HOUSE OF COMMONS

Treasury Committee

Oral evidence: The cost of living, HC 343

Wednesday 8 June 2022

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Watch the meeting

Members present: Mel Stride (Chair); Anthony Browne; Dame Angela Eagle; Kevin Hollinrake; Siobhain McDonagh; Alison Thewliss.

Questions 208 - 301

Witnesses

I: Dr Gemma Tetlow, Chief Economist, Institute for Government; Professor Stephen Millard, Deputy Director, National Institute of Economic and Social Research; Rebecca McDonald, Head of Economics, Joseph Rowntree Foundation; Mike Tholen, Director of Sustainability, Offshore Energies UK.

Examination of witnesses

Witnesses: Dr Gemma Tetlow, Professor Stephen Millard, Rebecca McDonald and Mike Tholen.

Q208 **Chair:** Welcome to the Treasury Select Committee and our hearing this afternoon on the Chancellor's main fiscal event. We are very pleased to have four witnesses before the Committee this afternoon, three in person and one remotely. I am going to start with our remote witness. Mike, would you mind introducing yourself to the Committee, please?

Mike Tholen: My name is Mike Tholen. I am head of sustainability at Offshore Energies UK. Thank you for receiving me over the internet rather than face to face.

Chair: That is not a problem. Welcome to the Committee.

Dr Tetlow: I am Gemma Tetlow, chief economist at the Institute for Government.

Rebecca McDonald: I am Rebecca McDonald, head of economics at the Joseph Rowntree Foundation.

Professor Millard: I am Stephen Millard. I am the deputy director for macroeconomics at the National Institute of Economic and Social Research.

Q209 **Chair:** Welcome, everybody. We have had this fiscal event, which is quite a major fiscal event outside of the spring or the autumn. £15 billion has been put out there to help those who are struggling the most. There are some concerns that this might be inflationary at a time when struggling to get on top of inflation is a great and difficult endeavour. On the one hand there is money going out, but on the other hand the Bank of England is putting up interest rates to try to dampen demand and get inflation under control. Stephen, do you see the tension there? How worried should we be about that?

Professor Millard: There is certainly tension there in theory, but, to be honest, I am not so worried about that. I do not think this will be that inflationary. We ran a simulation through our model and we got a number of about 0.1 percentage points on inflation.

Why is this happening? Why is it not inflationary? The answer is that this is money to help the poorest people in society buy food and pay for their energy, precisely because they are not able to afford it. They would have had to have gone to other sources—borrowing, food banks, et cetera. This is just enabling them to pay for something they would have had to have bought anyway. In terms of creating additional excess demand, it is not going to be a big deal.

Q210 **Chair:** If you are in a very difficult financial situation and you receive an additional transfer payment, why would you not potentially end up still doing the things that you have described, which might happen in the absence of that, and then spend the additional amount you are receiving on top of that?

Professor Millard: They will spend some of that additionally. That is for sure. This is a real case where families were on the limit of what they could buy and were having to cut down relative to what they wanted to buy. This will take them back to normal versus where we were before, where people who were really struggling would have to borrow and go to food banks, et cetera. Again, there will be an addition to demand; it will just not be as great as you might otherwise have thought.

Q211 **Chair:** Do you have any comment on this particular intervention compared to, say, what has happened in America? There has been a view there that the economy being stimulated in this way has led to quite a tick up of inflation. Is this just not relatively of the same order of magnitude? What are the differences, as you see them?

Professor Millard: There are a couple of differences. The order of magnitude is one. It was much bigger in America. The stimulus in America was much bigger. It certainly contributed to demand at a time when demand otherwise would have absolutely tanked. It is not clear that it was inflationary. It contributed to the inflation pick-up in America, but it was not the big part of it.

Again, it is the counterfactual. Had they not done that at the time, demand would have been so low. It was filling a gap rather than creating additional inflationary demand.

Q212 **Chair:** Gemma, did you have any comments? Is it going to be inflationary or is it going to be of the order of 0.1% and not anything to worry about overly?

Dr Tetlow: We do not do our own macro forecasting, so we have not done the exercise that Stephen talked about. It is a relevant question to ask, because, unlike in other situations where you might think the Government were stepping in to help households in a normal recession, at the moment we are at a point where there are signs the UK economy is pushing up against its supply potential. There is not a lot of capacity to absorb extra demand without risking putting pressure on prices.

As you have alluded to in your questions, the design of these support packages is precisely trying to get money to the people who are most likely to spend it. These support packages will be successful if people do spend the money they are being given. It is definitely worth asking.

We have not really talked a lot about monetary policy. It might still be appropriate for fiscal policy to behave in this way, provided monetary policy can offset the aggregate impact of any effect of this fiscal policy on inflation. At the moment, there is no reason to believe that the Bank of England does not have capacity to somewhat tighten monetary policy in order to offset the net effect of that.

Q213 **Chair:** What do you mean by "somewhat tighten"? Is that an additional tightening because of the fiscal loosening here? Can you quantify that in any way or in any sense qualify that?

Dr Tetlow: If Stephen is right in about 0.1 percentage points on inflation, that is very little. They may not do very much, particularly as this is a purely temporary stimulus. It is worth being aware of that context, because it suggests that the Government cannot really offset this cost of living squeeze for everybody. If you try to do it across the entire economy, that is just going to be offset by the Bank of England tightening monetary policy.

Our view is that there is much more of a role for Government policy at the moment in distributing who bears the cost of the economic slowdown that inevitably has to come because of the pressures we have from inflation and therefore the need for the Bank of England to dampen economic activity somewhat.

Q214 **Chair:** Can I quickly switch to the currency, to the pound? We all know that if the pound weakens, that is inflationary. Bank of America recently suggested that the emerging characteristics around the pound are those of an emerging market currency. They questioned how the markets see the political independence of the Bank of England when it comes to quantitative easing. At the same time, the Government have been raising large amounts of debt. They looked at the growth outlook for the economy and so on and suggested that the pound might be under quite fundamental pressure going forward.

The Chancellor, who appeared before us recently, was understandably reticent, and quite rightly so, to comment on where the currency might go. Stephen, do you have similar concerns to Bank of America? How do you see sterling at the moment?

Professor Millard: To be honest, I have not given sterling much thought. In terms of those concerns, the answer is yes and no. They are all valid things that you could talk about. In terms of the large amount of quantitative easing and whether that has affected the independence of the Bank of England or not, for me, it has not. Our growth prospects are not wonderful at the moment. That is likely to have an effect.

We have already suffered in terms of trade shock, in that the costs of things that we import—energy and food in particular—have risen. As Gemma said, the Government are not able, and indeed should not try, to offset all of that. The big issue is where that effect hits particular households. That is where fiscal policy is very powerful, as Gemma said.

Where I am going with all of that is that these are issues you can talk about, but they are not a big deal. The pound has not become like an emerging market currency.

Dr Tetlow: I have two observations. First, I gather that same Bank of America analyst made the same comment two years ago. I do not think it was the case then, and I am not sure it is the case now.

