



Treasury Committee

Oral evidence: Spring Statement 2022 - HC 1226

Monday 28 March 2022

Ordered by the House of Commons to be published on 28 March 2022.

[Watch the meeting](#)

Members present: Mel Stride (Chair); Harriett Baldwin; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Siobhain McDonagh; Alison Thewliss.

Questions 116-271

Witnesses

I: Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, and Dan York-Smith, Director Strategy, Planning and Budget at HM Treasury.

Examination of witnesses

Witnesses: Rt Hon Rishi Sunak MP and Dan York-Smith.

Q116 **Chair:** Good afternoon, and welcome to the Treasury Committee and to today's hearing on the spring statement. We are very pleased to be joined by Rishi Sunak, the Chancellor. I don't think we require you to introduce yourself to us, Chancellor, but, Dan, perhaps you will introduce yourself to the Committee briefly.

Dan York-Smith: I am Dan York-Smith. I am the Director of Strategy, Planning and Budget in the Treasury.

Q117 **Chair:** Welcome to you both. We have just had a session with the Office for Budget Responsibility to look at various aspects of the spring statement, Chancellor, and one area we discussed in some detail was the headroom in the fiscal targets. Clearly, in the latest OBR forecast, you have had a much more positive set of numbers than you had back in the autumn last year, and yet the amount that has gone into additional headroom against your targets is relatively modest—the OBR put it at about £5 billion and, on the stock-and-flow targets, you are looking at about 1%, or a little bit over 1% on one of them and about 1% on the other. Given the huge uncertainties out there at the moment, how concerned are you that you were not able to put more headroom in there to give you a better buffer against what might happen further down the line?

Rishi Sunak: It is good to be here again, Chair, and thank you for your question, which goes right to the heart of the challenges that we are



HOUSE OF COMMONS

grappling with. As the OBR themselves said, the outlook is highly uncertain—I think everyone can see that—and, if anything, the risks are weighted to the downside, as most people would expect. Given all that, it would be right for us to maintain a prudent buffer, against our fiscal rules, which is what we have done—it is about a per cent. of GDP on the stock rule of debt falling in 2024. You are right that that is a little more than we had in October, but in the scheme of an economy our size—

Q118 **Chair:** Would you say it is prudent? I also point out that just a 1% move in interest rates—

Rishi Sunak: Yes, that was what I was going to come to—

Chair: —would wipe it out immediately.

Rishi Sunak: Yes, it could. Relatively small changes in the macroeconomic outlook could wipe it out. We can go through a range of what they are. So, yes, you are right. I am of course concerned about it—

Q119 **Chair:** Shouldn't you have put more into the headroom?

Rishi Sunak: That would require—I am sure we will get on to a conversation about taxes, spending and everything else. The tax burden is already relatively high, and the only way to put more into the headroom is to spend less or to tax more. Those are the two options for increasing that headroom, and we could have a conversation about that, but given where we are, I think that the headroom we have got is in line with what previous Chancellors have had, but—as you say—it could easily be wiped out.

To give you a sense of some of the things that could do that, for example, to take the Bank of England's economic outlook, as opposed to the OBR's—the Bank of England is an equally credible institution—that would wipe out over half of the headroom. So, if you thought that the Bank of England were right about the outlook for the economy, it would be already half less.

A 1% increase in interest rates would completely wipe it out. Again, a 1% change in the tax-to-GDP ratio, which we can get on to, is projected to be at very high levels relative to our history. I think there are questions about how sustainable that is. The OBR acknowledged that they do not fully understand why it is so high; they cannot explain it.

Any one of those three things could happen, and the headroom would obviously be a lot less, which is why it is right that we are disciplined on public spending and that in the short term we have one eye on the future as well to make sure that we have the fiscal space that we need to deal with things as they arrive.

Q120 **Chair:** There is a lot of pressure expected around further interventions that you might have to come forward with. I am thinking about energy costs as we go towards the autumn. There is also the fuel duty reduction that you brought in, but only for a year. Politically it might be very



HOUSE OF COMMONS

difficult to unwind that. A lot of commentators would say that that might be an area where you might struggle to hold the line on that. Those kinds of issues mount up to potentially quite a lot of further fiscal pressure. Do those categories of items worry you as well?

Rishi Sunak: Yes, you are right. On fuel duty, the current forecast assumes that fuel duty continues to be uprated by inflation every year. If that was not possible, that's probably about £1 billion-plus in the target year. If it was not possible to increase fuel duty, or for the temporary reduction to not end and become permanent, that would be another £2.5 billion. Those are absolutely areas that would put downward pressure on the headroom that is already, as you said, subject to some challenge.

Q121 **Chair:** You mentioned, quite rightly, that there is always a series of choices: the headroom, what you are doing on tax and what you are doing on spending. I guess growth is the other element you are trying to keep up as high as you can to relieve the pressure as well. On tax, though, you took a decision to make a change to the basic rate of income tax and to reduce that by a penny in 2024. Why did you bake that into the numbers now rather than, say, not do that and increase the headroom to see how things go, and then if it was prudent to cut tax a bit further down the line, do it then? Why did you bake it in now, given our earlier discussion about how everything was very uncertain?

Rishi Sunak: In the autumn I said very clearly that the direction of travel on tax would be for reductions going forward, given where the tax-to-GDP ratio and the tax burden already are, and having had to deal with some of the effects of the pandemic and the damage that that has done to our economy and public finances. With that done, incremental, marginal decisions should be about reducing the tax burden both for individuals and for businesses to drive up growth. I set out that direction of travel in the autumn Budget, and we have fleshed that out in this Budget because it is good to give people a sense of direction and a plan for where we are trying to head.

Also, it is helpful because it creates a discipline that is very beneficial. We are having this conversation about choices, and I think all the conversations we have had recently about tax show that people would like to see taxes go down. I would like to see taxes go down. Having something very clearly to aim for means that, hopefully, we can have a more disciplined conversation about incremental public spending, which is already at very high levels, so that our collective priority is to deliver that income tax cut in 2024, and we can do that best by maintaining discipline on public spending.

Q122 **Chair:** Would I be right in interpreting that as saying that cutting tax matters so much that you are going to bake it in now and defend that position, and when the pressure for further fiscal measures that need to be taken in one direction or another come further down the line, you will hang on to that bit of it, and the pressure will therefore fall on spending, and maybe your fiscal targets as well? You have really put a stake in the ground that you are going to defend at all costs. Is that what it is



HOUSE OF COMMONS

effectively about?

Rishi Sunak: I think that is a fair summary with one exception. I would not sacrifice a fiscal target, for the reasons that I gave in our previous conversation.

Q123 **Chair:** It would use up more headroom.

Rishi Sunak: It is important that we meet those targets because it is important for future generations that we have debt falling. That is both the right thing to do and the economically sensible thing to do, only because we have fiscal space and fiscal resilience, and you can react in times of crisis to support people through it. It is important that we do that. But you are right that my priority at this point forward is to keep cutting taxes and not increase public spending. My only slight difference with you is that I think you used the word “pressure” or “strain” on public spending.

Public spending is already forecast to increase at very significant levels over this Parliament, and what we are talking about is just sticking with those very expansive spending plans. Just to remind everybody, public spending over the course of this Parliament is going to increase by about £150 billion in cash terms. It represents a 3.7% real growth rate over the Parliament, which is high by historical standards. What we are talking about is just maintaining that pretty expansive set of public spending plans, and the priority going forward is with anything that we can do to come and reduce taxes—

Q124 **Chair:** We will come on to public spending, although of course the fact that inflation is running away with itself and those amounts—the departmental expenditure is in cash terms—mean that there will actually be some significant reduction. Had inflation not been as strong as it has been—

Rishi Sunak: The number I gave you—the 3.7%—is a real-terms number, after inflation, over the Parliament. So it takes into account the inflation—

Q125 **Chair:** The latest inflation rate forecast?

Rishi Sunak: The latest inflation, and in spite of that, it is still 3.7% growth, in real terms, over the Parliament, which again is, by historical standards, a pretty significant increase. The real-terms cash number is £80 billion or £90 billion—somewhere in that range—

Dan York-Smith: It’s £88 billion.

Rishi Sunak: Right, £88 billion.

Q126 **Chair:** All right, thank you. Just to focus on taxation further for a second, would you accept that as a Chancellor with two years in the post, what you will probably have done by the end of all this is to have raised the tax burden overall? However, in this fiscal event, you have indeed gone back in the other direction; you have started to push taxes down. But overall, the tax burden will have increased. Can you just share with the



HOUSE OF COMMONS

Committee your thoughts as to how progressive the tax rises that you have brought in across your period as Chancellor are and how progressive the tax reductions that you have announced just recently in the spring statement are? I ask because there has been concern on the Committee—I think there are genuinely a variety of views on this—as to whether this is all being done in a fair way on the tax front or whether it is not being helpful enough to those who have been hardest up.

Rishi Sunak: I'm happy to do that. In terms of the overall tax burden, you are right: it is forecast to rise. I think the important thing there is to think about what is the right baseline to compare it to. Is it forecast to rise to 2019? Yes, it is, but that was before we got hit by a pandemic and the biggest economic shock in 350 years, with borrowing that spiralled up to world war two levels. I think to ignore what is happening—to ignore that when thinking about the tax burden—is not really fair or an apples-to-apples comparison. The reason the tax burden is rising, very simply, is that public spending is also rising as a percentage of GDP. Yes, tax to GDP is forecast to be at relatively high levels, so is public spending forecast, as a percentage of GDP, to be very—

Q127 **Chair:** But are you worried about the level of public spending?

Rishi Sunak: I will just finish the question on tax first. Public spending is forecast to be very high, as a percentage of GDP, by historical standards. I think most people would kind of get that, yes, we have to raise the money to pay for the things that the Government is spending on. It is unsurprising that those two things move together. You can't talk about one without talking about the other—unless you think the answer is that we should just borrow lots and lots and lots and lots. But as you have said already, the headroom we have is not very much and could easily be wiped out, so I don't think that is the responsible thing to do; I really don't.

That is why we are in this situation. We are continuing to invest significantly in public services. We have not gone down the route of austerity to square this circle. We had expansive plans to invest in levelling up and public services. We got hit by a pandemic that shrank the size of the economy and then we had a choice. The choice was, "Well, should we do austerity and scale back considerably on all those investments in the NHS, in police officers—policing—in levelling up and transport infrastructure, social care etc. or do we need to raise the money to pay for them?", and we have chosen the latter route. In the scheme of what's going on with the tax burden, that's the story on it. It is linked to the pandemic, an expansive set of public spending plans and a desire to, as I said, get our borrowing back to a responsible level, and debt falling again in a couple of years' time.

In terms of the individual measures and whether they are fair and progressive, I am very confident that they are. If you look at the two measures that were announced and legislated for in the 2021 spring Budget, which are the two measures that largely solve the problem of coronavirus on our public finances, one was a rise in the corporation tax



rate, so large companies that are profitable will pay more in corporation tax. Seventy per cent. of companies will be exempted from that change; their corporation tax rate will stay the same, but the largest, most successful companies will pay more, but still at a rate that is internationally very competitive—lowest in the G7, fourth or fifth lowest in the G20.

Q128 **Chair:** I am keen to stick to how progressive these are.

Rishi Sunak: Well, that was one measure. The other measure in that Budget was freezing the income tax personal allowances, which was widely recommended by a range of different people as being a progressive way to raise money. Just by the nature of the income tax system, which is progressive, obviously freezing thresholds raises more money from those on higher incomes. It also does so in a way that supports the recovery, because it builds over time, and of course people are not cash losers from that, because it is about a threshold increase rather than taking cash out of people's pockets. Those two measures, I think, are progressive. They were described as such, and as I said, large, profitable businesses and a progressive way to raise money over time—that's that.

In terms of the health and social care levy, in my view, there were three ways you could have raised that amount of money sustainably: one is VAT, one is national insurance, and one is income tax. Of those three, VAT is the least progressive, so the choice was left between income tax and national insurance.

People will have their view as to which one of those would have been the better base for the levy. I think we have already had that debate here. We went through it, and there are reasons why income tax is progressive—potentially more progressive than national insurance—but there are other downsides of income tax, as well. We discussed those last time, not least that it is not a UK-wide tax in the same way anymore, businesses do not contribute to it directly in the same way, and there is no history in this country of operational or other hypothecation of that tax to the health service in the way there is with national insurance. But no one can say that national insurance is not a progressive way to raise that money. The top 15% of NICs payers will contribute over half the revenues from that levy. It was described by the IFS, Andrew Dilnot, and many others as a progressive way to raise the money, so I think the way we have raised the money has been very progressive.

In terms of the tax cuts, if you look at what we announced last week, a raise in the national insurance personal threshold to £12,500—or £12,570—was, again, described when it was announced in the campaign as the best way to help low and middle earners through the tax system. That is what the Institute for Fiscal Studies said, and that is because, obviously, a flat rate £360 disproportionately benefits those on low and middle incomes. I do believe that was the most progressive way to reward work through the tax system and cut taxes on working people, so do I think the tax cuts we are doing are progressive? Yes, I do. We started there—actually, we started back in October by cutting the taper rate in



HOUSE OF COMMONS

universal credit very significantly, from 63% to 55%. That is a £2 billion tax cut—an improvement in the generosity of universal credit. That disproportionately benefits those on the absolute lowest incomes in universal credit.

Q129 **Siobhain McDonagh:** Do you think universal credit is generous?

Chair: Hold on, can I come to you in a minute?

Rishi Sunak: I am sure we will come to that. Chair, those are the two personal tax cuts we have announced between October and just now. I do believe they are progressive, and that is the reason.

Dan York-Smith: Obviously, we published our normal distributional analysis, which shows the decisions taken since 2019 and where we will be by the end of the Parliament. That shows that the impact of tax is progressive as a percentage of net income by decile.

Q130 **Chair:** For what it is worth, personally, I would probably accept most of that, but can we pick up on your point about the taper rate? You are right: if you are in work and on UC, that is quite a valuable boost to your income, but if I am not in work and am on UC or other benefits, what in the statement you have just delivered gives me any cause for hope when it comes to the cost of living crisis?

Rishi Sunak: First of all, it is important to remember that close to two thirds of those on UC either are in, or can, work. The vast majority of people on UC are in that category, so they will benefit, not just from the taper rate but from the increase in the national living wage and the considerable support that we are providing on the spending side to help people get the skills they need to find their first job, or a new job that pays them more. There is an enormous amount of spending going on—a 26% real increase over this Parliament in skills spending; £3.6 billion to £3.8 billion annually—and all of that is going to help those people as well. The vast majority of people will benefit from all those interventions.

