

Which raises the rather awkward question of how many deaths would be acceptable before much more stringent suppression measures were deemed to be unavoidable? This is incredibly hard to answer in part because it is as much a social as a scientific question but also because an all-out drive to minimise the number of COVID-19 deaths might come at the cost of additional unnecessary deaths from other causes that the NHS was not concentrating on in order to mobilise against the virus or via economic anxiety. Once again, no one will rush to discuss this openly but if COVID-19 deaths were to be consistently in three figures daily over a sustained timeframe that might prove decisive.

What will be the degree of public compliance with tougher restrictions?

Whitehall could do without a significant law and order challenge at the same time as it is attempting to cope with a public health crisis. The evidence of the polling at the present time is that the public acknowledges that rising case numbers demands a response, does not seem hostile to the “Rule of Six” as a dictum (and would probably accept a reduction in the number of households within those six individuals) but is somewhat baffled as to why a 10pm curfew on pubs and restaurants would be effective with either no such ban or total shutdown preferred to what appears to many to be a random choice for closing.

That is how matters seem now. Whether this will continue to be valid is exceptionally uncertain. Planning has to be in place for much higher levels of civil disobedience. One asset that ministers have is that it is highly improbable that any of the other mainstream political parties are likely to decide that they should anticipate or follow the public mood by switching to a “let it rip” stance on the virus and advocate abandoning all restrictions. They are much more likely to train their fire on the competence of policy in practice. If it is only the likes of Nigel Farage leading the charge against anti-COVID rules then there is more chance that while much of the public may be unhappy it will largely be compliant. Mass dissent probably requires a plausible champion to lend it the necessary legitimacy.

What sort of Winter will we have?

There are corners of Whitehall that are taking an intense and for them atypical interest in long-range weather forecasting. When the cold weather starts in earnest, how long it runs for and its relative condition are all crucial – but alas definitely in the UK unknown – considerations as to how difficult the coming weeks and months will prove to be. The concern here is three-fold: first, it is assumed that the colder the winter then the higher the number of “natural” COVID-19 cases would be (although suppression actions would be expected to have some impact on reducing this); second, the colder the winter then the higher the number of influenza cases that the NHS might anticipate having to deal with alongside the coronavirus (although larger than typical levels of flu vaccination

should mitigate this) and finally, heavy snowfall in large areas of the country could make the distribution of the first vaccine to arrive on the scene considerably more complex.

When will the vaccine arrive?

The balance of expectation is that there will be a prospective vaccine ready to be sent to the regulatory authorities for approval before the end of 2020. The speed at which the regulators deal with matters is not straightforward to assume. There will be enormous pressure on them to wave any vaccine through as soon as possible but they will not want it to seem that shortcuts have been taken with public health for political reasons. There has to be some period of analysis and expectation and that in turn eats up valuable time.

For as numerous editions of the FTI UK Political Analysis have observed, the extent to which frontline NHS medical staff and the oldest and most vulnerable of the public can be vaccinated before the colder weather really strikes is very consequential. If these two sections could be largely vaccinated before Christmas that would be most advantageous. It would minimise the seasonal threat to the NHS and allow resources to be focused on an unprecedented vaccination operation directed at the rest of the population in the early weeks and months of 2021. It should also alter the psychology of the whole crisis. There is a risk in this in that some people might prematurely conclude that a return to normality was more imminent than in reality it would be but Whitehall thinks that it is more likely that the appearance of a light at the end of the tunnel hardens compliance.

How long would a vaccination exercise have to take?

This is actually two subtly different questions rolled into one. If the question is “how long until more or less everyone is vaccinated?” then the vital variables are (as in the question above) when a vaccination campaign can be launched and the willingness of the public to be vaccinated despite the host of conspiracy theories against the vaccine that will arrive on numerous social media outlets and elsewhere. Private polling has led ministers to believe that with the inducement of a Certificate of Immunity which would allow those who had been vaccinated much greater social and economic latitude (notably on travel) that resistance to the vaccine would be within acceptable levels for it to be effective.

Even so, a more or less complete vaccination exercise would be hard to complete in less than three months and if there are significant logistical dilemmas to overcome (which depends in large part on the nature of the vaccine itself) then it could be as long as nine months. The perhaps too cautious average working estimate might be about six months.

That may sound like a depressingly lengthy period of time. That is mainly because the question above is not necessarily the most appropriate one. If the question were instead “how long before a vaccine would allow society and the economy to be re-opened?” then the timetable is almost certainly shorter. There should be a clear vaccine effect in two months and something very close to the old “normal” writ large in four months.

How much will unemployment rise to before the end of 2020?

Most of the remaining key known unknowns are economic in nature. It is a racing certainty that unemployment will increase as the furlough scheme expires at the end of October and is replaced by a new and more restrictive system, as set out by the Chancellor last week, which attempts to make a distinction between “viable” and “unviable” employment with a smaller percentage of support from the Government.