The other thing I would point to is the Bank of England's latest set of forecasts based on market expectations of future interest rates. They suggest that the markets think the Bank of England is going to raise interest rates more than the Bank of England thinks is needed to get inflation under control.

If anything, that does not point to any concerns within the market that the Bank of England will go far enough in heading off inflation, which would be what you would expect to see, if there were a concern that the Bank of England was not independent and was somehow trying to support fiscal policy through looser monetary policy.

Chair: Those are two very good points. Thank you.

Q215 **Dame Angela Eagle:** I am going to start off by following up on the balance between monetary and fiscal policy, whether that needs to change and, if so, how it needs to change and what the implications of that are. Then I am going to spend a bit of time asking about whether the support is well targeted. We are going from the macro to the micro, just to give you a warning.

Stephen, in the NIESR's UK economic outlook, Professor Chadha said that since the financial crisis of 2008 the monetary and fiscal settlement has asked too much of the Bank of England. Do you agree with that sentiment? Is it being asked to do too much? What has that meant for inflation and the economy more generally? Have we got the balance between monetary and fiscal policy right?

Professor Millard: In the period since the financial crisis, certainly up until the pandemic—I will come back to the pandemic in a minute—interest rates were at their lower bound. They stayed at their lower bound. There was a deficiency of demand in the economy. There was a lack of investment. The economy was not growing at all.

With interest rates at their lower bound, it is not clear that monetary policy was in a position to do anything about that. There is a lot of academic research that suggests that, in such circumstances, fiscal policy is particularly powerful; it is particularly able to step in and fill that demand gap. Where we are coming from is that, during that period when there was a lack of demand, fiscal policy should have been dealing with that.

As we know, the policy at the time was fiscal consolidation. That was not there. Because of that, it was left to the Monetary Policy Committee to try to stimulate demand. It did that through lots of quantitative easing.

Q216 **Dame Angela Eagle:** That had the particular effect, for example, of inflating asset prices and assisting those who own rather than those who earn. I am just trying to get you to say a little bit about what some of the consequences of those decisions were. If you used fiscal policy in a particular way, it would help those who were at the lower earnings bands, for example. We know they spend their money. You get more of a fiscal stimulus if you focus any extra expenditure there rather than more generally. We seem to have had a version of assisting those who already own assets to inflate the price of their assets and to save.

Professor Millard: That is not entirely true. It is not entirely true for the reason that, had the bank not been holding interest rates at the zero lower bound, had it not been for the injections of quantitative easing and assuming the fiscal policy was unchanged, the economy would have grown even more slowly and unemployment would have risen. There is really nothing that adds more to inequality than higher unemployment.

Indeed, there has been some research done looking at the distributional impact of quantitative easing. It has found that the increase in incomes for poorer households, the ones who are on the fringe of being employed versus being unemployed, is protected by more than the amount the savers and owners of assets get at the top end. It is distribution going the right way by ensuring that employment holds.

The big "but" to that is that, all the while there was that support, all that liquidity and the support for asset prices, there was always the possibility that this might translate into inflation. There was a lot of inflationary pressure there. In a way, all it needed was a catalyst to let the inflation out of the bag. That happened in the summer of last year. We had the Covid epidemic; we went into lockdown. The amount of fiscal support that was given in 2020 was huge, but it was necessary to get the economy through lockdown.

As we were coming out of lockdown, monetary policy was still incredibly loose, fiscal policy was still incredibly loose and households had a lot of forced savings, which they then wanted to spend as soon as they could. In the summer of last year, there was a big rise in spending. That put pressure on the prices of goods and services, so inflation started building then.

Q217 **Dame Angela Eagle:** Were policymakers asleep at the wheel at that point, then? We ended up coming out of the first lockdown with loose monetary and loose fiscal policy; something should have been done to balance them more effectively and create more policy options further down the line.

Professor Millard: With the benefit of hindsight, it was pretty clear that monetary policy should have been tightened at that point. At the time I know there were people arguing for monetary policy to be tighter. The counterargument was that we were not entirely sure where Covid was going; the furlough scheme was still in operation. It was not clear whether unemployment would rise massively once that was cut. That was enough ammunition for the wait-and-see side of the monetary policy argument to argue against tightening monetary policy at that point.

In retrospect, clearly it should have been tightened, both in terms of interest rates rising and in terms of reversing the very large increase in asset purchases that had happened in 2020.

Q218 **Dame Angela Eagle:** What about the distribution impacts of rising interest rates compared to the distribution impact of rising prices?

Dr Tetlow: The distribution impact of rising prices depends very much on what is rising in price. The particular issue we have seen over the last year is that it is fuel and food costs that are going up most sharply. That is showing up in a higher rate of inflation for lower-income households than higher-income ones.

On the distribution impact of interest rate rises, the best analysis I have seen is the one Stephen referred to that the Bank of England did, which showed that there was a broadly similar impact across the income distribution for the reasons that Stephen outlined. There was a somewhat offsetting effect. If you are someone with asset income, an interest rate rise helps you, but it has different effects on the wider economy that feed through to workers. That is the best analysis I have seen. The comparison between prices and interest rates does rather depend on which prices we are talking about going up.

Professor Millard: I was going to say exactly the same thing. The issue about inflation is that it really depends on what prices are going up. If it is food and fuel, that clearly hits the poorer households, which spend a larger proportion of their incomes on those things. If, on the other hand, it is more general, then it is less clear.

Q219 **Dame Angela Eagle:** I want to move on to some questions about whether the support package, which is essentially a fiscal package, is well targeted. Gemma and Rebecca, this question is to both of you. The Treasury describes its recent measures as "highly progressive" as a package of support, with three-quarters of the total support going to the most vulnerable households. Do you agree with that description?

Rebecca McDonald: Yes. I do agree with the description that it is well targeted and targeted towards poorer households. That is really good and was very much needed. That was a drawback of some of the previous packages. The February package and especially the Spring Statement were almost targeted in the opposite direction. It was those households that needed it, because of what we just mentioned around inflation being higher at the moment for lower-income households and also because in general inflation is harder to manage if you spend most of your budget on essentials.

It is very good that the package is more targeted. To illustrate how much targeting there is, I can give you some stats. Two-thirds of the £15 billion support will go towards the bottom half of the income distribution. At a very high level, that illustrates the targeting. In terms of different cash amounts to different parts of the income distribution, if you package up all of the different things, not just the most recent announcements but also February and the Spring Statement, there is a cash gain of around about £1,200 for the poorest fifth of households. If you compare that to the middle fifth, it is a gain of around £800, and then the top fifth will be losing out by around £450. You can see there that there is targeting.

The choice to do this via lump sum payments as opposed to, say, a percentage increase in benefits has some drawbacks. To some extent, it limits some of the targeting that can happen. It means that, for example, larger families, who have greater needs because they are larger, will not receive extra money. Every different family will get the same lump sum. That limits the targeted nature to some extent.