Then, for those who cannot, there are a range of different things: the household support fund, which we announced an extra half a billion pounds for—

Q131 **Chair:** Very small in the context of the total amounts involved here.

Rishi Sunak: Well, it is targeted support to those who need it most. That comes on top of the significant energy support package that was announced in February, to take effect in just a couple of weeks as energy prices go up.

Q132 **Chair:** Can I stop you for one second? When we had the OBR in just now, we asked them how much it would cost, for example, to uprate benefits by the rate of inflation, rather than pegging it to the number from back in September.

Rishi Sunak: Yes, over the scorecard period it would be about £25 billion.

Q133 **Chair:** They gave a figure of £11 billion, which I guess is probably in the—



HOUSE OF COMMONS

Rishi Sunak: Over the scorecard period it would be £25 billion.

Q134 **Chair:** You are right that your £500 million is targeted, and it is useful in that sense, because part of the art here is to keep trying to target—I know it has rough edges and it is difficult, and I totally accept that—but it is a relatively small amount compared to the amount it would cost to actually increase those benefits in line with what inflation is actually doing.

Rishi Sunak: If we just go through some of the other things—

Chair: Can we talk about that point, though, before we move on to other things?

Rishi Sunak: There is also the increase to the local housing allowance that was put in place during the crisis and kept, which is worth about £600 to 1.5 million people—that is an extra £1 billion or so. This year, there is £670 million to help about 3 million people with their council tax payments, which is already in place. The energy package is disproportionately beneficial to those on the lowest incomes or not in work as a percentage of their household margins.

Q135 **Chair:** There are various things going on, but we can't get really away from the fact that, if you are out of work and in benefits, there was very little really in the spring statement, particularly when you take into account the number you have just shared with us and what the OBR told us earlier about the cost of that uprating overall, and in the context of the £500 million that has been set aside for the household hardship fund or whatever it's called.

Rishi Sunak: Which is what we have done previously as well. It is support that is well targeted to local authorities, which know who the most vulnerable families are in their areas. But as a general point, if someone's view is that Government can or should make everybody whole for inflation— particularly inflation at these levels caused by global supply factors—then that is something I do not think is doable.

Q136 **Chair:** No, and nobody is saying that. You can't make up for the whole of this external shock. It is about where you put the support and what it amounts to. I am just pointing out that there is this particular group who are probably struggling quite a lot and who have had, it appears, less support than perhaps other areas. Now, there may be good reasons for that, but I think that is something we can't entirely step away from.

Rishi Sunak: These are all choices. The choices that we have made are to cut fuel duty, given the cost of petrol and the fact that the vast majority of people are reliant on their cars. That is a very significant, £2.5 billion tax cut that has come in and will benefit the vast majority of people—everyone who is using their car.

To cut the tax on working people by £6 billion—£330 a person for 30 million people in work—I think is the right thing to do, particularly because some of the other things we have had to do have increased the tax



HOUSE OF COMMONS

burden, as we have previously discussed. It is right that there is a priority there to start now cutting taxes for those people.

So I do think those are the right things to do, and there is targeted support that we have provided to those you have described. But also there is an enormous amount to help people move from welfare into work—both on the spending and tax side—which, ultimately, is the most sustainable route out of poverty.

Q137 **Chair:** Can I pick up on the uprating of benefits and the point about it being pegged to September—3.1%? Inflation is heading, as we know, towards 8%, and it could be 9% or even more. Did you consider any measures along the lines of trying to smooth that pain across from the September reference point to the next September reference point? Were there any approaches you potentially had in mind there? I am curious as to why you might not have explored that or done something around that particular issue.

Rishi Sunak: There is an operational question, which Dan can speak to in a second. There is actually just a four to five month operational lag between a policy decision and the system being able to implement it, because of how the DWP's systems work. It is actually not possible to do it in a short space of time in the first instance, and one of the systems, I think, can only do it once a year in any case. Secondly, it goes back to the broader point we were discussing earlier about borrowing and what is a responsible amount of borrowing at a time when we are worried about the macroeconomic outlook, particularly with regard to interest rates and inflation. We are already, now, forecast to borrow, in this forthcoming year, about 60% more as a percentage of GDP than our post-war average, almost 20% more as a percentage of GDP than we were forecast to borrow in October, so it is already a significant amount of borrowing.

My job is to make the right long-term decisions, and my view is that an excessive amount of borrowing now is not the responsible thing to do. It is not the responsible thing to do for the short term, because it may risk stoking inflation even further, which is going to harm all the people we are trying to help if we actually make the situation worse. And, over time, having an irresponsible approach to borrowing and debt continuing to rise is not the right long-term approach for the country.

Q138 **Chair:** Nobody would advocate an irresponsible approach to borrowing. You've anchored your answer on borrowing, but taxation is the other balancing act here. You chose to lower taxes—

Rishi Sunak: You are talking about two different things. If you are talking about 2022, you are right, there is a choice—

Q139 **Chair:** You could have put more relief into that out-of-work benefit scheme through taking a different path on taxation, not on borrowing.

Rishi Sunak: You are absolutely right. In this forthcoming year we made a choice to cut taxes on working people. Thirty million people in work will benefit from the increase in personal tax thresholds, disproportionately



HOUSE OF COMMONS

those on lower and middle incomes. You are absolutely right that someone else sitting here could have said, "I'd rather spend that £6 billion on the welfare system." That is absolutely the choice that someone else could have made, yes.

Q140 **Chair:** Why did you make it the way you made it rather than the other way?

Rishi Sunak: Because I think the other policies we've got to help people on welfare are the right approach to do that. They are more targeted, they help people move from welfare into work and we are spending a lot and cutting the tax on the UC side to do that, so I think the mix of policies we've got is the right mix. Also, as Dan pointed out, the distribution analysis that has been published is very clear that, taken together, the actions of this Government over this Parliament are highly progressive.

Chair: Thank you very much. Angela.

Dame Angela Eagle: Thank you very much, Chair. Afternoon, Chancellor.

Rishi Sunak: Afternoon, Angela.

Q141 **Dame Angela Eagle:** We are contemplating now the biggest fall in living standards since records began, according to the OBR analysis. Your spring statement has offset 1% of that, but the OBR are still forecasting a 2.2% fall in living standards over the next financial year, and goes up to 6% for the poorest. Why haven't you done more to help those who are really going to struggle massively with this cost of living situation?

Rishi Sunak: I think, Angela, it is probably the same answer we were just discussing with the Chair, so there is probably not much more I can add to it. In terms of the living standards analysis, yes that's right. Just so we are clear, the forecast drop on the way that they calculate it was about 3% and the measures that we have put in place—significant measures, worth about £20 billion—offset about a third. So the considerable action that we have put in place is offsetting about a third of the drop in living standards, which is a significant contribution.

Q142 **Dame Angela Eagle:** But that is average, and the point I was making was that the poorest are hit harder by the squeeze.

Rishi Sunak: If I can just get on to that, the biggest contributor to that number is what happens—well, first of all, it is all entirely driven by prices. The entire drop in living standards is a function of the price levels, which, as everybody knows, are global in nature. If you look at where inflation was here in the most recent numbers, it was very similar to the eurozone and lower than the US. These are global forces that are causing this drop in living standards on prices. The combination of labour income and taxation is a net positive to living standards.

The energy price cap, as I said, is the biggest determinant of what this number will actually be, and the reality is that none of us know what the price cap is going to be in the autumn. There is an estimate in the OBR based on whatever—



Q143 **Dame Angela Eagle:** The current estimate is that it will go up by 40%.

Rishi Sunak: That was an estimate that is already out of date. In fact, I think, on the last numbers I saw last week, it was already about 10% lower than that, from memory. It is incredibly volatile. In the last few weeks, I think the highest the forecast for the energy price cap has been for October has been something like £3,500. The lowest has been just over £2,000, which is not actually a million miles away from where it was forecast to be in February, when we made the announcement about what we would do to help with energy prices this year. That just shows you the scale of volatility there. That's why, as we've said very clearly in the spring statement document, we will continue to monitor the situation and, as we know more, we are prepared to act if necessary.

We have had this conversation now about what we are doing to help certain people. Clearly, it is very difficult to sit here today and speculate on what will happen to energy prices and, therefore, the biggest impact on living standards in the autumn. Let's wait until we get there, and then we can decide on the most appropriate course of action, but I don't think anyone today knows what that appropriate course of action ought to be.

Q144 **Dame Angela Eagle:** To sum up, then, you've made a political choice to plunge 1.3 million people, including half a million children, into absolute poverty. On the figures we have now, that is what you have chosen to do in your spring statement.

Rishi Sunak: No, what I have chosen to do is ameliorate on average a third of the impact on living standards from forces that are clearly outside of my control, global in nature. We have come up with a package that is progressive in the way it has been designed and, crucially, will not add to the inflationary pressures in a significant way, which would harm the very people we care about and want to make sure we care for, and we have put in place specific support to help them. I totally accept that you might have preferred to say, "Well, I would rather not cut taxes on 30 million working people"—

Dame Angela Eagle: Don't put words into my mouth.

Rishi Sunak: You said it's choice, right? As the Chair said—

Dame Angela Eagle: Don't put words into my mouth. I am asking about your choice.

Rishi Sunak: There is a choice that people can make within the constraint of how much is a responsible amount to borrow. I am comfortable that the choices I have made are the right ones for the country.

Q145 **Dame Angela Eagle:** Chancellor, what I am trying to do is tease out your choices—I don't want you to speculate on what mine might have been. The issue here is that people on fixed rates of income are going to suffer very badly in the next period, whatever happens in October. For example, a single person caring for their parent, whose main source of income is their carer's allowance of £67 a week, is not going to be able to



HOUSE OF COMMONS

accommodate a huge—trebled or quadrupled—energy bill, are they? You have not helped them.

Rishi Sunak: Well, we announced £9 billion-worth of support in February to help people with energy bills—

Q146 **Dame Angela Eagle:** You have cut social security benefits—

Rishi Sunak: Can I just answer the question?

Dame Angela Eagle:—by £12 billion in real terms. A 5% real-terms cut in welfare and social security benefits doesn't seem the best way of approaching this vicious increase in the cost of living for those on the lowest levels of fixed income.

Rishi Sunak: Again, we have just announced £9 billion-worth of support to help people with energy bills. That is worth about half of the increase in the price cap in April and it will disproportionately benefit those on the lowest incomes with smaller energy bills. It has been clear that that is what it will do. We also thought very hard about those people with prepayment meters to make sure that the support we have designed will equally benefit them. We have been careful about that. The Department for Business is working through the implementation of that.

I am very mindful of the impact on people in difficult circumstances or on low incomes, which is why I'm pleased that our policies are helping them. If you take a single mother, for example, who is working full time on the national living wage and is in rented accommodation, that mum is going to be £1,600 better off as a result of the changes we have made on taxes and the national living wage over the last few months and what we announced last week. That is putting significant money into the pockets of someone like that, who of course I know needs our support.

To your broader point, there are choices. I am trying to balance between what is a responsible amount of borrowing, at a time when there is enormous uncertainty in the outlook—the risks are skewed to the downside, and the upside on inflation and interest rates—and, within that constraint, how best to target the support.

You may say—not you, but one—that if they don't like my choices, they would be happy to borrow a lot more. That is just not something that I think is responsible or sensible. I think it has the risk of stoking inflationary pressure, and I don't think it is the right long-term thing to do for the country. I think we need to be responsible with borrowing, and I think we need to be getting debt down and borrowing under control. That provides, for me, a constraint as to what is possible, and then there is a choice about where to target that support. I appreciate that people may have wanted to do more on welfare and less to cut taxes for people in work; other people may have chosen to borrow lots more. Those are not choices that I would be comfortable with.

Q147 **Dame Angela Eagle:** Chancellor, you have increased taxes for people in work. Seven out of eight people in work have a higher tax burden this



HOUSE OF COMMONS

year. The tax burden is higher at the end of what you've done than it was before.

Rishi Sunak: Hang on: because of the increase in the NICS personal threshold, 70% of NICS payers will pay less tax than they would otherwise. That is a result of the measures that we have—

Dame Angela Eagle: They are all paying more because you have—

Siobhain McDonagh: It is the net figure that matters. We take it all into account, and the thresholds.

Rishi Sunak: That is exactly right; it is the net impact. Yes, the levy is coming in, but there is a very significant increase in the national insurance personal threshold.

Q148 **Dame Angela Eagle:** I am talking about your entire period as Chancellor. You have increased taxes 15 times.

Rishi Sunak: But you were talking about this year, which is obviously where most of the challenge is with inflation over the next 12 months. 70% of NICs payers will be better off as a result of the way we have done the personal threshold increase, because it particularly targets those on lower-middle incomes.

Q149 **Dame Angela Eagle:** As a result of you freezing income tax allowances in cash terms, everybody will be worse off, so you are being very partial in the way you are explaining this. You are only talking about this year's threshold increases. You are not talking about the fact that you have frozen income tax thresholds in cash terms, so levels of income tax and the burden of paying income tax for those who pay it goes up. You cannot talk, Chancellor, about only one side of this equation and expect everybody to be fooled by the distorted view that that gives of the tax burden. The fact is that the tax burden is going up. It was going up before the spring statement and it is going up after the spring statement, is it not?

Rishi Sunak: I completely accept that, and we had that discussion with the Chair. I actually went over in detail the measures we had put in place to raise taxes to fix the damage done by coronavirus. I talked very specifically about corporation tax and the freezing of income tax personal tax thresholds. I was pretty transparent and open about that today, as I was at the time that we did it. So I am not remotely saying that that is not happening. I also confirmed that that is a progressive thing to do.

And the conversation that we started this session with talked about the space we have against our fiscal rules being relatively modest given the outlook. Is the tax burden forecasted to rise? As we discussed previously, it is forecast to rise because we are continuing to invest strongly in public services to the tune of 3.7% real-terms growth, at the same time as recovering from a once-in-350-year economic shock. To focus on one without the other I don't think is reasonable.

Q150 **Dame Angela Eagle:** Chancellor, you style yourself as a tax-cutting



Chancellor, but you are not, are you?

Rishi Sunak: I have not actually said that. What I have said very clearly is, "I'm a Chancellor who's had to deal with a pandemic." I have dealt with the pandemic. Given the damage that the pandemic has done and the desire to continue investing in more nurses, greater social care, more police on the street and levelling up, the choice we had was either to cut public spending significantly or to continue delivering on our plans to improve people's quality of life through all of those things, but to make sure that it is paid for as we continue to get our borrowing under control to a level that I believe is responsible. That is why the tax burden is going up.