It is much harder to estimate exactly how large an increase in unemployment may be and the speed at which it starts to reverse itself once a vaccine allows for economic and social restrictions to be lifted. Once again, the timing of when a vaccine enters the equation could be pivotal in deciding what sectors of the economy – even down to individual companies – might rightly be deemed to be viable. There will be massive pressure on the Treasury, not least from the Labour Party, to take a charitable view on this and to consider additional measures of support to enhance employment prospects. The most optimistic projection that I have seen, nonetheless, still pencils in an extra 250,000 to the unemployed by January. The most pessimistic deems it as two million.

Will almost all of the hit to the public accounts deficit be endured in 2020/2021?

The Chancellor has already announced that there will not be a conventional Budget this year. It will be deferred until, probably, March 2021 instead. He is, however, still committed to holding a comprehensive spending review this Autumn. His stated intention was to set out numbers for current departmental spending (those aspects that can be controlled by ministers, unlike social security benefits where expenditure varies according to entitlement levels) for a three year period and capital departmental spending for a four year period. In short, spending would be set for this Parliament.

The Treasury would really like to stick with this strategy. With capital spending, in particular, multi-year planning is far better than an annual contest for money. The “levelling up” programme to which this Government is firmly committed would also be best assisted by this approach. A one-year CSR would not be of much help to it.

Yet to continue as planned, the Chancellor really has to be in a position of some confidence that the vast majority of additional debt down solely to COVID-19 will fall in the 2020/2021 and that nothing like the exceptional outlay of an additional £80 billion plus directly to Whitehall departments to cover exceptional costs will, to some extent, be repeated again in 2021/2022 (other than, as will be noted later, expenditure at the Department for Health and Social Care itself). If there is a reasonable chance that there will need to be continued extra support to the likes of the Home Office and Department of Transport then to publish a three-year spending schedule this Autumn would be a considerable hostage to fortune. The case for delay until Spring 2021 would be strong even though it would mean that for the second year running Whitehall was running on an annual spending basis only (Brexit uncertainty forced that upon it last Autumn too). If so, the chances are that the Chancellor would attempt to address the “levelling up” agenda by other means such as changing the rules by which capital spending operates.

What will be the permanent increase in UK public spending due to COVID-19?

With the best will in the world, some of the increase in public spending that has occurred this year will be permanent and not temporary. The Government will need to correct the defects in the NHS that were sorely exposed earlier this year and might yet become a source of distress over the next few months. The issue is thus how much that additional increase in public spending (overwhelmingly on health) is and how it will be financed.

This is, like so much else, not an area where precision analysis is possible. A publication from the respected Institute for Fiscal Studies released this Tuesday made an intelligent first stab at a (very) round number, when it suggested that a figure of around £20 billion for extra expenditure was credible. It is entirely possible that if that number proves to be mistaken that it will probably be an underestimate and not an overestimate of the figure.

In and of itself, especially with interest rates likely to remain extremely low for a very long time, funding an extra £20 billion in health spending is not that demanding. One could envisage a combination of spending restraint elsewhere, tolerable tax increases and mostly augmented borrowing that could fill the coronavirus “black hole”. The real difficulty is that the Treasury would need to do this at the same time as it is likely to be suffering a loss of tax revenue across the board – income tax, national insurance, VAT, corporation tax and assorted “sin taxes” - due to a scarred economy and considerably higher unemployment than would otherwise have been in the case in 2021 and 2022. Whether this too can simply be plugged by larger and cheap borrowing is debatable.

Will there be a Brexit deal and if not what are the costs and consequences?

The final element in this list of the known unknowns is whether the UK will reach a Free Trade Agreement with the EU before the end of the transition period on December 31 or instead revert to WTO rules and a much more complicated relationship. The signals on this front have been a little more encouraging of late despite the fireworks that have surrounded the provisions of the Internal Market Bill as they involve Northern Ireland. Few, at this stage, are so upbeat as to believe that there will be a bargain by the EU

Council that is due to meet on October 15th. It is more likely that this meeting might produce a stronger political signal that the talks should enter their final phase with the aim of there being a text ready for an emergency (virtual) EU summit in November.

This means that the timings of critical domestic decisions on controlling the virus and the horse-trading between the UK and the EU could become a strange case of household intermingling. It is conceivable that the PM might seek to appease those in his party who might otherwise be critical of whatever compromises and concessions that he feels that he needs to make to secure an FTA (albeit quite a thin one) by holding the line rather more firmly against measures that would shutter sections of the economy once more. None of this would be explicit. Indeed it would be implicit to the point of telepathic.

Yet it would be tempting because the worse case scenario, that of being forced into drastic measures on COVID-19 which are hated by his own side in Parliament, having to handle the possible fall-out of a switch to WTO rules if the dialogue with the EU fails and waiting for a longer rather than a shorter time for the vaccine to enter the scene is really unappealing. This known unknown may prove to be the most unpredictable of the series. It is ultimate proof of the astonishing impact this pandemic will have on our public life.

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