Q220 **Dame Angela Eagle:** The Resolution Foundation described those as cliff edges caused by the fact that it was a one-off payment.

Rebecca McDonald: There is that element, which is that it does not account for variation in need in the same way that a percentage increase would. On the cliff edge point, there are also some downsides. If you happen to go on universal credit after the threshold ends, you might need universal credit and receive it for most of the year, but you will not actually get that payment in July, because you missed that timing element. If it is a percentage increase across the year, you would receive that support. That is another cliff edge downside.

The other downside is the fact that you do not get any of that extra payment if you are just over the threshold to receive UC but not on UC. That is the nature of this. It is still a very good way of targeting the support. That is one of the downsides of using the benefits system.

Q221 **Dame Angela Eagle:** Gemma, do you have any comments on the one-off payment aspect of it? Could some of those cliff edges have been mitigated by the Chancellor?

Dr Tetlow: The fact these are one-off payments clearly helps with the delivery of the policy. It is a way of getting it out of the door more quickly. With the more modern bits of the welfare system, particularly universal credit, it would have been relatively easy to have implemented something different, such as the percentage increase that Rebecca was talking about. That would also have allowed you to taper away the payment as people got towards the top of the UC scale rather than having that very sharp cliff edge for people just over the top of it. It would have been more problematic with the older bits of the benefit system.

It is worth remembering that in the pandemic the Government did decide they were very happy to have that distinction. They gave a weekly top-up to universal credit and had a one-off payment on legacy benefits as an alternative way of dealing with that group of people. This time they have chosen to go for one-off payments for everyone.

Q222 **Dame Angela Eagle:** When the Chancellor was giving us evidence earlier in the week, it struck me that he was basically saying that there are practical limits to how they can distribute money either via the council tax system, which has its advantages and disadvantages, or via one-off payments. It is odd, is it not, that we do not have a system of distribution that goes to everybody? Somehow we have developed a structure whereby, even if the Chancellor wants to give people money, it is very difficult for him to do so to everybody. Is there something we should be doing to develop an infrastructure for future potential crises?

Dr Tetlow: The pandemic and the current circumstances have revealed issues with the structure of the way we get money to people. Unlike in the US system, we do not have a way of getting a cheque out to every family, because not everyone has to file a tax return. There are lots of people who have no standing relationship with the state. There are good reasons why we do not. If you do not need the system in normal times, it is costly to maintain that data and contact when you do not need it.

Given what we have seen in the last couple of years, there is a very valid question about whether there is a case for having a different type of infrastructure and data that we hold on people to enable us to do this more quickly. A similar issue arises in identifying businesses and how the

Government get support to businesses. Similarly, we do not have an easily accessible way of doing that.

Q223 **Dame Angela Eagle:** There were so many people excluded from the Covid loans, again unfairly, by the arbitrary nature of the distribution systems we have. Have you seen any sign that anyone in Government is thinking about how that might be remedied for the future? We seem to be getting crises coming along at more frequent periods than used to be the case. There will be another one along in a minute, just like a bus.

Dr Tetlow: I definitely have had conversations about this with people in the Government. People are thinking about it. I have no idea how well developed or how likely these are to come to fruition.

Q224 **Dame Angela Eagle:** Richer households, Rebecca, have built up savings during the coronavirus crisis. That has been a feature of what has gone on and the unequal effects of the crisis. Are there any economic reasons why they need to be helped in the face of large increases in the cost of living when they have lots of savings?

Rebecca McDonald: There are not necessarily economic reasons why they needed that support in terms of the £400 and the £150. The fact that was universal is more of a political choice as to who gains from support at the moment.

There were also trade-offs in terms of the universal nature versus trying to make it more targeted. You mentioned the idea of us having a better or easier way of getting money to people. Granted, we do not usually need that, but, if there were one, perhaps it could have been slightly more means tested or targeted. The highest earners could have been excluded from that or it could have been more targeted in some way. Of course, there just is no way to do that at the moment. There are pros in terms of the speed and simplicity of going for that universal approach to the £400 and £150.

Q225 **Dame Angela Eagle:** Are you worried at all about any of the aspects of the one-off household grants that have been devolved to local authorities? The amount for that has been doubled in this particular bit of the ongoing rolling budget that seems to go on through the year these days. There is an arbitrary aspect to that, is there not? It is a postcode lottery. Have you come across any issues in relation to fairness or targeting with that particular way of doing things for those who literally do not interact with any of the systems we are talking about for distributing grants, like council tax, universal credit or benefits?

Rebecca McDonald: My worry with that fund previously was that it was being relied upon too much by too many people. In essence, it should be a discretionary and slightly arbitrary fund, in the sense that it is there as a backup. If someone falls through the gaps of the different forms of other support that are there and does not, for various niche reasons, apply for those things, it is there as a fall-back. By nature, it therefore has to be discretionary so that individual cases can be considered.

Previously, because there was a slowness to act in terms of wider support for poorer households, that grant was having to be very much relied upon by lots of people, even if they did fall into the benefits system or even if they were picked up by other things. Now, because there is going to be support over the next year in the form of means-tested benefits, hopefully that discretionary fund can go back to being a discretionary fund that is for emergency use. It has never been generous enough as a fund to play that bigger role. That was definitely a worry.

Q226 **Dame Angela Eagle:** There are still people fall into the cracks. I certainly see that in my own constituency.

Rebecca McDonald: Yes. There are some bigger issues to do with the benefits system that cause that, like the benefits cap or deductions from universal credit, but there will always be different specific reasons why certain families will need emergency support. It is really good that there is a pot of money there to give local authorities that discretionary power, but it is bad when that becomes the usual way to support lots of people.

Q227 **Alison Thewliss:** Moving to whether the measures are sufficient for households, Rebecca, you mentioned the issues of larger households not having enough to support them, because they have slightly different circumstances. What more could the Government have done to make sure they got a wee bit extra to help? What more could the Government have done to make sure those larger households were better protected?

Rebecca McDonald: The simple answer is that, if the Government had chosen to give support in April either via an inflationary increase in benefits or, in the last announcement, a percentage increase in benefits, it would have been much more proportionate to the needs of households. That would have answered that question and solved part of the problem that has been caused.

It is good, of course, that some of this limitation was acknowledged via the extra payment for those with disabilities and for pensioners. The Government have counteracted some of the downsides of a one-off lump sum payment in that regard, but it has not for larger families. That is going to be a concern across the year.

Q228 **Alison Thewliss:** Are the underlying rules, like the two-child limit, having quite an impact on this as well?

Rebecca McDonald: Yes, that is one of the things that has caused a lot of difficulty for larger families in recent years. There are other things going on in terms of specifics. Deductions are causing a really big issue at the moment. Deductions can be up to around 25% at the moment. A lot of people have those deductions because they need advances for the five-week wait, and as a result they end up with deductions from what they are getting.