I am sure that if I had taken a different decision and we had said, "Well, we will just slash public spending to get there," you would probably be the first person to say, "Hang on, all this austerity is back." The two things go together. The taxes are paying for very significant increases in public spending. The reason the burden has had to rise is because we have been hit by a once-in-a-century pandemic, a once-in-350-year economic shock and the highest borrowing since world war two.

I do not think it is reasonable to divorce those two things; they are intricately linked. I have been clear from the autumn that from this point on—now that that repair work has been done—the priority is to reduce taxes. Let us see where we get to over time, but the priority with the marginal pounds from this point on is to reduce taxes but, yes, after having taken some decisions to correct the damage that was done. That is the story of it. It is as plain and simple as that. I do not think anyone is trying to overclaim anything beyond that.

Q151 **Dame Angela Eagle:** Chancellor, the National Audit Office has said that between £12.4 billion and £20 billion has been wasted in the emergency coronavirus schemes. The Treasury has no knowledge of, or little interest in, the consequences of fraud to our economy and society. That is a fair comment, isn't it?

Rishi Sunak: No, I don't believe it is fair. Again, it is important to remember the context. Whether it was on furlough or something like the bounce back loan schemes, the absolute priority was to try to get support to people who needed it—often people on very low incomes, who we have been discussing, rightly—as quickly as possible in the midst of a crisis.

In my job, I have to make certain trade-offs. I can put all the fraud checks I want at the beginning of a process. That would have meant it would have taken weeks and weeks to, for example, get money out to the over 1 million small businesses that ultimately did get it. I remember being in Parliament on an almost daily basis at the time, rightly being asked by colleagues, "We need money in hours—let alone days and weeks; it is hours—or we're going to have to lay off everyone." Those are the trade-offs that we were making, so we designed things in the way that we did.

Of course we take fraud really seriously. We haven't written anything off. We are going after anyone who may well have defrauded the taxpayer, in



HOUSE OF COMMONS

both the HMRC schemes and the loan schemes. We started taking action on this over a year ago by investing £100 million extra into HMRC to hire an extra 1,200 people to do this—the taxpayer protection taskforce. They have already recovered half a billion and are forecast to recover at least another billion or so-plus. We will update on how all that work is going in the coming months, but my sense is that we are doing a good job in getting the fraud estimates down to a level that will end up being—I think, in the context of what we are dealing with—acceptable.

On the bounce back loans side, because of the measures we have put in place, we have blocked £2 billion-worth of loans, dozens of arrests have been made, we have taken new powers to strike people off the directors list, and, again, we are creating new data and fraud analytics to go after people. There was more money announced for all of that last week.

Q152 Dame Angela Eagle: Lord Agnew pointed out, in his evidence to us on this issue, that between 1,000 and 1,500 companies given bounce back loans did not exist prior to the pandemic, and that that was not even checked before they were given any loans. He estimated that with £4 billion lost, if the average loan was £40,000, there would have been 100,000 occurrences of fraud. You have made 49 arrests.

The fact is that if you did more about fraud, there would be more money to spend on helping your priorities—or my priorities; whoever’s priorities were available. This is an anaemic, complacent response to the expenditure of public money, isn’t it?

Rishi Sunak: No, I completely reject that, and actually, I think we have paid out on fraud claims on bounce back loans £20 million or £30 million so far, because we are aggressively making sure that we don’t pay out unnecessarily—

Q153 Dame Angela Eagle: But why did Lord Agnew—your own Minister—resign in frustration at it, if it is so good?

Rishi Sunak: That is a question for him. What I know is that—

Dame Angela Eagle: We have asked him, don’t worry.

Rishi Sunak: What I know is that the estimate on fraud losses from bounce back loans has actually gone down by a third. It was meant to be around £4.9 billion—from memory—and it has been cut by £1.6 billion. The fraud estimates have already been cut by a third, since the accounts that BEIS had last year were published, because we are making very good progress. Actually, at the time, people were expecting something like 60% of the value of these bounce back loans to be lost, and everyone knew that at the time we did them. As it turns out, because of the other things we have done to grow the economy, 80% of that loan portfolio is currently performing well. In the context of how it was done, I think that is a very positive result for the taxpayer; far more was expected to have to be written off. I don’t know, Dan, if you have anything to add.

Dan York-Smith: The only things that I would add are that, in their economic and fiscal outlook, the OBR have reduced, by not quite half, the



estimate of loan guarantee fraud, compared with the BEIS annual report and accounts. They also say that the sum should be considered against the potential economic costs of acting more slowly, and they think that it is not unreasonable to think that the economic costs of taking more time in designing the schemes—and therefore money not getting to people—could have been far greater. Indeed, one of the reasons that there has been a reduction in their estimate of the cost of pandemic support is because of their revision downwards of loan guarantees being called but also of fraud in loan guarantees. There has been an improvement, since their last forecast, in these estimates.

Q154 Dame Angela Eagle: Lord Agnew also told us that he thought there was a complete disjuncture between the level of criminality and the enforcement capacity, so why have you cut the National Crime Agency's budget by 4.5%?

Rishi Sunak: I don't believe that it has been cut. We invested, I think—gosh—£63 million more in economic crime, from memory, at the last spending review. We are also raising a £100 million economic crime levy for the first time, which has been legislated for, to combat economic crime. Last week we put extra money into creating a public sector fraud authority at the Cabinet Office, and we are giving more money to—I forget; it was either NATIS or the NCA—

Dan York-Smith: NATIS.

Rishi Sunak: —to do even more enforcement action. We are figuring out what is working most effectively and giving it more resources so that they can do more of it.

Q155 Dame Angela Eagle: Are you confident that the sanctions regimes being put in place at the moment, following the Russian invasion of Ukraine, will be properly enforced? At the last count, you had 37.8 full-time equivalent people running that regime in the Treasury.

Rishi Sunak: The sanctions regime is overseen by OFSI, which is part of the Treasury but a separate body. From memory, I think they had about 45 to 49—one of the two—full-time equivalents previous to this. They are on course and have been given the resources to double that number, and they are already hiring—I think they have started hiring. I cannot remember whether it is 45 or 49, but it is one of the two, and they are doubling that number in the process.

Q156 Dame Angela Eagle: Are you confident that they are hiring at the right level, though?

Rishi Sunak: We have asked them what they need, and they have been given the resources to hire the people they need. As I said, that is doubling. I do not know how quickly they will get them all in—we can find out—but they have started the process of recruiting for that doubling of people.

Q157 Anthony Browne: Hello, Chancellor. Before the spring statement, there were lots of calls from many places for you to delay or scrap the increase



HOUSE OF COMMONS

in national insurance, but you decided to raise the threshold instead. Why did you decide not to delay or scrap it?

Rishi Sunak: For a number of reasons. First, I think it is right that the country's No. 1 priority, which is the NHS—and social care alongside it—has a dedicated source of funding so that we can be confident about its future and make sure that it has the funding it needs not just today, to deal with an unprecedented backlog, which I think everyone wants to see addressed, but over time, as the demographic pressures rise, particularly on the social care side.

One of the lessons from the pandemic is that we want to invest more in social care, so I think it is right that for the first time there is this dedicated funding stream. People can be reassured that every penny of this new levy will go to the thing that they care most about. That is a good thing. We have a history of doing that through the NICs system, as we have already discussed. It is also a very progressive way to fund the health service. As we have discussed, the top 15% of taxpayers account for over half the revenue raised. So I think it is the right thing in and of its own terms.

Secondly, if you were saying, "How best do I help with the cost of living? Should I scrap that?", as we have been discussing, it is so progressive that the majority of the benefit of scrapping it would accrue to the top 15% of taxpayers. What we have done, by raising the national insurance thresholds by such a considerable amount, is hugely beneficial for those on low and middle incomes, ensuring that 70% of taxpayers—or NICs payers—are actually better off with the combination of those things. I think that what we have done is much more progressive and will alleviate some of the strain that people are feeling from their household budgets at the moment in a way that scrapping that levy would not have done. I do not think scrapping it would have been good in the long term because we want to have a good source of funding for the thing we care most about.

Q158 **Anthony Browne:** When you raised the threshold, you made the point that you were raising it exactly to the personal threshold for income tax—£12,570—and I think you quoted the Centre for Policy Studies on a universal working income. Why is it so important that those two thresholds are at the same level? Will that be a new policy going forward?

Rishi Sunak: Well, it was a manifesto commitment that the Government made and the Prime Minister announced in the election campaign, so it is nice to be able to fulfil it. It was there for two reasons: first, it is a very progressive way to reward work and ensure that work pays—cutting taxes on working people, but in a way that disproportionately benefits low and middle incomes—and secondly, it represents a simplification of the tax system, in a sense, because we had a situation where earned income was being taxed before unearned income because of the misalignment of those thresholds. This is a simplification of the system, so now it is just easier for people to understand: "For the first £12,570 that I earn, I won't pay a penny of national insurance or income tax."



Q159 **Anthony Browne:** You mentioned just now, and have done so many times before, that the increase in national insurance—the health and social care levy—is hypothecated for the NHS and social care. You have now reduced the threshold, which will mean less income. Does that mean there will be less money for health and social care?

Rishi Sunak: No, for a couple of reasons. First, we have set those budgets and they are the budgets, so the NHS and social care will receive the budgets that they were given at spending review. All the fluctuations up or down in the levy revenue over the short term will be absorbed more generally. More specifically, the vast majority of the levy revenue was raised above the £12,500 level; just a few hundred million pounds—about £600 million, from memory—was raised below. That is, essentially, broadly offset by a slight increase in the forecast revenues from the levy in general. In general, there is not a massive change, but even if there was, there is not a penny less going to the health and social care system.

Q160 **Anthony Browne:** In what way is it actually hypothecated if the budget is already set?

Rishi Sunak: Well, it is hypothecated, and then we set a budget based on that. I don't think it would be right for the NHS and social care budgets to be cut in the middle of a period if, for whatever reason, the levy revenue came in lower. Over time, it is a hypothecated revenue stream, but I think for public policy and planning purposes, it is right that you will have periods where it is set and then they can be adjusted at the next spending review cycle.

Q161 **Anthony Browne:** Obviously, the aim of the spring statement is to help people with the cost of living crisis. If you have a certain amount of money to do that with, you can either cut energy costs to reduce that or increase household disposable income by cutting taxes or giving rebates on council tax or energy bills. Why have you decided to strike the balance where you are? Do you think it is better to help people have increased household disposable incomes, or to reduce energy bills? The risk of reducing energy bills, obviously, is that you encourage people to burn more energy.

Rishi Sunak: There are different ways to do it. I think it is right that we have a targeted response to the one specific factor that is causing the bulk of the increase in people's costs—energy bills. I think it is probably reasonable that there is a very clear policy response to that. Arguably, you could do it in different ways. I think having a direct response to that is sensible, and we have set out our way to do that: £9 billion, which will help lots of people with about £350—about the half the increase. More generally, to help with the pressures, we have cut fuel duty and made sure that we cut the tax on working people.

Q162 **Anthony Browne:** Is there a risk that if you cut energy costs—I think about the VAT on fuel as well—demand would be higher than it otherwise would be, and that that would lead to energy prices being a bit higher?



Rishi Sunak: We have some analysis on that. On the fuel duty side, I think they broadly washed because of the increase in wholesale fuel prices, so I do not think there was going to be a significant increase there. On energy bills, in the short term, there is a degree to which people do not have an enormous amount of flexibility. There is obviously some flexibility and people can adjust their consumption a bit, but the big savings come from installing things such as energy efficiency measures in your home, which can save quite considerable amounts over time—£300 a year. But in the short term, probably it is felt that there is not a huge amount you can do about your immediate energy bill, other than making some short-term adjustments in how much you need—and obviously the weather, which is outside all our control.

Q163 **Alison Thewliss:** Moving on to energy bills, Chancellor, for many people up and down the country, there is no option to put solar panels on their houses. They can barely afford to heat their homes and keep the lights on as it is. Could you tell me exactly how your “heat now, pay later” scheme will work for people on prepayment meters?

Rishi Sunak: Let me take both things, Alison. On prepayment meters, about 60% of them, from memory, we can do through direct debit and it works automatically, so they will get the benefit automatically. For the remainder, there is a range of different things that we can do. One is by providing what is called a smart access code, which is provided to a number of retailers to which they would go to get their top up—or, in extremis, you can do direct cheques or vouchers to their home. These are the same things that were used when this was last done, in about 2011, from memory. It is something that we put a lot of thought into. BEIS is currently in the process of working with energy suppliers to make sure that all those people do benefit from it.

With regard to your broader point on energy-saving materials, you are right that lots of people cannot afford solar panels; the VAT measure we have put in place will help, but for a lot of people that will not be suitable. What we are doing for those people is spending lots of money to help upgrade their homes. There are two main ways that we do that. One is through the energy bill system, through something called the energy company obligation. Through our bills, that funds about £1 billion a year, which upgrades about 300,000 homes a year. That includes people in fuel poverty—exactly the people you are talking about. That is one thing we do through the bill system.

The other thing we are doing—it is part of the reason that Government spending is going up—is spending about £3 billion over this Parliament to upgrade the energy efficiency of about half a million homes. Again, those will disproportionately be people in social housing or fuel poverty. There are grants of up to £10,000 or £25,000, at no cost to the tenant, and they will deliver average bill savings of about £290 to £300. That is how we are helping those people to improve the energy efficiency of their homes.

Q164 **Alison Thewliss:** Scotland is already much further ahead than England in terms of energy efficiency measures, so I don’t need to hear much about



HOUSE OF COMMONS

that, but I think you have confused two things, Chancellor. People on direct debit and people on prepayment meters are two different sets of people. Could you explain to me how somebody on a prepayment meter will repay the £200?

Rishi Sunak: Sorry, I got the numbers the wrong way round. Forty per cent. of people already have remotely accessible smart meters, so the smoothing credit will be applied automatically to them; for the remainder, it will be through the special action message or the other methods that we have to do it. Again, we have been through that with BEIS and are comfortable that that can be delivered. It will be applied automatically, because they have meters. Even though they are prepayment meters, they are remotely accessible, so it can be applied that way to those 40%. For the other 60%, you have to go through one of the other methods I mentioned—special action messages, SMSs to their phones, credits at the stores where they go to top up or, in extremis, cheques in the post.

Q165 **Alison Thewliss:** Some people on prepayment meters are on those prepayment meters because they were not able to keep up with their bills, and they are paying back debt to energy companies at a higher rate than people who are on direct debits. Will that money top up their bills to allow them to pay for energy, or will it go on to their debt? How will those two things be teased out?

Rishi Sunak: I think that is one of the things that BEIS are working through at the moment with citizens' groups and the energy companies, to see how best to allocate that cash. I can get back to you, but I think that is one of the things that, right now, they are going through the implementation of.