If universal credit was at a more adequate level, those deductions would not be so painful. They would still be very difficult, but, because the basic rate that people are receiving is quite low, those deductions make things even more painful.

Q229 **Alison Thewliss:** I have constituents affected by that kind of thing as well, where perhaps there has been an error at some stage in their calculation and they are having to pay it back from that money. It is incredibly difficult for them to make ends meet.

Rebecca McDonald: Ideally, the level at which deductions can be taken should be reduced. It should be back to 5%. That is what is usual for most creditors. That would be much more manageable at the moment.

Q230 **Alison Thewliss:** Are the people who are being hit hardest by the cost of living crisis the same or a different group of people to those hit by the coronavirus pandemic?

Rebecca McDonald: That is a good question.

Alison Thewliss: Is there not enough data to tell at the moment?

Rebecca McDonald: I am just trying to think about the Covid impact. In terms of the labour market, Covid did hit lower-income workers and low-income families harder to some extent. If you think about the impact in terms of falling into debt and dealing with lower incomes, that was a lot harder for lower-income families simply because they have less of a buffer in terms of savings. If they are additionally being hit harder by unemployment or losing their jobs, that is a double-whammy.

If we consider that element of the Covid impact and we look to the current crisis now, the current crisis is definitely hitting those lower-income families harder. If you put the two things together, yes, you can say that it is to some extent exacerbating what is going on at the moment.

One of the things we know is that a lot more lending and borrowing happened for lower-income households because of the pandemic. There is a stat here that 38% of low-income households accrued new or more lending during the pandemic; half of them did not have any lending or borrowing before that. That is the context within which this higher inflation is happening. In that sense, the fact it has come straight after the pandemic definitely does make things more difficult.

Q231 **Alison Thewliss:** Is that debt going to be something that people are now going to have to live with for a longer period of time, because of their circumstances? What is the impact of that on families?

Rebecca McDonald: Yes, I think so. One of the worries is that, while this package is very good in the sense that it provides a significant amount of short-term emergency help and will prevent or limit the extent to which things get a lot worse this year, it is not going to be tackling any of the longer-term issues.

Even before this period of high inflation, a lot of people were in debt and a lot of people were experiencing poverty. It does not even start to attack those longer-term issues. It is simply an effective but short-term emergency package.

Q232 **Alison Thewliss:** Are the measures enough to help other groups like carers or disabled people? I know there are different levels of support, but is it sufficient for the needs they have?

Rebecca McDonald: The additional payments for people with disabilities and pensioners are fairly significant and on a good scale in order to adjust for extra expenses, extra needs and the extra impacts of inflation for them.

There is nothing specific for carers. I would put that in the category of larger families, in the sense that they are some of the people who will be finding that this does not go as far as it does for other families. Again, that comes back to some of the downsides of doing it as a lump sum.

Q233 **Alison Thewliss:** Gemma, to what degree will rising interest rates, which will increase the cost of housing as well as have other effects, take away from the benefits that families gain from the support package announced?

Dr Tetlow: It is an important question. What I was referring to before is that, because we are supply-constrained at the moment, the extent that the Government are stimulating outcomes overall will be offset by higher interest rates. The cost of that to households may be less obvious, but it will be there and spread across households.

I have not done the numbers myself. As I said before, the Bank of England's estimate is that higher interest rates broadly hit all households the same percentage across the income distribution, whereas the package of fiscal measures is now somewhat more skewed towards the lower-income households. Overall, I would say that the lower-income households should be net beneficiaries from monetary and fiscal policy at the moment, but it definitely is one aspect offsetting some of the positive news.

Q234 **Alison Thewliss:** There are a lot of complicated moving parts in this as well.

Dr Tetlow: Yes, exactly. If you are a saver and you are getting income from savings, higher interest rates are good news for you. Overall, households will pay higher costs.

Q235 **Alison Thewliss:** Rebecca, the JRF's poverty report showed that England has the highest poverty rate in the UK. Within England, London had the highest poverty rate. Can you explain a bit more why the poverty rate in England is so much worse than other parts of the UK?

Rebecca McDonald: Yes. I suspect that a large part of the changing English average is because of London. For London, that is predominantly driven by housing costs. If you look at poverty measured before accounting for housing costs, London does not look so different. We usually use an after-housing-costs measure. Once you adjust for housing costs, London has a much higher poverty rate. It is simply just because housing is so expensive in London.

A lot of the people who are classified as experiencing poverty in London would not be if you used that before-housing-costs measure or if housing costs were at a similar affordability rate to other parts of the country.

Q236 **Alison Thewliss:** What impact do the different types of support being offered around the different nations of the UK have?

Rebecca McDonald: Do you mean in terms of the packages of support?

Alison Thewliss: Yes, the Scottish Government have offered different support to what is available to people in England, for example.

Rebecca McDonald: I do not know as much about the details of the Scottish package, so I do not want to comment too much on that.

In terms of the national package of support, the need for that is everywhere; it is in all different parts of the UK at the moment. Whereas in other economic contexts there are big geographical differences, the impact that higher inflation is having is constantly difficult for people across the UK. There is not the same geography to it as there was when we were discussing the geographic impacts of the labour market crisis during Covid and stuff like that. Anyone on a lower income, regardless of where they are, will be affected more by inflation at the moment.

Q237 **Alison Thewliss:** Do you expect the cost of living crisis to impact in a lasting way on poverty levels and destitution? There have been some initial figures out on that.

Rebecca McDonald: It is a really good question. We have not updated the poverty modelling in the last few weeks. Before these measures were announced, we were expecting poverty to rise over the course of this year, in particular because benefits had not been uprated by inflation.

The estimate was that 600,000 people would be pulled into poverty. The scale of this package is roughly equivalent to having uprated benefits by inflation, which will hopefully prevent a lot of those people from being pulled into poverty. It is possible, because this package is very targeted, that it will prevent poverty going up at all this year. We do not really know.

That makes it sound better than it is in a way. Yes, it could get worse, but the context in April was very bad already. It is good that it might prevent those people falling into poverty, but there were still 14.5 million people living in poverty before that.

Q238 **Alison Thewliss:** Are there any particular impacts being measured by yourselves or other people on people who have no recourse to public funds, for example, who might not be able to access this support?

Rebecca McDonald: We have not done the specific modelling, but it is a really big concern. That is a very big issue and of course means that they will not receive a lot of the support. It is good that they will receive some parts of the support. They will not receive the benefits stuff, but they will receive some of the universal support. Hopefully, even though it will be a lot less, some of it will filter through to them. In general, that is a really big concern. It is a driver of destitution and very deep poverty.

Q239 **Kevin Hollinrake:** If I can come to you first, Rebecca, 10 days ago, when the Chancellor was asked whether he would provide further support on top of what has already been committed, if that were needed, he said he was "always prepared to respond". The current package, as you said, is one-off payments, which expire in April next year. What is likelihood of him having to provide more support?

Rebecca McDonald: The package he has already announced is going to offset most or a lot of different costs across the next year. It will be hard during the winter for many families, because they will receive that second lump sum payment in October. That will need to tide them over to April. It is definitely possible that there will be a need for extra support during the winter. The commitment that he made in September to uprate benefits by inflation next April means that benefits will likely rise by around 9%, depending on what inflation turns out to be. That will do a lot in the year and the next year to maintain spending power.

It is likely that more will be needed. That was framed in terms of him assessing how inflation goes. Of course that is the main consideration, but it is not just higher inflation rates; it is also the level of financial difficulties that families are in. The longer there is a period of high inflation and higher cost, the more difficult that becomes, even if the extra costs are being offset. For people for whom this has meant they have additional lending by borrowing or debt, even if that does not grow, it becomes more difficult to service over time.

Even if this package prevents the extra costs making things worse, there will still be an assessment later on in the year as to how families are faring. During the winter there may be a call for further support and a need for that.

Q240 **Kevin Hollinrake:** When do you think he will announce that further support? Will he know by the Autumn Budget, for example? Will he require a statement at some other point in the financial year?

Rebecca McDonald: There definitely will be enough information by the time of the autumn to make that assessment for the winter. It would need to be by then in order to make a difference for families.

Dr Tetlow: Rebecca made an important point about what happens to benefits. Although there are one-off payments this year, next April benefit payments will effectively catch up with the growth in the cost of living this year. That group of households will have a much higher income. For the rest of households, the forecast is that wages this year will not grow as quickly as inflation. Those households are likely to face lower real-terms incomes next year once the £400 payments and others expire.

There is an underlying economic question, which is what is going to happen to energy prices through to next year. Clearly, the Government's expectation back in February was that energy prices would have fallen back by then, because they were planning to start clawing back the £200 from April 2023. It seems increasingly unlikely that energy prices will fall back as quickly as they were perhaps expecting. It does largely come down to a question of politics and how much pressure the Government come under to do more for those households.

Professor Millard: Yes, I am in a similar place. The key thing will be when we know what is going to happen to heating bills in October. As soon as that is announced, we will have a much clearer idea. My gut feeling tells me that the package that was announced recently will not be enough and will have to be revisited in the Autumn Budget. We will know, because we will know about those heating bills.

Again, this comes back to the point I made earlier about aggregate versus distribution. With energy prices and food prices rising for the country as a whole, we are going to have to take a real income hit. There is nothing that the Government can do about that. The real issue is where that hit falls disproportionately on the poorest members of society, who, as I said earlier, spend more of their incomes on heating and food. It is going to be important to come back again to supporting those households, come the Autumn Budget.

Dr Tetlow: In terms of the timing issues you have both picked up on, perhaps I slightly disagree on what the likely timing will be. My interpretation of Rishi Sunak's latest announcement was that this is what he thinks is enough to deal with the energy price rise that comes in October. We have two-thirds of the data on what is going to determine that cap price. Unless something very unexpected happens with futures prices in the next bit of time before August, when the cap for October will be announced.

His expectation is that this is enough of a package to see households through to the following April energy price rise. That could turn out to be wrong, but I would perhaps expect a reassessment at a later date than Rebecca and Stephen were hinting at.

Q241 **Kevin Hollinrake:** You think it will be later in the year or early next year before he knows where we are going to be in terms of—

Dr Tetlow: He is hoping that the next decision point is when we get to February and we are talking about the April rise rather than what sees us through winter 2022-23.

Q242 **Kevin Hollinrake:** You said earlier that you did not feel the current support package is inflationary or significantly inflationary. Both you and Professor Millard have said that. If there were more money going on and more support, would that stoke inflation?

Dr Tetlow: Just to clarify, I have not done detailed analysis. Looking at the package in theory, I can see why it would put upward pressure on inflation. I will defer to Stephen's more detailed modelling on the precise—

Q243 **Kevin Hollinrake:** What do you think, Stephen? I was surprised that you said it was not inflationary. Even the Chancellor himself said it would have some minimal impact on inflation.

Professor Millard: Yes, it will have a minimal impact, but the key word there is "minimal". It all depends. Gemma explained it much better than I did earlier on when she said it depends on whether the increase in demand, which will certainly happen as a result of the package, runs up against supply constraints.

When it comes to food and fuel, prices are rising, but it is not necessarily clear that we cannot get more gas and more food. It is not clear that there is a supply constraint there. That is where you would imagine most of that package will be spent. That is why the inflationary impact for a given rise in demand is likely to be less.

If there were a second package announced in the Autumn Budget, for instance, it would depend on whether that package was going to enable poor households to buy the food and fuel they need or whether it was a more universal package that was putting money into the pockets of everyone. That would be more likely to be inflationary.

Q244 **Kevin Hollinrake:** Nobody is arguing that households will be any better off because of this money. It is just really helping them compensate for some of the extra costs, is it not? It is all money going into the system. Therefore, you would think it must stoke inflation to some degree.

Professor Millard: Yes. Again, it just depends on how close you are to running up against supply constraints in the particular goods and services where that money is getting spent.

Q245 **Kevin Hollinrake:** There is a certain issue about inflation and the measures of inflation. You are playing catch-up; it is rising quickly, and therefore benefits were not uprated as quickly or as much as they might have been. Had he uprated benefits this year to the level we think inflation is going to be, would he have had to put less in terms of one-off payments into the system?

Dr Tetlow: I believe that the package of one-off payments he has announced is £1 billion more generous than uprating benefits in April would have been.

Rebecca McDonald: My understanding of those numbers was that that was comparing it to uprating by 9% in October, if they had brought forward next year's uprating to this October. That is just my reading.

Dr Tetlow: I thought it was more generous. Certainly, from talking to the Treasury after the announcements, they said it was more generous than had they done the uprating.

Q246 **Kevin Hollinrake:** He said that in his statement, did he not?

Dr Tetlow: I am not sure. I would defer to Rebecca.

Professor Millard: We looked at an uprating of universal credit by £25 a week. That was significantly less generous that the package that was actually announced. The package that was announced was much more generous than that.

Rebecca McDonald: There are different uprating options as well. If we went back in time, there was the option of uprating in April. That would have been 8% or 9%, which would have been more in line with that. There was also the option that there could have been a mid-year uprating later on this year. There are these two different options that were alternatives in hindsight.

My understanding was that the one-off payments were of a similar magnitude to the potential uprating of benefits by inflation in April earlier this year.

Q247 **Kevin Hollinrake:** Would you be in favour of a more frequent look at inflation in terms of uprating benefits to try to cope with these sorts of situations, or is this a one-off that we should not worry about too much?

Rebecca McDonald: It is something that should be considered. I am not necessarily sure it is needed. It is needed at certain times. At the moment it would be helpful, because it would change things quicker. Usually, inflation is pretty stable at around 2%, and therefore it is not really needed for it to be at six months.