Q166 **Alison Thewliss:** When will that be done?

Rishi Sunak: I don't have the exact dates. It is a BEIS-led process. Apologies, but I will get those dates to you.

Q167 **Alison Thewliss:** It was your announcement. It would be useful to know how it will work.

Rishi Sunak: Yes, but obviously the operationalisation of that is being done by the Department for Business. But I will happily write to you.

Dan York-Smith: The credit is supposed to be applied in October, and there is a statutory consultation period, which, from memory, takes eight to 12 weeks. I would say that the exact delivery mechanism will be confirmed in the summer, but we can write to you to confirm the details.

Q168 **Alison Thewliss:** Will it go against debt, or will it be an additional credit?

Rishi Sunak: That is one of the things that they are working through at the moment with people. There are different ways that they might want to do it, but they are in conversations right now about that.

Q169 **Alison Thewliss:** There is no opt-out to this £200 "heat now, pay later" scheme, is there?



Rishi Sunak: No.

Q170 **Alison Thewliss:** So people who are already in fuel debt, and who are on prepayment meters because of that debt, are being asked to take on another £200 of debt from you, Chancellor.

Rishi Sunak: No. I think it is wrong to describe it that way, and I would say gently that it is wrong to worry people that that is what is happening, because it is clearly not what is happening. It is not debt. It is not a loan. There is no interest on it. No one's credit rating is impacted. Particularly for the people who you are talking about, Alison, who are struggling, it is saying, "Hang on. We can't make all of this problem go away and, ultimately, we are all collectively having to adjust to higher energy bills. But trying to do it all in one go is tougher, so instead of having to come up with £200 all in one go, let's spread that cost over five years so that your family finances can come up with £40 a year over five years, rather than £200 all in one go."

That is what it is, and I think it is the right thing to do to help exactly those people for whom it will make a difference. Rather than asking them to find £200 all in one go when they are really struggling for things, we are saying, "Just come up with £40 a year for five years," which will really help them. It was something that was actually requested by people like Citizens Advice, particularly for that reason. Others said, "Can you spread the cost of the impact over time?" because it gives family finances more time to adjust to it.

So describing it as a loan is wrong. It is spreading the impact of a price increase over five years rather than having to deal with it all in one go at the beginning. I think that is a good thing that will help people, and particularly those people on lower incomes.

Q171 **Alison Thewliss:** If I give you money and then it is expected to be paid back, it's a loan. You're asking for it to be paid back, in fixed repayments, at a time in the future. That's a loan, Chancellor.

Rishi Sunak: What we are doing is saying, "You don't have to come up with £200 this year, because that's a lot extra to deal with. Instead—"

Q172 **Alison Thewliss:** It is £40 next year, and the next year, and the next year, and the next year, and the next year.

Rishi Sunak: Well, if you are talking about the people who you were talking about, who are really struggling to make ends meet, do you think they will be better off having to come up with £200 in one go or £40 a year over five years?

Q173 **Alison Thewliss:** I think they would be better off with a grant, Chancellor.

Rishi Sunak: That is a different question and that gets back to our point on what is an acceptable amount—

Q174 **Alison Thewliss:** Rather than being put in more debt.



HOUSE OF COMMONS

Rishi Sunak: Look, that's a choice, right? I have a view—

Q175 **Alison Thewliss:** Your voice; it's not theirs. They don't get to opt out of this.

Rishi Sunak: Because I think it will help them.

Q176 **Alison Thewliss:** You are forcing them to take something that you think will be good for them, and they might disagree but they have to take it anyway. That's not helpful, Chancellor—

Rishi Sunak: No, I am not. What I am doing is saying, "Actually, rather than come up with £200 in one go, particularly if you are someone who is struggling to make ends meet, you don't have to do that. Instead, do it over five years afterwards at £40 a year." That will be easier on those people's family finances. It will help them and I am confident that it will.

Now, you might say—reasonably—that you think we should just borrow lots and lots more money to just wipe it all out. That's what you're saying. If you want it to be a grant, what you are saying is we should just borrow lots more and wipe it all out. And—

Q177 **Alison Thewliss:** No, a windfall tax—

Rishi Sunak: That is a choice. I have a view that what we are borrowing already is, as we've described, 60% higher as a percentage of GDP than the post-war average, and 20% higher than what we were forecast to borrow in October, for all the risks that we started this session with, about rising inflation, rising interest rates and actually not a huge amount of wiggle room really, against a target of trying to get debt falling.

Actually, I don't think it would be responsible to borrow much more. We have to balance these things. I don't think it's right, and these people will not be helped if inflation gets out of control and we make the situation worse. So, my view is that borrowing should be responsible, debt should be falling and within that we are trying to provide all the support that we can. And that's what this package does, in a way that helps people with the cost of about half of it.

Q178 **Alison Thewliss:** Chancellor, these are people who are already struggling to keep the power on in their house. They are already rationing what little power they use. These are people who are not able to boil the kettle because they don't have the money to pay these bills.

Chancellor, for people on pre-payment meters who are paying back that debt, for every £10 they top up, they have to pay £5 back already to their energy providers, and you are giving them an extra £40 a year debt over five years. That's not fair, is it?

Rishi Sunak: When you say that you want people to opt out, I think what you're saying—

Q179 **Alison Thewliss:** They should have the choice. They should have a choice and you're not giving them a choice here.



HOUSE OF COMMONS

Rishi Sunak: Because we cannot do a universal thing for 30 million people and provide individuals with the ability to opt out, and track it; there isn't an operational way to deliver that at all. Given the widespread impact that we have all been talking about and the cost of living, it seemed better to err on the side of being generous in making this available for everyone.

I don't see how opting out is going to help the people who I think you and I both care about, because if they opted out of this, they would have to come up with £200 this year, whereas actually they will have to come up with none of that this year and just come up with £40 a year for five years afterwards. I don't see how asking them to come up with £200 this year will help them.

Q180 **Alison Thewliss:** You can't yet explain to them how it will work either, if it is going to be applied on to their existing debt; you can't tell them that just now either. So, this is of no reassurance and it won't come into effect until October—

Rishi Sunak: Because there is a statutory consultation that has to happen and that's the legislation that we have, Alison, and those engagements session are happening as we speak, and they will know— As I said, we are down to the 10% of people for whom this impacts in this way, because of the people on pre-payment meters, as I said, 40% of them will have it automatically dealt with and for the other 60% we are working through the detail of how this will get to them.

Q181 **Alison Thewliss:** National Energy Action says that, based on evidence of previous schemes, 10% of vouchers won't actually be used. Are those people who are eligible for vouchers but don't actually use them still liable to repay that £200 in full?

Rishi Sunak: Again, you are asking about the operational implementation of this, which, as I said, the Department for Business are rightly about to consult on currently and then go through the implementation of it. In general, it is not something that we can have people opt out of when you are trying to deliver at this scale and at this pace. Trying to create a brand new system that would track every individual person would be prohibitively expensive and take an enormous amount of time.

So, the choice was to provide universal support and err on the side of generosity, which I think, given the widespread impact of the energy price increase, is the right approach to take.

Q182 **Alison Thewliss:** I am not sure whether you are aware, but standing charges on electricity meters vary quite widely across the UK. In London, they are going up by 38% to 31p per day. In the south of Scotland, they are going up to 47p a day, which is a 100% increase from what it was before. Why does this heat now, pay later scheme not even attempt to meet the needs of different parts of the UK?

Rishi Sunak: As I said, it is providing universal support to everybody, with £150 from a council tax rebate—with Barnett consequential for



HOUSE OF COMMONS

Scotland—that will help four out of five households in April in one go, which I think is significant and will make a difference to people. The remaining £200 is universally as a discount on the energy bill in that month, and it takes that time to get to that point. These things will help, as I have said, tens of millions of people. They are being delivered very broadly across the country.

Q183 **Alison Thewliss:** Weather is not equal right across the country, though, is it?

Rishi Sunak: No, but we have the cold weather payments scheme. For those who receive that means-tested support, it is an extra £25 a week when the postcode in their area shows that the temperature has dropped below a certain level. That is a weather-dependent part of the system that already exists to provide extra support to those in need at particular cold times.

Q184 **Alison Thewliss:** Yes, but that does not deal with the standing charge disparities either, does it?

Rishi Sunak: No, but it is the bit of the system that provides extra welfare support to those in need when the postcode area they are in shows a drop in temperatures.

Q185 **Alison Thewliss:** Why is there no additional support or energy price cap for people who use heating oil and LPG?

Rishi Sunak: They do benefit from the council tax rebate. It is done through the council tax system, so they will benefit from that, and the discount is done on electricity meters rather than gas meters specifically for that purpose, so they will benefit from both of those things.

Q186 **Alison Thewliss:** They are having to fill up significantly more expensively than people who are on mains gas, because they are having to fill up the whole tank of LPG or heating oil, and they do not have any choice about that, and that has gone up by hundreds of pounds.

Rishi Sunak: Yes, the price cap does not apply to that form of energy.

Q187 **Alison Thewliss:** So why is there no support for that group of people? That is a significant number of people.

Rishi Sunak: They get the support that is provided for everyone else, and we have gone through the very specific extra discretionary support that we have that is given to local councils, particularly for those types of reasons. Where they will have identified people who are in particular need, they can get discretionary support to them.

Dan York-Smith: I was just going to add that the fuel duty cut applies to all types of fuel, so a proportionate cut is applied to red diesel used for heating.

Q188 **Alison Thewliss:** But no additional support to those folk who are stuck off gas grid.



HOUSE OF COMMONS

Rishi Sunak: They disproportionately benefit from the energy upgrade schemes that I talked about, as well. They are targeted. There are multiple different schemes that do that. I forget the name of the one that is particularly targeted to people who are off gas grid.

Q189 **Alison Thewliss:** Moving on to the council tax reduction scheme, why did you decide to do that through the council tax system, rather than through universal credit, for example?

Rishi Sunak: Because I wanted to make sure that we helped those people on middle incomes as well, given the scale of the challenge that they face. It is not just people on welfare who will be impacted by the increase in energy bills. Working families on median incomes will also be impacted by it, given the scale of the increase, and the council tax system is the best way we could find to get cash to that broader population and do so in a way that was relatively fast as well. The council tax system means we can help four out of five English households, and in April. The universal credit system is about 5 million households—it is considerably less.

Q190 **Alison Thewliss:** For people on considerably lower incomes and on universal credit—would it not have been more helpful to those people who really are struggling to get it to them more directly?

Rishi Sunak: Through what—

Alison Thewliss: Being on a lower council tax band does not necessarily mean that you need that assistance.

Rishi Sunak: What are you suggesting instead?

Alison Thewliss: Perhaps doing it through universal credit or the legacy benefits system.

Rishi Sunak: Just generally to uprate benefits.

Alison Thewliss: To use that equivalent £150 and get it out in a slightly different way, because there is no—

Rishi Sunak: I am sorry, are you saying we should take the same amount of money and give it only to people on universal credit?

Q191 **Alison Thewliss:** I am saying that the council tax system seems a very blunt way of getting money out to people, rather than on the basis of need.

Rishi Sunak: Look, it is a choice.

Q192 **Alison Thewliss:** I wonder why that particular avenue was taken.

Rishi Sunak: I think there are lots of people not on universal credit who still deserve and need help to meet higher energy bills. You might not, and that is fair enough, and therefore you could be comfortable just helping people on welfare. Given the scale of the increase in the energy price cap, it was absolutely right that we helped those people on middle incomes as well. That is why we did it through the council tax system.



HOUSE OF COMMONS

You might think, “You know what, someone on a median household income of £30,000 doesn’t need any help,” and therefore you can do everything through universal credit, but I think that person on the median household income does need help. There is a very good correlation between household income levels and council tax bands—not perfect, but it is the best one we have—and, given the scale of the problem, it was right that we helped the vast majority of people. That is what helping through the council tax system does. I don’t think it is right to limit the help just to people on welfare, but I appreciate that that might be a choice you would have made.

Q193 Alison Thewliss: The Government’s guidance to local authorities on how to pass the rebate on to households in England who do not pay by direct debit states: “councils can choose whether to offer £150 credit to an eligible household’s council tax account as a payment option.” Why is that not the default option right across the policy?

Rishi Sunak: Sorry, again, the actual implementation of this is a matter for the Department for Levelling Up, Housing and Communities. They are responsible for the guidance. They have worked with councils and the LGA about how best to get this support to people. It is not a function of the money, which we have all approved. On your specific point, I am happy to get back to you on it.

Alison Thewliss: I am happy to leave it at that.

Rishi Sunak: Fine.

Q194 Emma Hardy: I have a quick question on standing charges, because a lot of constituents have contacted me about them—people who are switching the heating off to reduce their bills, but seeing standing charges going up. A quick question, because it is not my turn: will the Treasury have any conversations with Ofgem about that, in particular looking at which companies are pushing the standing charges up more than others, and whether there could be any regulation on that increase in standing charges, which is hitting people?

Rishi Sunak: Thanks for raising that, Emma. That is probably primarily something for the Department for Business, Energy and Industrial Strategy, because they would normally be the ones to talk to Ofgem, but again I am happy to follow up on that.

Dan York-Smith: The standing charges should be within the price cap—

Rishi Sunak: Yes, they are included in the price cap—

Dan York-Smith: The balance of the standing charge versus the—

Rishi Sunak: But I can pick that up with Kwasi and the Department for Business.

Emma Hardy: Thank you.

Q195 Siobhain McDonagh: Before I ask my questions about proposed income



HOUSE OF COMMONS

tax changes, I wanted to let the Chancellor know that the cost of filling up my Kia Picanto has gone up from £30 to £54 in the time that I have owned it. Mr Sunak, did you face a similar fuel hike in the time you have owned your Rio?

Rishi Sunak: How long have you owned your car?

Siobhain McDonagh: About three years.

Rishi Sunak: Mine is probably older than that—

Q196 **Siobhain McDonagh:** Is it a Rio, Chancellor?

Rishi Sunak: No, we have a Golf—

Siobhain McDonagh: But you fill up other people's cars now.

Rishi Sunak: Yes, it was an employee at Sainsbury's. I am grateful to Sainsbury's for passing on the fuel duty cut very quickly, as did a couple of other retailers straight away because, as you made the point, people's petrol bills are rising. They are rising because energy prices globally are going up, partly in response to—

Siobhain McDonagh: Mr Sunak—

Rishi Sunak: If I could finish answering that question—

Q197 **Siobhain McDonagh:** I get to ask the questions; I am sorry. Mr Sunak, are you a fiscal illusionist?

Rishi Sunak: Why don't you define what you mean?