There is one change that would make a difference. At the moment, it is based on the previous September's inflation. If it were possible to bring that closer to the April when the uprating happened, that would make a big difference. This time, that would have made a big difference. I do not know whether that is possible in terms of the practicalities, but presumably, with universal credit being easier to change and quicker to change, that may well be possible now. If it was a trade-off between doing that or doing it six monthly, that would be a good step in that direction.

Dr Tetlow: On that, if you look back to the 1970s, there were times when benefits got uprated several times in a year, at times with double-digit inflation. As Rebecca says, normally it is not needed, because inflation is relatively low.

Another feature that has come in in recent years is the Ofgem price cap, which means that energy price inflation is a lot lumpier than it used to be. Rather than having a gradual rise in energy prices showing up over the previous few months, which would partly have been reflected in that September figure, we instead have a much bigger one-off jump that is going to take a lot longer to feed through to benefits.

Q248 **Kevin Hollinrake:** In the 1970s and 1980s, inflation was more frequently higher, whereas today hopefully this current situation is pretty temporary and we will get back to the trend level.

Dr Tetlow: It has not been an issue for a long, long time.

Q249 **Kevin Hollinrake:** In terms of protecting people's living standards, particularly people on low incomes, is a tight labour market going to do it? It will not on its own, necessarily, but is that going to help? Are we seeing a sufficient or decent level of increases for people on low incomes in terms of wages?

Rebecca McDonald: On aggregate for the labour market, the tightness of the labour market is probably contributing to nominal wage growth being fairly strong in normal terms, but of course in real terms at the moment, because of inflation, not strong enough.

In terms of the distribution impacts of that, the evidence I have seen so far suggests that feeding through into wage rises is happening more at the higher earnings end of the labour market, and also in terms of bonuses and things like that. It is not feeding through as much for low-paid workers as it is for higher-paid workers. Is it a solution or is it going to help low-paid workers through this crisis? It is much less likely to be a good contributor or a sufficient contributor to that.

Q250 **Kevin Hollinrake:** We have seen quite a few announcements recently that have not coincided with an OBR forecast or independent costing. Gemma, a few minutes ago you said that you probably could not predict what is going to happen in terms of future prices. There may well be another announcement, like the health and social care levy or the most recent package, that is not properly costed. Should we be concerned by that? Is there too much politics in there, or is it something that was inevitable because of the current crisis?

Dr Tetlow: There are clearly reasons why the Chancellor has announced some of these measures out of sync. Given the way the energy price cap goes up, I can see the argument for wanting more information about what was going to happen before doing it. Overall, it is unfortunate for the quality of scrutiny that this has happened on so many occasions now. It has not just been these energy packages. We had the social care levy announced last September and others. It does reduce the amount of information that Parliament has to scrutinise the measures the Government announce.

I was also a bit disappointed to hear the Chancellor on Monday bat away some of the questions you posed to him on some of the economic impacts of the measures he has announced on the grounds that the OBR has not yet done its forecast and he did not want to pre-empt its conclusions on this. The introduction of the OBR was supposed to improve the quality of information that was available for scrutiny of measures. Indeed, it does do that when the Chancellor announces measures alongside their forecasts, but it cannot, for its own capacity reasons, produce more than two forecasts a year.

On occasions like this, if the Chancellor does feel he needs to do measures out of cycle, it is unfortunate if that leads to even less information being provided to Parliament. If you think back to the days pre-OBR, if the Chancellor had announced some measures, it presumably would have been perfectly reasonable to ask the Chancellor for the Treasury's assessment of the economic impact of the measures.

I have to say I have not looked back at the TSC hearings from those days and looked at the types of answers Chancellors gave, but I presume they would have given a Treasury assessment of the economic impact. It is unfortunate that he did not feel able to provide the Treasury's best estimate of this. I assume they must have done that analysis internally.

Q251 **Kevin Hollinrake:** When those Treasury forecasts used to happen, were they not criticised for being manipulated in the Chancellor's interests?

Dr Tetlow: Absolutely, yes. The OBR doing independent forecasts is the first best option. If you are in a situation where the OBR has not been able to do a full updated fiscal forecast alongside a new package of measures, second best would at least be some information from the Treasury on what it thinks the economic impacts of these measures are going to be.

Q252 **Kevin Hollinrake:** Professor Millard, is some of this stuff getting too political? The health and social care levy, most of all, was something that could have potentially been done in a more strategic way.

Professor Millard: I do not know about it getting more political. I agree 100% with Gemma. I am quite concerned that too many things seem to be happening outside of the scrutiny that they should be getting.

We at NIESR have argued for a re-think of the fiscal framework, that would have the OBR publishing ahead of the two fiscal events a year and saying, "This is where we think the economy is going. These are the issues that we think the Spring Statement should be tackling and in this way".

Certainly, it was not altogether clear to me that the Chancellor did not realise there was a need for additional support for the poorer households in society at the time of the Spring Statement. As I said, it is not clear that he could not have acted then as part of the main fiscal event. The same goes for the health and social care levy. That could have been announced quite easily in the Budget. Yes, I am in 100% agreement with Gemma on that.

Q253 **Siobhain McDonagh:** I would like to ask the panel about the distribution of energy rebates for those individuals who own multiple homes. Should the Government have put more effort into preventing owners of multiple properties from receiving multiple energy bill discounts? Should people with two properties get £800, with three £1,200 and so on?

Dr Tetlow: I can see that the design of the policy they have come up with has some simplicity to it, in delivering it to every energy bill payer. The Government clearly do not have a perfect record of where there is overlap between energy bills, because you could have multiple different energy supplies with different providers. They do not know if you have two bills with them, for example. I can see that you could have constructive ways of clawing back the additional support if you had wanted to overall provide one payment to each household, couple or however you wanted to define one recipient of this.

I noticed you putting this as an option to the Chancellor earlier in the week. You referenced self-assessment in the way that we do for child benefit. It is certainly not easy to do. That has been quite a complicated process. People need to know that they are liable to reveal to the taxman that they should be paying—

Siobhain McDonagh: They own two homes. They might forget that.

Dr Tetlow: Presumably, it may require people who would not otherwise need to fill in a tax return to do so. That seems to be in the category of possible but not terribly easy. You also asked him about using local authority records on second home ownership. In his response he referred to the challenges that there have been in local authorities sending out extra payments to people for the £150 rebate earlier this year. My understanding was that the challenge for councils in that instance was they are not used to giving money back to people, whereas I thought they had reasonably established systems for taking money away from people.

Q254 **Siobhain McDonagh:** The challenge for councils is that about a third of people who pay their council tax do not pay it on direct debit. They pay it manually monthly through PayPal, cheque or whatever and councils simply do not have their bank details, so they cannot give it to them easily.

Dr Tetlow: In this case, when you would be talking about needing to ask people for a payment back, which is what you would be doing for the people who got it for a second home, that may be simpler for councils to implement, because they are more used to asking people for money rather than trying to somehow give the money back.

Q255 **Siobhain McDonagh:** Does anybody else have any views on whether it should be universal, targeted or whether the Chancellor should have addressed the issue of multiple home ownership?