Siobhain McDonagh: We have a tax burden rising to the highest level since the 1940s, the worst fall in living standards since the 1950s, public sector net debt reaching the highest level since the 1960s and real earnings growth facing the largest one-year drop since the 1970s, but you gave absolutely nothing for most people, in particular the most vulnerable, in your spring statement.

Rishi Sunak: I fear, unfortunately—apologies if this becomes repetitive—that your list of things did not mention the fact that we have also experienced a once-in-a-century pandemic, the biggest economic shock in 350 years and borrowing that has spiralled up to levels that we have not seen since the second world war. To repeat the previous conversation, the reason that the tax burden is rising is that it is a direct result of the fact that the Government are continuing to invest very strongly in public services across this Parliament, at historically very high levels, at the same time as recovering from the shock of the pandemic, while choosing not to go down the route of austerity.

Most people understand that the Government need to pay for the things that they are spending money on, so with tax burden and spending, if one is high, the other one will be high. That is where we are with that.



HOUSE OF COMMONS

In terms of the direction of travel, with that work out of the way and those decisions having been taken, the priority from the autumn is to use whatever marginal powers or space we have to cut taxes from this point— notwithstanding the fact that we have had to take corrective action to solve these problems that were not on your list. The direction of travel going forward is to cut taxes.

You gave all those other stats about inflation and living standards. Yes, we, along with most other developed economies, are experiencing high inflation as a result of global forces. That is happening in Europe and the US. Before the recent couple of months, it has been a result of the recovery from coronavirus, which was very clear and apparent— particularly in goods prices. It has been accentuated by the crisis in Ukraine, which is causing an upward spike in energy prices. Those are the things that are driving not just a fall in standards here but also elsewhere.

Q198 Siobhain McDonagh: No other country in the G7 or wider G20 is increasing people's personal income tax at a time when prices are rising. In your statement, you pledge to cut income tax tomorrow while raising national insurance today, widening the gap between the taxation of earned and unearned income. The net result, according to the IFS and the Resolution Foundation, is that everyone earning below £34,000 per year will be worse off. Why did you prioritise your ambition to have a reputation as a tax cutter over helping people really worried about heating their homes or feeding their kids?

Rishi Sunak: Again, 70% of taxpayers will be better off as a result of raising the national insurance personal tax threshold. We are choosing to help them by doing that.

Q199 Siobhain McDonagh: That is misleading, isn't it? It is the net result that matters. Your so-called tax cuts only marginally reverse the historic hikes that you are already imposing.

Rishi Sunak: We are talking very specifically about this next year. In answer to your question about helping people deal with the rising cost of living, 70% of taxpayers will be better off as a result of the net impact of both the levy and the increase in the personal tax threshold. It is beneficial disproportionately to those on low and middle incomes.

Q200 Siobhain McDonagh: If we do the maths, when you add up all the proposed tax increases and subtract your—

Rishi Sunak: I think, Siobhain, you are talking about over the Parliament, but yes, we have already had that conversation.

Q201 Siobhain McDonagh: With respect, you don't decide what questions we ask or how often we ask them.

Rishi Sunak: I am not saying that is not the case.

Q202 Siobhain McDonagh: Let's do the maths. When you add up all the proposed tax increases and subtract your fuel duty, income tax and national insurance threshold pledges, the net result is a 3.3% rise in the



HOUSE OF COMMONS

tax to GDP ratio between 2019-20 and 2026-27. Is that really a cause for celebration?

Rishi Sunak: No, it is a reflection of the fact that public spending is also over that period going to rise by over 2 percentage points of GDP—from around 39% to around 41%, from memory, of the total managed expenditure definition. As we have discussed, the Government have to pay for the things they are spending money on. As public spending rises as a share of the economy, unsurprisingly related to that, the tax burden is rising to pay for that public spending. That is what is happening. The reason it is happening is because we have stuck with ambitious investments in public services at a time when the economy is suffering from the effects of coronavirus. Therefore, rather than cut public spending, we are raising the taxes to pay for it.

Q203 **Siobhain McDonagh:** Finally, I just wanted to ask about the proposed timing of the income tax cut in 2024. I wondered why this particular date was decided on. Do you believe it is good economic management for a Chancellor to determine his fiscal policy decisions around the general election cycle, or do you think it makes people more cynical about politicians?

Rishi Sunak: What I think it does is provide a direction of travel, which, given that you have just asked about the tax burden being very high, I agree with. I am keen to see people's taxes come down over time from this point. I wanted to make sure that people realised that it was a serious commitment. We started in October with the cut in the universal credit taper rate. We continued that last week with a very significant personal tax cut, by raising the national insurance thresholds. It will be £6 billion, and 13 million people will get a tax cut of up to £330 as a result of that. To show people that we are very serious about continuing to do that, and about prioritising it, we have put in the numbers, in order to deliver it at a time when we are forecast to be meeting our fiscal rules, and when inflation is expected to have abated. It is right that we have discipline in the system, so that we are focused on delivering a reduction of the tax burden, rather than prioritising more public spending. I think it is an expression of that.

It is not at all uncommon for Chancellors, both on the business tax and the personal tax side, to announce things a year or more in advance of them coming into effect. That has happened previously on income tax, and it has happened particularly on business tax as well.

Q204 **Siobhain McDonagh:** Do you think people are stupid?

Rishi Sunak: I think people will see that—

Siobhain McDonagh: Do you think people are not going to see through this?

Rishi Sunak: I think what people see is that last week, we cut fuel duty, which will help save them money when they are filling up their cars; that we created a tax cut for 30 million people worth £330 a year, which will



HOUSE OF COMMONS

really help; and that we are committed to carrying on cutting their taxes over time, and that is the priority of the Government.

Siobhain McDonagh: In the general election year. Thank you, Chair.

Q205 **Anthony Browne:** Various people have criticised the cut in fuel duty, saying that it will compromise the Government's net zero target for 2050. Do you think it will?

Rishi Sunak: No. We have a very strong record on reducing carbon emissions. We have reduced carbon emissions by about 40% since the 1990 baseline, compared with the other G7 countries, which have done about 5%. Our track record is very strong, and the Prime Minister has set out a comprehensive and ambitious 10-point plan to help us get there over time, backed up by tens of billions of pounds of investment across the board in all the different things we need to do. Particularly on the vehicles side, one might point to the investment we have put in, for which the numbers are—oh, gosh—one point something billion pounds on installing electric charging infrastructure across the country; there are charging grants for people; and there is also money for new gigafactories, one of which has been announced.

Dan York-Smith: I point out that the OBR have something in their economic and fiscal outlook about the increased take-up of electric vehicles reducing the fuel duty forecast, so revenues are still quite substantially lower than they were forecast to be, pre-pandemic. Only part of that is due to freezes.

Q206 **Anthony Browne:** Revenues due to Government overall.

Dan York-Smith: Yes.

Q207 **Anthony Browne:** The Government have the policy of the fuel duty escalator—of increasing the price by RPI every year. They have not done it for the last 11 years, but they have that because increasing the duty is supposed to encourage less car use. Presumably, cutting the duty will encourage more car use.

Rishi Sunak: Again, it is offsetting a significant rise in the cost of fuel. Those two things broadly offset each other in the short term, because the increase in fuel prices is obviously quite significant.

Dan York-Smith: For many people, driving is inelastic. People have to drive because they have to get to their place of work or drop their kids off at school. Marginal changes in the price do not make significant differences to how much they drive; they obviously affect the overall cost of driving, though.

Q208 **Anthony Browne:** You mentioned earlier that Sainsbury's passed on the cut quickly, but have you followed how quickly retailers in general have passed on the cut in duty to drivers?

Rishi Sunak: The Department for Business is actively looking at all of that, and as you will have seen, the Business Secretary and I jointly wrote



HOUSE OF COMMONS

to all the various associations concerned at the time of the announcement. I was pleased to see a handful of them say straight away that they were going to be passing it on, and we are keeping an eye on the pace at which that is happening. I know the Business Secretary is keenly following this and making sure that everyone does pass it on as quickly as possible.

Q209 **Anthony Browne:** The RAC said that it would have been a lot more progressive to cut VAT, rather than duty, because it is charged at the petrol pump. Why did you decide to cut duty—which is done at the wholesale level, obviously—rather than VAT?

Rishi Sunak: Fuel duty is something that we do, and we have done in the past. It is administratively easier, because it is done at distribution point, rather than at retail.

Dan York-Smith: The other thing is that cutting VAT over fuel duty would not benefit businesses, because businesses are able to reclaim—

Rishi Sunak: To reclaim it back.

Dan York-Smith: The impact of that.

Rishi Sunak: And about 40% of the overall impact on fuel duty is business, rather than individual.

Q210 **Anthony Browne:** Coming back to the fuel duty escalator, it has been Government policy for a long time, but in the last 11 Budgets, it has not been followed through on. It seems a bit of a fiscal fiction to keep saying you are going to do it, and to cost it every year, and then not actually do it. Why do you carry on with it?

Rishi Sunak: It remains the legislative default, and that is why it is scored in that particular way.

Q211 **Anthony Browne:** The other environmental measure you had was cutting to zero VAT on energy efficiency things such as solar panels, heat pumps and insulation. That is incredibly welcome. It is something I have wanted to see for a long time. It will not have much of an impact on people's energy bills, or on the cost of living, in the short term, though. I don't know whether you have done a distributional analysis on that, but only people who can afford solar panels and heat pumps will benefit in the first place.

Rishi Sunak: I think that is fair. It is something we can now do as a result of having left the EU, because the ECJ prevented us from doing it in the full, generous way that was originally envisaged, so that is a welcome change. It will mean in total a £1,000 saving on a typical solar panel installation. You are right that they are not cheap in the first place, but they save you about £300 on average on your bills every year thereafter, so there is a reasonable payback period.

In answer to Alison's question—the same point—to help those who cannot afford to do that, we have two systems. One is through the bill system. The energy company obligation, which is about £1 billion a year, does



HOUSE OF COMMONS

exactly that for people in fuel poverty. The Government is spending about £3 million over the Parliament to help about half a million homes—again, social housing, those off the gas grid, and those in fuel poverty in particular—do energy efficiency through grants that will save them about £300 a year on average. That is how the policy helps those people.

Dan York-Smith: It also applies to things such as roof insulation or draught proofing, which are obviously much cheaper. If it is £300 for insulating a roof, the total VAT saving from paying zero is £57.

Rishi Sunak: Even radiator controls come under it.

Dan York-Smith: Yes, smart radiators.

Rishi Sunak: There are things that are much more accessible. It is not just solar panel installation.

Q212 **Kevin Hollinrake:** I want to ask about the growth forecasts. I think you said earlier, Chancellor, that if there is more public spending, we need to pay for it. Some people might say, "Let's just add that to borrowing for now and get the economy growing more quickly because of lower rates of taxation, then knock the taxes up and reduce the debt-to-GDP ratio." Why aren't we doing that?

Rishi Sunak: We are doing that, but we have to be realistic about balancing tax and spending, and what growth is likely to be in the short term. One thing that we set out in the tax plan was a range of options to improve how the tax system will incentivise more investment in innovation, capital and training, which I believe are the three areas that we need to focus on if we are going to drive up our growth rate sustainably. We need to get the private sector to do more of that, not the Government. We can use the tax system to do that, and there is a range of options in the tax plan to help do that.

Q213 **Kevin Hollinrake:** Gareth will come to that in his questions. This is more about borrowing. We can borrow very cheaply. Can't we just keep racking it up and then get the debt under control with faster growth in the economy?

Rishi Sunak: You know what? When I first started this job and the pandemic hit, a lot of people told me that that was exactly what I could do. You will remember that interest rates at that point were very low, inflation was very low, and everyone said, "It will stay like this for ever. Just borrow what you want. It's cost-free—no problem. You don't have to worry about any of these things any more. We're in a new era." I did not think that was the case, and I got some criticism for saying at the time that I did not think that was the case, but that is exactly what we are facing now. We face a situation with rising inflation and rising interest rates, and that has implications for the public finances and borrowing.

You will have heard me mention that the total bill for our interest payments next year is forecast to be £83 billion. That is four times the amount that we spent last year. A 1% move in inflation and interest rates



HOUSE OF COMMONS

is worth about a £20 billion hit to us. I don't think it is right to assume that you can continue to borrow and that that is cost or risk-free. We have talked about our headroom already, and my view is that we need to be responsible with borrowing and debt, not least because that means we can help in the future when shocks come along.

Also, in the short term, we don't want to make this inflation problem worse. More Government borrowing in the short term has the potential to make the inflation situation much worse, and that would potentially force the Bank of England to put up interest rates. That would have an impact on everyone, for example, who had a mortgage. A 1% increase in the typical mortgage outstanding over time is worth about £700 a year, so we have to be mindful of all these things. Just borrowing more is not cost or risk-free.

Q214 Kevin Hollinrake: Sure, okay. You have said a number of times, at the Dispatch Box and in other places, that we are growing faster than any other G7 economy—bouncing back. I think at one point we were forecasting 6% growth in 2022, but the OBR is now saying 3.8%. Why is that? Why has that fallen back? Are we still the fastest growing economy in the G7 at that level?

Rishi Sunak: We don't know, because the IMF have not published their new forecasts. It may well be different when they do that, because inflation will hit different countries in different ways. The US, for example, are not a big importer of energy, so they will be much less impacted by a global inflationary shock than we are, being a net importer of energy. So almost certainly that will change the picture when the next global comparisons are done.

In terms of the reasons for the downgrade—Dan may want to chip in—they are a function predominantly of the pre-existing impact of higher inflation and goods prices on the economic outlook, and there is a partial taking into account of the impact of Ukraine. As the OBR would acknowledge—they have probably said this to you—they haven't taken into account the full impact. There is the potential for the economic outlook and public finances to deteriorate by the time we get to the autumn, given that is the case. Is that a fair summary?

Dan York-Smith: Yes, I think that's exactly right. I think about half a percentage point of the reduction in the OBR's growth forecast is a direct result of how they have taken account of the impact of the invasion of Ukraine on energy markets and energy prices, but as the Chancellor says, more broadly, it's a kind of terms-of-trade shock, because about 60% of the inflation that we are seeing is a result of energy prices and 30% is a result of goods. We are a net importer of both of those, and it's inevitable, therefore, that we are poorer as a result. The impact of that terms-of-trade shock will be quite widespread globally, but it will depend on the precise proportions of the things that have been particularly affected by the higher inflation, which began post covid, as demand, particularly for goods, rose very rapidly. Now we have had the energy price impact on top of that.



Q215 **Kevin Hollinrake:** How much worse could it get?

Rishi Sunak: Well, there is a range of sensitivities, if we put it that way. Let's do that. If you took the Bank of England's view, for example, on the economic outlook over the next few years, rather than the OBR's, that would imply purely a fiscal hit, which would wipe out over half the headroom that we talked about in 2024. A sustained 1% increase in inflation and interest rates is, again, about £20 billion. That gives you a sense of how sensitive we are to some of those changes. Beyond that, the biggest driver is going to be, probably, what happens to energy prices in October. Over the past month, we have seen very wild swings in what may or may not happen. At the top end, some of those numbers obviously are hugely, hugely significant for the UK. That is why, as I said last week, the actions we have taken to sanction Russia, and to continue to do so, are not cost-free for us here at home. And that's what the potential is.

Q216 **Kevin Hollinrake:** We will come to sanctions in a second. In terms of trade, we are seeing trade intensity and exports dropping quite significantly compared with other nations—EU nations, for example. I think trade intensity is down by about 15% and exports are down by 12%. Why is that? Is that Brexit?

Rishi Sunak: Dan might come in in a sec. It's quite hard to disentangle the various impacts of the pandemic, but also the change in our trading relationship with the EU. The data is actually a bit imperfect; we are trying to parse it at the moment. It's clear that you're describing a situation that has materialised. I think it was always inevitable that if you changed the exact nature of your trading relationship with the EU, that was going to have an impact on trade flows, but it's hard, at this moment—until we get through all of this—to disaggregate the various impacts that are going on. That would be my sense.

Dan York-Smith: I would agree. I think the latest ONS monthly data actually has goods exports to the EU above the level that they were at before the TCA was signed, and EU exports have performed better than non-EU exports, so it's quite difficult to get a firm picture of what is driving it. There is also quite a lot of volatility. I'm sure it's something that the OBR will come back to in their next forecast.

Q217 **Kevin Hollinrake:** In the Mais lecture, you talked about business investment, which Gareth is going to deal with. You were concerned about a steady drift away from free market principles, what Government should and should not do, and whether Government should be so interventionist. None the less, we are pretty interventionist, which I support, in terms of levelling up. How is that consistent—not being interventionist and levelling up?

Rishi Sunak: Even in levelling up, as the White Paper said and as the Prime Minister said in his speech, we need the private sector to do the investment required to level up and spread opportunity around the country. Private sector investment dwarfs public sector investment. It is right that we create the conditions for it to happen, and that we also do the things that Government is responsible for in a way that benefits all



HOUSE OF COMMONS

parts of our economy—infrastructure investment is an obvious example of that, as is rural broadband. All that is necessary but not sufficient; unless private enterprise does its bit and follows, or allocates capital in a different way, we will not be able to realise those ambitions. However, I am confident that we are doing all the things that will make sure that we do.

Q218 **Kevin Hollinrake:** If you will allow me, Chair, I might have a couple more questions at the end of Gareth's section.

On sanctions, responsibility is mainly in the Foreign Office, but clearly some of the sanctions affect the UK, and you said that sanctions are not without cost. What role has the Treasury had in determining which sanctions to implement, particularly in financial services and banking?

Rishi Sunak: As you would expect in all these things, we are a Cabinet Government and we go through all these things together. Ultimately, our job on the economic side is to provide the advice and analysis about the effectiveness, impacts and consequences of different sanctions, and where we are responsible for working with industry to deliver them, that is what we do. In my role, I talk a lot to other Finance Ministers to make sure that we are broadly co-ordinated—or as co-ordinated as we can be—and doing similar things, so that the sanctions have the maximum effect.

Q219 **Kevin Hollinrake:** They will have different effects when they are imposed by different nations. You work with other Finance Ministers, of course. What do you do in terms of cost-benefit analysis? Is that something you do before you recommend a sanction?

Rishi Sunak: Yes, as you would expect. It is not as easy as reducing it down to one number, but clearly a country that has very limited economic interaction with Russia and is self-sufficient in energy will bear the impact of sanctions very differently from a country that has a much more integrated trading relationship with Russia and is dependent on Russian energy. Those are two extremes; every country approaches this slightly differently, but I think everyone and all my colleagues recognise that where we can act together, it has more impact and is more effective.

Q220 **Kevin Hollinrake:** We recently had an exchange of letters with John Glen, the Economic Secretary to the Treasury, about why you sanctioned certain banks, because that is not clear. You sanctioned Alfa Bank last week, but the criteria for doing that are not clear. Is there a way to clarify who you are sanctioning and for what reason, and who you are not sanctioning and for what reason? For example, Canada seems to have sanctioned everyone across the board, pretty much.

Rishi Sunak: I think it goes back to your first question about the differential impacts on each country, and ensuring that the case is made. On banks, I think we are now ahead of everybody. Canada, as I think the Canadians would admit, is a good example of a country with a pretty limited economic relationship with Russia, either through its banks or through energy. In one sense, it is pretty easy for a country like that to do that. Relative to all our European peers and indeed the US, on bank



HOUSE OF COMMONS

sanctions we have gone further. I am pretty confident that what we have done is significant—ditto on the central bank side.

Q221 **Kevin Hollinrake:** So the ones we have not sanctioned as severely, presumably that is to do with energy payments?

Rishi Sunak: Exactly. At this point, there is only one, but we have prohibited that bank from accessing sterling clearing. You are talking about Sberbank, so even on that bank we have done things that are more than what Europe has done with euro clearing, and where we are is very similar to where the US is.

Q222 **Kevin Hollinrake:** Obviously energy is the key one that everyone is talking about at the moment, and different countries have different dependencies, of course. Russia has now said it wants payments for its gas in rubles. What are the implications of that?

Rishi Sunak: Russia is going to do what it can to support its economy. We should take some comfort from the fact that we are making life difficult for them, particularly because of the targeted measures we have put on the central bank and its ability to access foreign reserves. The other measures have meant that the ruble has plummeted by over a third—that is quite significant—and the central bank has had to double domestic interest rates to 20%. They are clearly feeling the pain from that, and they will try to find ways to support their economy. Our job is to make sure we continue to apply the pressure.

Rest assured that among Finance Ministries and Treasury Departments, we are having a continual conversation to ensure that our sanctions regime is effective.

Q223 **Kevin Hollinrake:** If they went ahead on the threat to cut the gas off, which was made when Germany refused to pay for gas in rubles, what would be the implications of that?

Rishi Sunak: I do not want to get into hypotheticals, but we have been talking a lot about the cost of living, and the biggest driver of that is energy prices. A shortage of Russian energy obviously has very significant implications for European energy markets and energy pricing, by which we are also impacted even though we are not as direct an importer, and we are a very small importer, of Russian gas, because indirectly we are connected to a market that is. At one point during the last month, the projected energy price cap in autumn went up to something like £3,400. That gives you a sense of what some people at that point were worried about.

Q224 **Kevin Hollinrake:** We talk about enforcement a lot in various different contexts these days—quite rightly. Since 2016, the Office of Financial Sanctions Implementation has imposed only six fines, to the tune of £21 million; in the same period, the US version, OFAC, has imposed 92 fines totalling £1.5 billion. You talked to Angela about beefing up the numbers of people at OFSI, which does not seem to have been effective so far so it is great to hear that you are resourcing it better, but can we expect an



HOUSE OF COMMONS

increase in the number of fines in the coming years, based on the sanctions we are seeing?

Rishi Sunak: Yes, you are right. The maximum fine that they have imposed so far—they have only had the power since 2017—was just over £20 million. In the recent Bill that passed Parliament—you might want to correct me, Dan—they were given new powers to enforce their sanctions and gather the information they need. I think John Glen has written or spoken to you about that. Those new powers, combined with the extra resourcing, make me confident that, going forward, they can fulfil the role that we all want them to play.

Q225 **Kevin Hollinrake:** What about Russia's ability to circumvent sanctions, either through various different nations that are willing to co-operate or through different companies? Do we need to look at secondary sanctions? Are they something that might be brought forward? Where are we with all that kind of stuff?

Rishi Sunak: The first thing we are doing is trying to talk to all our partners across the world and urge them to join us in imposing a significant economic cost on Russia, and that work is ongoing. Lots of countries have joined us in that effort, and everyone is playing their part in different ways—well, not everyone, but lots of people are playing their part in different ways, which is good. As I said previously, without going into details, all our Finance Ministries are working together to make sure that the sanctions we have in place are effective, to the extent that when we see things that might be risks to their effectiveness, you would expect us to respond as we can. For example, there was recently a concern about the use of crypto-assets to circumvent sanctions, and clear guidance was given by us, the FCA and others—and similarly in other countries—to make sure that the people involved were aware of their sanctions obligations.

Q226 **Kevin Hollinrake:** How appropriate is it for HSBC to maintain a banking presence in Russia?

Rishi Sunak: All financial services entities that we have regulated for are complying with UK sanctions. I cannot speak for every individual company, so forgive me—I am not sure exactly what operational presence they have—but in compliance with the sanctions, all UK—

Q227 **Kevin Hollinrake:** They have a bank there—it is not called HSBC—where about 200 people work. They refuse at this point in time to divest themselves of that investment.

Rishi Sunak: On divestment, we have made the general point that it is not actually possible for many of these companies to divest assets, because Russia has prohibited many of them from doing so. You have seen announcements from companies that have; others have said they are not going to do anything incremental. Each company is going to make its decision. Certainly, new investment is something that we said would be quite hard to justify at this point. I think most companies I have spoken to agree with that. For those that are in a position to divest, it is up to them to do that.



Q228 **Kevin Hollinrake:** Do you support that kind of divestment? Is that something you would like to see?

Rishi Sunak: I think each company will make its own decisions. They have fiduciary responsibilities of their own, for example, to their own employees and investors, which may well be UK pension funds. They may not be able to divest if Russia is prohibiting them from doing so. They will make their individual decisions. In a general sense, we will support them where they want to do so, if they think that is the right thing to do. In general, we would find it hard to see how incremental investment from this point in Russia would be justified.

Q229 **Chair:** Chancellor, may I come back to one of your answers on Brexit and trade? I think you were basically saying that it is difficult to disentangle the various effects of the pandemic and Brexit. I guess that is true to a degree.

Dan might be able to find the chart for us, which I think is on page 64, chart I, which shows how trade intensity of GDP for ourselves and our European trading partners, the euro area and advanced economies has changed during the period from when the pandemic/Brexit struck, and what has happened in more recent times. It shows that we have gone down; there has been, as the OBR predicted, a slump in our trade with the EU. The other countries have now come back up quite strongly, but we have stayed down. Does that not tell you that the main distinction between ourselves and them is that we went through Brexit and they did not?

Rishi Sunak: It might well be, but it is too early to be definitive about it.

Q230 **Chair:** What else might it be?

Rishi Sunak: I have not got all the numbers in front of me, but when I was looking at this a couple of weeks ago, if you look at UK-EU and UK-rest of world imports and exports, there is a range of different things moving on. They are not all consistent with themselves. We are still trying to work through what all the impacts are. It was always inevitable that there would be a change in our trade intensity with Europe—

Chair: Quite a significant one.

Rishi Sunak: —as a result of a change in the trading relationship. That is expected and unsurprising when you change a trading relationship with the EU. In general, trade intensity is falling.

Q231 **Chair:** Are you concerned that we are becoming a more closed economy post Brexit?

Rishi Sunak: Not as a result of Brexit. I do not think that is the case. In fact, the work that the Trade Secretary is doing is making us much more open to countries around the world for trade.

Q232 **Chair:** So why have we got a significant reduction in trade intensity that has stayed low, whereas others' have come back up?



Rishi Sunak: As I said, without a doubt we are changing our trading relationship with the EU. That means a different set of controls and things that people will have to do. That will obviously have an impact. I am sure that is a big part of the reason why this is happening. I just think it may be a bit early to be definitive about which bits are doing what. In general, though, the approach is to be much more open to the world on trade.

Q233 **Chair:** That is the aspiration, but the reality appears not to be—

Rishi Sunak: Yes, because the benefits of new trading relationships take time. They do not happen all overnight. Of course, that will happen over a period of time, and you would expect to see that. The conversations we are having about the CPTPP are a good example of the type of ambitions we have on trade and being open to the world, and control of our own tariff schedule, which we have improved since leaving the EU, to make it cheaper to import things. That is good and it means we are more open to the rest of the world as well. It is not about being closed. In general, the world is having a conversation post coronavirus, talking about onshoring of supply chains and things like that.

Q234 **Chair:** It is indeed. Very quickly, because I am anxious to bring in Harriett, if it remains the case that these new deals do not float our boat up very quickly and we stay down roughly where we are and are a more closed economy, what concerns would you have, particularly around our mission to improve productivity and living standards?

Rishi Sunak: The OBR already factors in decreasing trade intensity into all its forecasts, anyway, so everything you are seeing is on the basis of an assumption that it has about exactly that phenomenon. In general, I am someone who believes in trade, because I think there are benefits from investment, and it does have positive benefits on productivity. We have seen that, which is why I am glad that we are forging new trading relationships with more countries around the world. Once we have left a customs union and single market, inevitably there will be a different trading relationship with that entity, which will have an impact on trade. That is just an inevitability.

Q235 **Chair:** Okay. I said “final”, but I will have a final “final”, if I may. If the trade intensity stays down where it is—lagging behind all these other countries—and it is a consequence largely of Brexit, is that a situation that, compared with the time when we were discussing these things, has surprised or shocked you as you are sitting here now, or is that what you expected?

Rishi Sunak: Again, you will have to forgive me, because I do not have the numbers to hand or in my head as to what it is currently, what I expect it to return to, what was forecast at the time and what is in the numbers already. I am happy to come back to it at a future date, but I do not have all that information to hand.

Chair: Okay, thank you.

Q236 **Harriett Baldwin:** Chancellor, you mentioned in your evidence this



HOUSE OF COMMONS

afternoon the backdrop that you have experienced—the pandemic, war in Europe, the turning point in terms of inflation and interest rates. Do you consider yourself to be an unlucky Chancellor?

Chair: I think we all have to say yes to that.

Rishi Sunak: It is kind of you to say that, Harriett. It is what it is, in one sense. You do the job and you have to just deal with what is in front of you. We have had to deal with some very difficult and unprecedented things early on. That obviously has implications for our fiscal position and for tax, spending and borrowing now. It is reasonable as part of the conversation to recognise that. Now we are obviously dealing with a brand-new situation of a war in Europe and energy prices being where they are. That is just the reality of the situation.

What it does do, if I am going to reflect on it, is that it says that in the space of a very short period of time, we are experiencing shocks that in theory ought not to happen very often. The scale of the shocks we are experiencing is all once in a century, or once in many, many decades, or once in a half-century, yet they seem to be happening one after another, and this is, by the way, only 10 years after the last time this happened with the financial crisis.