Rebecca McDonald: I probably cannot add much to what Gemma was saying. I would agree with her. The benefit of the way it is being done is that it is relatively simple, and presumably that help to do it quickly as well and avoids some of the issues, like we were just saying, around the way in which the council tax rebate has been designed. There are pros having done it via the electricity bill route. Having to then go back and consult with councils or the self-assessment route would just make it a lot more—

Siobhain McDonagh: They do not consult them. They just tell them.

Rebecca McDonald: It would have got rid of the benefits of the simplicity of that, to some extent. In terms of the question on universalism, to be honest, the priority was that the support went to the lowest-income households. Once that was done and it was done well, then I have fewer views on whether the idea to then additionally do a universal payment was the right or wrong decision.

Having done an expensive universal policy, my worry is what that means we might have to give up next year. For example, if the fact that that was the decision this time means that additional payments for lower-income households are deemed unaffordable or unfeasible next year, that would be a real frustration and big disappointment, in the sense of, knowing the crisis could have gone on for longer, that would have had to be built into these decisions. As long as it is not taking away from stuff later down the line, I do not have too much criticism.

Q256 **Siobhain McDonagh:** What struck me, Professor Millard, was, for the people who own two properties, we are talking about £660 million.

Professor Millard: That is a lot of money, for sure. I agree entirely. It is the trade-off between getting the help out to everybody in a quick and simple way versus the universality. I do not know. I lived in the States for a short period of time, where everybody fills in a tax return and that seems to work okay, so maybe the self-assessment route might have been the right one. The issue then is just, as Gemma said, making people aware that they need to do that, but I am sure that could have been done. That would have probably been the answer, but, yes, it is a difficult trade-off. You want to get the money out as quickly as possible, but equally you want it to be targeted.

Q257 **Siobhain McDonagh:** In the questions on Monday, the Chancellor defended second home support by suggesting that he was donating his £1,200 to charity. Given the challenges facing public finances and the difficulties that you have all referred to for people who have very little indeed, is it really a good use of taxpayer funds to give handouts to the wealthiest, hoping that they choose to use it for philanthropic reasons of their own choosing?

Dr Tetlow: In general, how fiscal support gets targeted is very much a choice for politicians and we as an institution do not take any value judgment on that. Having said that, my impression of this policy is not that it was a deliberate design objective of the policy to try to give more money to those groups, but rather that it was a side effect of a desire to get the money out in a quick and simple way. As we have just discussed, there may have been ways of clawing it back. They may have been quite administratively burdensome. I do not know enough detail on what the costs of doing that would have been and whether it would have undermined any part of the simplicity of the design.

Q258 **Anthony Browne:** I just want to go back to first principles to start with. The Government have announced £37 billion of support. 80% of households are getting a rebate on their council tax bills, there are one-off payments to benefit recipients and there is money off electricity bills. Is this unprecedented? I am not aware of any time in certainly British history where Governments have done this sort of thing before. This is open to anyone.

Rebecca McDonald: My understanding is that in terms of the targeted nature of the support, that is precedented and slightly more usual in terms of responding to crises and big emergencies. I will defer to the others on this, but the universal nature of it is more unusual and has been used less often, in terms of the universal payments to everyone of this scale. I assume the economic reason behind that is linked to the estimations of falling real household disposable income this year and how that is historically very big. Even looking back to the 1990s, which was referenced on Monday, there was not the same drop in real household disposable income.

Q259 **Anthony Browne:** In the past there was not even targeted support, was there, in this way for this sort of crisis?

Rebecca McDonald: In the past it would have been built into the benefits system in some way.

Q260 **Anthony Browne:** Like uprating every few years in the 1970s.

Rebecca McDonald: Yes. Gemma was talking about how there were different upratings and there were perhaps extra ones and things like that.

Anthony Browne: It is not rebates on electricity bills.

Rebecca McDonald: The real value of benefits used to be higher and, therefore, it would have been done through that. It might have been less obvious in terms of an announcement of a lump sum payment, but the actual giving of support in that way is fairly normal.

Dr Tetlow: In previous downturns the automatic stabilisers within the benefits system may have operated more. In previous recessions we have tended to have big increases in unemployment, which means people then get payments from the state for unemployment benefit, whereas now we are seeing employment hold up, but not very much wage growth, so there is nothing in the benefits system that automatically tops up household incomes.

Q261 **Anthony Browne:** That is just a feature of the fact that employment is very high or unemployment low.

Dr Tetlow: Yes, exactly.

Q262 **Anthony Browne:** Whereas in previous downturns unemployment shot up.

Dr Tetlow: Yes, but in terms of the aggregate degree of fiscal support going into the economy in past recessions, it may have happened a bit more automatically because unemployment went up.

Professor Millard: I am with Rebecca. I cannot remember any particular time that there was that much support, but maybe it is the case that in the past, because benefits were more generous and were more automatic in terms of uprating, that was enough. The level of support is huge, as we said.

Q263 **Anthony Browne:** I am wondering whether public and political expectations have changed, in the sense we have been through the pandemic, when clearly there was £400 billion of support, like the furlough scheme and lots of other schemes, and whether now there is an expectation that Government step in and provide more support in a way that was not there in 1990, which I referenced before. Maybe there is an economic rationale for doing it this way now that was not there before.

Professor Millard: I do not know if there is more of an expectation now than there used to be. I am not sure either that there is an economic rationale more than there used to be. What Covid showed us is that where Government use a lot of money and act swiftly, they can stop really bad things from happening. There was almost a realisation that they had the tools to do that. This is a little bit different, in that this is really about supporting the poorest members of society, which in a sense is what Government have always done and what people have always expected Government to do. Maybe the scale is new, but the idea of supporting poorer households at a time of real income issues is not necessarily new.

Q264 **Anthony Browne:** No, that is exactly what the Government are for. Can I turn to the operation of the support packages? This is just a practical thing. It is all very well putting it down on paper and making an announcement that people should get £650 or £150, but unless they actually get the money in their bank account, it is all slightly pointless. You touched on this slightly before, but there have been issues with the council tax rebates for the reasons that Siobhain mentioned that lots of councils do not have the bank account details of people. The £650 cost of living payment goes to people on different benefits, but, like pension credit, only three-quarters of people who are entitled to it actually get it, so they would not be getting that £650.

This is probably a question, first of all, for the Joseph Rowntree Foundation. How concerned are you about the money actually getting into people's pockets and the operational side of it not working as smoothly as it could be or should be?

Rebecca McDonald: We are less concerned than with previous announcements, like the council tax rebate. The fact that the more targeted support is being done via the benefits system means that anyone who receives benefits will automatically get that money and they do not need to apply for it, which is really good and is a real benefit to having used the system in that way.

For the 400, the fact that it is being done through electricity bills, as it is, is also good, in the sense that hopefully it will be easier for people to get it more automatically than, say, when it was done via council tax. On the pension side, I agree with you on the pension credit point, but the fact that the choice for the extra £300 for pensioners has been done through the winter fuel payment is also a good thing, because a lot more people will get that and will get that automatically as well. The choices for those three ways have been done in a way that hopefully will prevent people from being excluded for operational reasons.