What does that tell you? For me, it tells you the importance of having control over borrowing and a responsible approach to borrowing and debt so that you have a strong foundation to carry the country through when these things arise, because they seem to be happening with alarming regularity, and I want to make sure that whoever is sitting in this chair the next time one of these things comes along will be able to do what I have done, which is either to announce a furlough scheme or £9 billion of support for people with energy bills. That comes because the fiscal foundation we have is solid to start with. That is why it is important.

Q237 **Harriett Baldwin:** We heard from the OBR earlier today—you mentioned it, too, Chancellor—about the interest costs and how they have doubled this year. If you think of them as a Department line in and of themselves, they have gone up 100% this year. You mentioned that they are going up even more sharply next year because of the impact of inflation on index-linked gilts. Indeed, if you looked at interest costs as a line item in the Budget, it would be the fourth-biggest Department in terms of overall spending. I wanted to put that as a point at the beginning, because if you look at the departmental spending envelopes that you have set out, they will be very exposed to inflation, too. Different Departments will experience inflation differently. The OBR was not able to tell us which Departments are most exposed to the current inflationary pressures, but I am sure you are able to, Chancellor. Can you tell us which Departments will see the biggest pressures in terms of energy costs?

Rishi Sunak: Oh gosh, energy costs.

Q238 **Harriett Baldwin:** Well, inflationary pressures generally.



HOUSE OF COMMONS

Rishi Sunak: I think it is difficult, and I have not done the analysis in quite that way. What the OBR probably said to you and probably said in there is that Government experiences inflation differently from individuals, because they are not exposed to market prices in the same way. A lot of things are fixed funds, for example: you announce £1 billion of a fund on something, and if there is inflation it is still a £1 billion fund, but it might just buy a bit less of what it was going to buy before. It is a slightly different way to think about it.

Normally, we think about it in terms of GDP deflators—that is probably the easiest way that you would think about the real versus nominal impact on Department budgets. We had this conversation before about spending and borrowing, and it is definitely right that higher inflation has an impact on the real purchasing power of cash settlements. That has always been the case, and the flip is also true: when inflation comes in lower, the purchasing power of Department settlements goes up. Now, because our spending settlements were very generous in the autumn, even after the impact of higher inflation you are still looking at a 3.7% real-terms growth rate of departmental spending over the Parliament, so I think it is still generous. Does it mean people will have to work a bit harder to find efficiencies and make sure we get good savings for the taxpayer? They will. That is why we have set up a new committee, and it is right that we do that because our collective burden is to reduce taxes on people, not do more public spending.

In terms of the quantum, they put an estimate for GDP deflators at about £6 billion to £7 billion—

Chair: It is £5 billion.

Rishi Sunak: At £5 billion to £7 billion a year, so it is that kind of scale over the period.

Q239 **Harriett Baldwin:** Take for example your spending priority and the people's priority, which is the NHS. Electricity and energy costs are going to have a massive impact on hospital and NHS budgets, aren't they?

Rishi Sunak: I do not have an exact percentage of their budget. Obviously, in most Government Departments, the biggest single cost is people more than these other things, so I do not have the split by Department of the energy intensity of each Department for you. This is why the NHS is doing brilliant work under the Health Secretary's leadership to find more efficiencies—they have doubled their efficiency target from 1.1% to just over 2% over this period. That is going to free up almost £5 billion to help them grapple with things like that. They will reinvest it all back into the service, and it is right that they do so, because we have all been having this conversation about the tax burden. We now need Departments to find the savings to invest in public services, not come to the taxpayer for more.

Q240 **Harriett Baldwin:** You mentioned salaries being the biggest cost. I think it is going to be very painful for schools and hospitals to find these



HOUSE OF COMMONS

energy budget increases out of what you are saying is going to be a fixed envelope, but in terms of salaries, what have you priced in? What is the assumption that you have put in for this year's pay settlements?

Rishi Sunak: The way that process works is that there is not a central pay assumption. We did that in the pandemic, but at this point, each Department is working through this process individually with their independent pay review body. They submit evidence on a Department-by-Department basis as to what is appropriate and affordable for them, and what they think they need to do. That process is playing out as it normally would, and it is right that it does so. Each Department will be slightly different and have done that in a slightly different way, so there is not a uniform assumption or a settlement across the board.

Q241 **Harriett Baldwin:** And for pensioners this year, you are guaranteeing the triple lock again.

Rishi Sunak: Yes.

Q242 **Harriett Baldwin:** What is budgeted in terms of the increase there?

Rishi Sunak: It will be whatever the estimated CPI is in September, which I do not have off the top of my head.

Chair: It is 7.4%, I think.

Rishi Sunak: Seven-ish per cent.

Q243 **Harriett Baldwin:** So you are guaranteeing that, if that is the highest of the three, that is what will be passed through to pensioners this September.

Rishi Sunak: Yes, the triple lock would function as it normally functions.

Chair: Emma, please.

Q244 **Emma Hardy:** Oh, thank you. I was expecting it to be Gareth, but I am delighted that it is me, Chair.

A quick question to start with, Chancellor. I have just received a message from a local pensioner who is collecting for Ukraine, and he spotted that I am asking you questions. He asked whether I could ask you, Chancellor, if you can sort out him being able to gift aid his donations, because he does not earn enough to pay tax, so I said I would ask you that myself. In terms of gift aiding to the Ukrainian situation for people who do not pay tax, you were looking at match funding it up to a certain amount. Do you have any plans to look at a similar system?

Rishi Sunak: I will have to get back to you on it—let me go and look. I think we have an existing small donations gift aid rebate scheme that works on a charity basis.

Dan York-Smith: Yes, we have a small donations scheme for cash donations—things like collection buckets. It is a grant scheme, but I do not know quite how it would apply in this case.



Rishi Sunak: I will get back to you.

Q245 **Emma Hardy:** Thank you. He will be very grateful, and he is doing a fantastic job collecting for them.

Chancellor, I do not want the same answer to be given to this, but I want to draw your attention to somebody I was speaking to last month. He was working for years and very proud to be working, but his wife has frontal lobe dementia and progressive supranuclear palsy, which is a degenerative condition. She will only deteriorate further, but he carried on working up to the point when it became impossible, and he has had now to become her full-time carer. He was in touch with me because he was struggling to come to terms with the universal credit system, which is extremely difficult for anyone who enters it given all the complexities.

In the evidence you have given so far, you have said you made a political decision to help people who were working. He cannot work and will be unable to work until his wife passes away. Surely there is reason for you to go back to the Department and look again at the support, particularly for people who, for various reasons and through no fault of their own, are completely unable to work.

Rishi Sunak: First of all, I am very sorry to hear about his circumstances, so please pass that on from me, Emma. I don't think it is right to say there is no support for people who are not in work. Rather than get into a casework situation, I will step back a little bit. Our energy package of £9 billion will help everyone with their energy bills, and it will disproportionately help those on lower incomes, on top of which— Again, I don't know the individual situation, but for those people who are struggling with housing benefit, for example, the uplift that we've put in place will mean an extra £600 a year and—

Q246 **Emma Hardy:** But you must accept—I believe that you are intelligent enough to realise this—that the cost of living is increasing more than his income is increasing. That is a fact, regardless of which little pockets of money he is able to get here and there. What I am asking for—you don't have to give me a policy commitment now—is that you are able to go back to the Department and look particularly at what more can be done to support those who are caring for disabled people.

Rishi Sunak: As I said at the beginning, as we said in the document, and as I said on the day, the single-biggest driver of the cost of living impacts that people are fearing is energy prices. We have announced a considerable amount of support for the price cap increase in April. None of us knows what the price cap will be later in the year, so it will be appropriate, as was said, to wait and see before deciding on the appropriate—

Q247 **Emma Hardy:** He is struggling now.

Rishi Sunak: Well, he is probably about to get—again, we're getting into the specifics—help starting very shortly with energy bills when the price cap goes up. Then, as I said, when we know what the situation is in the autumn, that would be the right time to decide what is appropriate at that



HOUSE OF COMMONS

point. With regard to people on disability benefits in general, we spend about £58 billion a year across a range of different benefits.

Now, everyone will have their view on whether to spend more, less or differently, but if you look at the OECD's analysis of how different countries spend money on disability benefits, we rank pretty well. We are ahead of countries like the US, Canada, Austria, Germany, New Zealand and Australia. That is going on a range of different things which, without knowing— I am more than happy for you to write to me about his situation to figure out what of the many things we are doing for people who are disabled or caring for someone who is—

Q248 Emma Hardy: There are so many people like him. He is on a fixed income, and his wife is only going to get worse. He cannot work. There are thousands and thousands of people like him around the country. His income is decreasing at a time when he has less money to live on. He is having to rely on coming to his MP and being signposted to various charities and support. What I am asking is for you to go away and have a look again at the support particularly for this group of people. I don't need to hear the answers you've given previously; I would like to hear you say to me, "We need to look at the support we are giving to this particular group of people."

Rishi Sunak: What I will do is write to you, and people like him in those circumstances are exactly the kind of people who should benefit from the household support fund. It is there to help vulnerable families like his, who may not feel that they are getting the support they need elsewhere. The guidance for that will be published shortly, and the DWP is working on it. When that is done, I will make sure that I let you know so that you can pass it on to him and he knows where to go.

Q249 Emma Hardy: Moving on to the situation with P&O, I am sure you will be as outraged as I am at the appalling way DP World has treated its 800 staff. Has the Treasury considered revisiting the freeport status of Thames and Southampton freeports, which are both operated by DP World?

Rishi Sunak: Across Government, we are reviewing the relationship with DP World and all the various contracts and things that we have. There is not a contractual route to change the terms of the various things we are doing under the freeport programme, and it is not as simple, because a freeport benefits lots of different people in a local area in lots of different ways. Although one company might operate an area, it will be all the other companies that use the space and employ people, or are going to employ new people or invest in the place, that will create jobs and help people locally. They are the ultimate beneficiaries of the programme.

We are looking at everything. I cannot say more than that, but I would just say that it is not as straightforward, because there are lots of other companies and, therefore, local communities and residents that are benefiting from it. I am very happy to have a conversation with those local areas about that particular topic.



HOUSE OF COMMONS

Q250 **Emma Hardy:** Just to clarify, one of the things you are looking at would be another company running those freeports. Is that correct?

Rishi Sunak: No, I do not think that is possible. I cannot stop a company that owns a site from owning the site. You would worry about property rights in that regard.

Q251 **Emma Hardy:** It has also been reported that P&O received millions of pounds in furlough support—I think *The Mirror* said it was £10 million that they received during the pandemic. Do you have any plans to ask DP World to pay any of that back?

Rishi Sunak: We do not have a legal ability to do that, but as you have seen, the Transport Secretary is leading the work across the board in engaging with the company and making our expectations of them clear, and reviewing all our relationships with them.

Q252 **Emma Hardy:** Will the Government be reconsidering whether key infrastructure should be operated by companies who do not employ workers under UK employment law?

Rishi Sunak: Again, the Transport Secretary has made an announcement on this, and the Government have set out the plans they are bringing forward to legislate, if required, to eliminate the loophole that may exist in employment law about the national living wage. That work is already under way and has been announced.

Q253 **Emma Hardy:** When you are looking at awarding companies for the freeports that are up and coming, are you going to be looking at DP World and maybe having a different opinion of them than you had in the past, bearing in mind how they have just treated their workers?

Rishi Sunak: These people—

Emma Hardy: For future freeports.

Rishi Sunak: There are no planned extra freeports, in England at least. There is a process under way in Scotland, but the freeports in England have all been announced. There are just the remaining freeports in Scotland to be concluded in conjunction with the Scottish Government.

Q254 **Emma Hardy:** Moving on to looking at student loans, the changes made to the student loans system save you £34 billion over the forecast period, and the impact analysis published by the Department for Education shows that eight in 10 income deciles of graduates will be adversely affected by these two changes. The two income deciles that actually make savings from the changes are, of course, the two highest income groups, so why have the Government chosen to impose higher lifetime repayments on the lowest earning 80% of graduates, but lower the lifetime repayments from the two highest income groups?

Rishi Sunak: The Education Secretary addressed this when we outlined the reforms earlier, but I do think they are a sensible set of reforms. Currently, the system we have is one in which three quarters of all borrowers fail to repay their student loans, and 44p—almost half—of every



HOUSE OF COMMONS

pound that is borrowed from the taxpayer is written off. That is the current system. Without any change, student debt was estimated to reach over half a trillion pounds. It was a system that was unsustainable and unfair, because ultimately, many of the people on lower incomes who we have been talking about are subsidising a system where people are not paying the money back.

Changes are being brought in to expand the generosity and scope of the student finance loan system, which will mean that anyone will be able to access four years' worth of this funding to do not just university degrees, but more modular courses of level 4 or 5 at any stage in their career.

Emma Hardy: I am aware of those changes.

Rishi Sunak: But if you don't mind, please, Emma, I can just explain what we are doing with the changes. What that means is you can go and get one of these courses at any stage in your career, as part of broadening the scope and generosity, and making the system fairer for all of our constituents—especially those who did not go to university—but also making it sustainable and able to do that. There were some changes made, but they mean that no one repays any more than they borrowed in real terms, which is a good thing.

Alongside that, it is right in principle that the people who benefit from the generous finance are the ones that are paying for it back. That means that a typical person who starts a new degree and earns about £28,000 when they graduate will pay about £17 a month back, so there is still a threshold under which they do not repay.

Q255 **Emma Hardy:** Chancellor, a graduate with a lifetime average salary of £88,000—someone who will earn £3.5 million over their lifetime—will pay 26% less in student loan repayments as a result of the changes you have introduced, while a graduate with a lifetime average salary of £18,000 will pay 174% more. How do you justify a policy that appears so regressive? Before you answer, it is worth pointing out that the average salary in Hull is £26,000, while in London it is £40,000, so we are talking about graduates who choose to remain in the areas they are from—areas like Hull—being penalised for being graduates in that area because of the changes that you are introducing. How is that fair?

Rishi Sunak: I don't know if I followed your examples, Emma, but someone with earnings, I think you said, of £18,000—

Emma Hardy: Someone with an average salary of £88,000—

Rishi Sunak: No, the second one.

Q256 **Emma Hardy:** Someone with an average salary of £18,000 will pay 174% more as a result of these changes. That is from a table here that is showing it. The proportion of graduates earning—



HOUSE OF COMMONS

Rishi Sunak: If you send it to me, I will have a look at it afterwards. Someone earning £18,000 won't pay anything back, because the threshold that you start repaying at is—

Q257 **Emma Hardy:** A lifetime average salary of £18,000—will pay 174% more. It shows it here. By average lifetime salary, we are obviously taking into account that people who might earn less than the £25,000 salary might go part-time for a while, and take maternity leave, as I did, and as I am sure many other people have too.

Rishi Sunak: Again, without seeing the example, it is hard for me to comment. However, in general, someone with a lifetime average of £18,000 will generally not be—

Chair: I thought it was £88,000.

Rishi Sunak: No, the second example was £18,000. The repayment threshold is only at £25,000, so you would have to earn £25,000 in order to start paying anything back.

Q258 **Emma Hardy:** My point was that it is a lifetime average, so if you have maternity leave, or if you have time off during your lifetime, your lifetime average can be lower than the £25,000. I, myself, was an example of that. I was a full-time teacher, and I then went part time, then had maternity leave. You can have a lower lifetime average—

Rishi Sunak: As a general thing about fairness, I think it is completely reasonable that people who benefit from taxpayer-subsidised finance, and get a benefit from that in higher earnings, then pay back in a progressive way. That is what the system does.

I do not think it would be fair to all the people we have been talking about earlier in this session, who are on much more modest incomes and struggling with the cost of living—we are talking about their taxes and everything—for those people to be having to subsidise a loan that someone benefits from but does not then pay back. I do not think that is fair, because that burden then ultimately falls on all those other people that we have all been talking about all through this session.

Q259 **Emma Hardy:** If you are a graduate living in Hull and earning the average salary of £26,000, with the changes that you have introduced, they will be paying back more than a graduate on an average London salary of £40,000. On this table that I have in front of me, it says, "Average total lifetime repayments - Impact", with 113% if you are earning £26,000. For graduates earning a lifetime average of £43,400, it is -13%. How is that fair?

Rishi Sunak: Again, I think, Emma, that maybe the best thing is for you to send me that, and I will have a look at it and get back to you. In general, no one can pay back more, in real terms, than they have borrowed. That is what the reforms that we have put in place do, particularly because they are more generous than what Augar recommended on the interest rate charge. Nobody pays back more, in real



HOUSE OF COMMONS

terms, than what they borrowed, so what you pay back is a function of how much you borrowed.

Emma Hardy: I understand that. Maybe it is my fault for not making myself clear.

Rishi Sunak: As I said, if you send it to me, I am happy to get back to you, because I can look through it in detail.

Q260 **Emma Hardy:** Okay. However, as it stands at the moment, as we have already said, 60% of people before your changes did not pay back all of their student loans, and your system now means that 70% of people will repay all of their student loans.

The changes that you have introduced, with the interest rate meaning that your debt will never be higher than amount you borrowed, will only be helping those people who already would have paid off all of their student loans. The only people who already paid off all of their student loans are the highest earners.

There are lots of people who take out student loans who will still never repay them, but instead of having that written off after a number of years, they will be paying that for the rest of their working lives. That is what I am saying about it being an additional tax on those people. It will impact the graduates who earn less throughout their working lives.

Rishi Sunak: It is a fair and progressive system; I think it has been broadly described as such. It is reasonable that people who benefit from a taxpayer-subsidised finance system then pay back the benefit of that over their lifetime. That seems entirely reasonable to me and is especially fair to those people who did not benefit from one of those degrees, and get the benefits and earnings from that. I do not think it is right that other taxpayers have to pay for them not paying that money back. I do not think that is reasonable, progressive or fair. You are right—the reforms will mean that over time people will pay more money back, because at the moment it is not fair to everyone that they do not.

Q261 **Emma Hardy:** And the lowest earners, I am seeing, are paying back a greater proportion.

Rishi Sunak: Not the lowest earners, because there is still a threshold, which is at £25,000, so people earning below £25,000 do not pay anything back. So those are not the lowest—the median salary in this country is about £24,000, so low earners will not pay anything back because they will not earn above the repayment threshold.

Actually, for people from disadvantaged backgrounds, one of the other things that has been announced by the Education Secretary at the same time as this is an increase in the number of scholarships for people from disadvantaged backgrounds to attend university as well, to make sure we continue to broaden access to some of these things. The change in this finance system is going to be much more generous and allow many more people to access what is very generous taxpayer-subsidised financing for



HOUSE OF COMMONS

them to get the skills they need at any stage in their career in a way that suits them. That is a really good thing.

Q262 Emma Hardy: When you are looking at the impact on their incomes, what you have introduced here with the changes that you have made is effectively a tax on lower-earning graduates. You said in your spring statement that you were announcing “the biggest net cut to personal taxes in over a quarter of a century.” When you made that calculation, were you including the changes to student loans?

Rishi Sunak: No, because this is not personal taxation. This is very specifically to the individual person the repayment of their student loan. We collect it that way because it is an operational way to do it, but this does not apply to everybody. For someone specific who benefits from a generous taxpayer-subsidised loan when they go to university, it is reasonable to expect them to pay that back over their lifetime earnings, which will be higher as a result of them having gone to that university and got that degree. That is reasonable and fair to all the other people who did not benefit from that.

Q263 Emma Hardy: This is a significant revenue-raising measure that you have introduced here and you have done that through a written statement being snuck out by the Universities Minister that is going to have a huge impact on the take-home pay of graduates.

Rishi Sunak: The Education Department talked about it and announced it, as you would expect it to, and has been held accountable for that in Parliament. In terms of being a revenue raiser, the OBR was pretty clear about that, probably with you but certainly in the documents as well. We do the accounts on an accrual basis. That means you recognise up front the improvement in the loan terms, which will not benefit until the 40-year duration of that loan. So it looks optically like there is money being raised from it because you are recognising up front, but there is no cash benefit of that.

That cash benefit happens over 40 years. That is not money that is available to spend today at all, so I think it is wrong to describe it as an immediate source of funding that you could use for something. You certainly cannot and you can see that on the impact on debt, which is accounted for differently, and there is not a big improvement. For that reason specifically I think the OBR said that, but it also disclosed all its numbers excluding the impact of this so as not to give people the impression that this was money that could be spent today because we cannot spend it. It is purely accrual accounting of a 40-year improvement in loan terms.

Q264 Emma Hardy: Back to the point I was making before on levelling up, the Government’s impact analysis of the student loans reforms shows that, by a considerable distance, the majority of graduates who earn the highest salaries are located in London and the south-east, and that those students will gain from the reforms at the expense of others. Is the student loan reform not an example of redistributing from all other



HOUSE OF COMMONS

regions in the country back to London and therefore levelling down rather than levelling up?

Rishi Sunak: No, it is actually implementing the recommendations of an independent review that wants to broaden access to the generous student finance system to ensure that more people at more stages of their career could access the financing to do things that were not necessarily degrees. I actually think that is good and it is broadening opportunity to lots of people.

Q265 **Emma Hardy:** Not that we are here to discuss the Augur review, Chair—happy to take it up at a later date—but Augur also talked about maintenance loans, maintenance grants and greater support for students in that way. Augur made many recommendations that the Government chose not to implement, so to pick and choose which ones we want to talk about now seems a little disingenuous. I go back to my earlier point: if you are a graduate in the north and your income is therefore less, through the reforms introduced you will be paying back more. If you are a graduate in the south and your income is higher, you have gained from the reform. That does not seem very fair or progressive. I'll stop there, Chair.

Chair: I think we will write to you on that point, Chancellor, as you suggest. I think those figures are from DFE analysis, but we will send them through to you.

Rishi Sunak: It may well be more appropriate that they answer it, as they are their numbers.

Q266 **Gareth Davies:** Chancellor, I want to talk about business investment. You set out in the spring statement that it is a priority for you, and you will set out to engage with businesses to figure out the best thing you can do to spur business investment. We have had a global pandemic, a war in mainland Europe and an inflationary shock driven by energy prices. That all hits business confidence, which hits business investment. I have two questions. How much can you actually do on business investment, given those external factors? How can you restore business confidence in this kind of environment?

Rishi Sunak: Thank you, Gareth. I will try to be brief because we are running on a bit. Business investment has been a long-standing issue for the UK. The OECD average is about 14% of GDP; ours is more like 10% or 11%, and that has been the case for a long time. If you look at our productivity difference from countries such as France or Germany, lower capital investment accounts for about half that difference. It is a pretty significant explanatory factor for some of our productivity shortfalls vis-à-vis those countries.

This is not a Government investment problem; Government investment is now at sustained high levels. Private investment dwarfs Government investment as well, so it is private investment where we have the issue. Many businesses have made the point that while we have low headline rates of corporation tax, we treat capital investment much less generously



HOUSE OF COMMONS

through the tax system than other countries. In the tax plan we have set out, we outline a range of different options that we can use to address that and improve the generosity of our tax system with regard to business investment.

We will work with businesses over the summer to figure out which of those is the right way to do that, and announce those proposals in the autumn for implementation in spring next year at the time that the super-deduction ends. I think the single biggest request from business has been to do that, because they recognise that it can be valuable and that we are behind most of our competitors in the generosity of our current system.

Q267 Gareth Davies: In its recent statement, the OBR says that the pandemic has been less impactful on a firm's ability to invest than it expected a year ago. Why is that?

Rishi Sunak: Yes, thankfully we have managed to do a good job of keeping the economy going through it, so it was less impacted. You are seeing firms build up enormous amounts of excess savings—over £100 billion, although it has probably gone up since then and I do not know the new number, but it will probably be higher.

The super-deduction has also helped—not as much as one might have originally thought, because omicron and an extra resurgence have come along, but it seems to have made a difference in firm intentions. That is exactly the type of evidence and analysis that we will want to do in the coming months to figure out what the right solution is on a more permanent basis. We will look at what has been happening and what we think will make the most difference going forward.

Q268 Gareth Davies: One of the things that keeps coming up in conversations that I have with small businesses, particularly entrepreneurs, is that the UK is a pretty good environment for start-up investment, but when it comes to scaling up there is not enough investment capital. A lot of firms go abroad, to the United States and elsewhere. What do you think we can do about that?

Rishi Sunak: There is a perception of that, but when you dig into the details, it is probably far better than people think in one sense. We have closed a lot of the financing gaps that used to exist vis-à-vis the US. It is still definitely the case for the very late-stage companies. We are doing three specific things: one is reforming the listing rules for the stock exchanges here, which will improve the environment for companies like that to raise public equity capital. I commissioned Jonathan Hill to do a report on that, and we are implementing all the changes he recommended on things such as dual share classes and free float requirements. We are also looking at reforming the prospectus directive and changing how we do secondary markets. All that is happening on that side.

The second thing I point to is the Future Fund: Breakthrough. Building on the experience of the future fund, we have created a new fund that will partner with the private sector to help fill the financing gap, specifically for deep-stage tech companies, which are more R&D intensive, require large



HOUSE OF COMMONS

amounts of capital and stay private for longer. That is a new innovation that has been very warmly welcomed by the community.

The third thing is reforming things such as the pension fund charge cap or Solvency II, which will unlock more institutional capital for assets like this, which are more private equity venture capital risk-oriented assets and more illiquid. I think the combination of those regulatory reforms can help do that as well. Those are probably the three things I would point to.

Q269 Gareth Davies: I was struck by the chart that you have on page 40 of the spring statement, which shows very clearly that Israel and South Korea are really going gangbusters when it comes to R&D spending as a proportion of GDP. I think Israel is 4.5%, and the UK is a woeful 1.2%. One thing that we do not have in common with a lot of the countries that are experiencing strong business investment is that we have one of the most generous R&D tax credits in the world but one of the lowest R&D investment levels. Is that something you are looking at? Who do you consider best in class when it comes to international comparisons?

Rishi Sunak: That is a very good observation. Innovation accounts for pretty much all of our productivity gap with the US, if you think about multi-factor productivity. Historically, it has been the largest source of our growth, accounting for about half, but it has tailed off since the crisis so we need to reinvigorate it. Again, the Government is not the problem. We are significantly increasing public R&D investment over the course of this Parliament to leading levels well above the OECD average, but where we really fall behind is on business investment in R&D, as you pointed out. That is where we are less than half the OECD average today—business self-financed R&D investment—and that is in spite of spending the most of any country, bar one, on R&D tax reliefs. Something in that system is not working, because we are not getting value for the taxpayer pounds that we are spending. We are going to look at that, reform it and, in the autumn, come up with what the solution should be, to take effect in the spring and help drive up that number.

Q270 Kevin Hollinrake: May I ask—

Chair: If it is really quick, because we have kept the Chancellor quite a while.

Kevin Hollinrake: There are two measures that are preventing investment that we already have. If you invest in plant and machinery, your business rates go up. The VAT threshold is at £85,000. You and I know that lots of businesses stay below that deliberately. In France, it is £25,000 for a services business. In Germany, it is £20,000. Should we look at these?

Rishi Sunak: On VAT thresholds, I normally get asked the other way around by all the people who want it to go up, but I do get some on the other side of the £85,000 who think it is unfair. You are right: we have pretty much the highest VAT threshold in the G20, but it is frozen for the next few years in flat terms, so that is how it will work.



HOUSE OF COMMONS

In terms of investment for small companies, we have two things. First, and to your point, we are introducing a growth relief to do exactly that. For businesses that invest in plant and machinery, particularly on the green side, we have two reliefs to discount their business rates bill—one is an improvement relief, and one is a green relief. We announced those in the autumn. We will consult on them and get people's views. They will be finalised in the autumn Budget, to be introduced in the spring.

Dan York-Smith: Green relief is actually coming forward.

Rishi Sunak: Sorry, we brought forward the green relief, so that is already happening.

Dan York-Smith: If you put a solar panel on your building for microgeneration purposes, that will be disregarded for business rates.

Rishi Sunak: We are working on the improvement relief. They have something similar in Scotland, and we will figure out something. That will come in by next spring.

Then we have the annual investment allowance, which is pretty much the most generous version that we can find in the world. For £1 million of expenditure—it will cover all our small and medium-sized businesses—you get the benefit of essentially full expensing, so you can write off the full amount of the investment in that year. It is a very generous tax incentive for small and medium-size businesses to invest. Again, at the higher level of £1 million, that is due to run out in the spring, so it will be part of our deliberations for what we do in the autumn.

Q271 **Dame Angela Eagle:** Briefly and finally, on 9 March the Prime Minister said that he would be announcing a new energy policy in days. It is now 28 March, and you are widely reported to be blocking it. Can you tell us when we can expect it?

Rishi Sunak: I am certainly not blocking anything, and the Prime Minister has continued to work through the details of that. Given how important it is, I think it is important that we get it right. It will impact on lots of different things, and it is being worked on at pace between all the relevant Ministers.

Chair: Chancellor, thank you very much. I think we should let you go. We have had you here for about two and a half hours, and we do appreciate it. Good luck, and thank you for appearing before us.