Dr Tetlow: I do not have a huge amount to add. It would be a good thing for DWP in all times to make sure that the systems are as easy to navigate for people as possible. That is that much more important when there is more money at stake for people. In terms of Treasury involvement with this, which is your focus, in a sense Treasury should have a vested interest in ensuring that those delivery mechanisms work well.

As we were discussing before, there has been heightened awareness of the importance of these delivery mechanisms, even if the Treasury is not the Department directly involved in doing that. We would hope that in the spending round discussions they have with DWP they would be asking for understanding of the initiatives that DWP is taking to improve take-up of benefits and increase the way that you can navigate the system.

Q265 **Anthony Browne:** Now that all this extra money is tied to the pension credit, just coming back to that, should DWP do more to make sure that the people who are entitled do get it, because the amount of money is now a lot more?

Dr Tetlow: Yes. We have revealed that we are concerned about people struggling with the cost of living. Having said that, you would also have thought there is more private incentive for those people to go and figure out how they could claim that.

Q266 **Anthony Browne:** Presumably, they may not know.

Dr Tetlow: If they did not know at all, then that is a real challenge. If it was a psychological hurdle to accessing the system—

Anthony Browne: Yes, or they just cannot be bothered or whatever.

Dr Tetlow: If it is too difficult or something, this will slightly increase the incentive for them to go out and do that, but you would hope the system is easy to navigate for them.

Q267 **Anthony Browne:** Rebecca, do you think the Government should be doing more to make sure that those who could get it should get it?

Rebecca McDonald: Is that on the pension credit question?

Anthony Browne: Yes.

Rebecca McDonald: Yes, but my understanding is it is known as a long-term problem. There are people working towards making the take-up of that higher, but, yes, that should definitely be an aim, because a lot of people are losing out on pension credit, not just now but in the long term; that is a big issue.

Q268 **Anthony Browne:** Can I ask whether Joseph Rowntree has any experience or views on the household support fund, which is now £500 million to £1 billion, that local authorities need to hand out on a discretionary basis? They have to work out the criteria for handing it out. They have to find out who the people are. They have to apply, presumably. Do you have any information or knowledge about how that has worked? Is that money getting out there or is it just sitting in the bank accounts of local authorities?

Rebecca McDonald: It is being given out. I do not have good information or evidence yet on how the latest round is being used and who is being targeted. I know some councils are trying to do some new things around slightly more automation or using information and data they already have about people in their areas to flag them as people who might need the money, rather than waiting for people to come to them, which would be more traditional for some of these discretionary funds. Because it is so used and so needed at the moment, councils are thinking of different ways to get that money to people and to use the big data that they now have on different people in their areas in new ways.

Q269 **Anthony Browne:** This afternoon we have touched a bit on the compromises the Government have to make. They only have the delivery mechanisms that they have and there is a trade-off between speed, targeting and so on. They presumably do the best they can in the circumstances. I just wonder if there are lessons from this. Hopefully, we do not have a crisis like this again and hopefully we will not have to learn any lessons in future, but it is always good to do that.

Gemma, you mentioned earlier in the US the Government have a lot more comprehensive knowledge of the individual circumstances of citizens and indeed their bank account details because of the annual IRS return. In peacetime do you think the Government should just say, "Actually, this is not going to happen again for ages and we do not need to change anything", or do you think there is something the Government should do from this and think, "Actually, there might be another time in future. We have to work out better ways of targeting things"?

Dr Tetlow: I do not know what the costs entailed with this would be, which would clearly be very important, but the big one for me seems to be the legacy benefits systems that we have. Covid and now have shown how much better it is to have a modern and flexible IT system with universal credit. If I was in DWP, I would be reassessing the case for whether to update the IT systems underpinning the state pension and the other legacy benefit systems. As I say, it is clearly a question of how expensive that would be to do, but we have seen the benefit of having a more modern system.

Q270 **Anthony Browne:** Rebecca, do you have any views on mechanisms and delivery lessons learned?

Rebecca McDonald: I would agree with that. We touched on earlier that this raises the question of whether there should be an assessment of mechanisms to give transfers more widely than those who are automatically on, say, the benefits system or other means-tested systems. That is a good question and should be something that is considered. It is difficult to know how, again, weighing up the costs and given it might only be needed quite rarely, but it feels like something that would be important for Government to look at for the future.

Anthony Browne: There is a trade-off, not knowing whether you are going to spend a lot of money that may never have any benefit.

Chair: Mike Tholen, you have been so patient, but now is your moment in the sun. We are going to turn now to windfall taxes on oil and gas and all the matters in which you have great expertise.

Q271 **Dame Angela Eagle:** Thank you for your patience, Mike. Do you think the windfall tax on oil and gas extractions is justified?

Mike Tholen: It does not do much to help the long-term relationship between the industry and Government. Clearly, it is for the Government to decide where to set the tax rate, but there are consequences on both sides. Part of the motive to raise the tax was because they sought more tax revenues from the sector. Currently, the sector will be paying an additional nearly £8 billion, so the tax regime in many places was already working and both the way the tax is applied and the nature of how it is applied will do a lot to cause long-term challenges for the development of the basin.

Q272 **Dame Angela Eagle:** There is a general view, though, Mike, that huge and unexpected profits are being made because of the movement in prices, which have not been earned, and it is in those circumstances, regardless of some of the effects you have just been talking about—

perhaps it has been done before—that windfall taxes can be applied to unexpected and effectively unearned profits that have fallen into the laps of the energy providers because of unanticipated huge increases in prices.

Mike Tholen: There are a number of layers to the question there. The revenues by the sector 18 months ago were kicking down so huge and pretty much unanticipated losses were being earned by the sector as well. A cyclical industry like ours can take more taxes, but it bears burdens and consequences.

The global picture of some of the big oil companies does not relate in many ways these days to the nature of the revenues in the basin. That is the issue underneath this. We need a long-term fiscal policy sitting alongside a long-term energy policy that actually delivers the needs. I have heard compelling arguments here for affordable clean energy and we want to be part of a debate that is long term and does not have the kneejerk that we see with the current tax enforced on the industry.

Q273 **Dame Angela Eagle:** The Chancellor has said that the windfall levy would fall away when prices returned to normal. We were asking him on Monday how normal might be defined and he was saying around $60 to $70 a barrel. How would you define it?

Mike Tholen: The Chancellor is right. Over the last decade the average oil price has been at $60 to $70, but we have seen massive swings. The big challenge at the minute is not just the oil price; it is the gas price as well, and gas prices this year have gone up and down by a factor of three or four. We live in some very strange times, which are not just driven by the impact of Covid, as we all know, but the consequences of the awful events going on in Ukraine as we speak. Those together are conflating the issues.

Q274 **Dame Angela Eagle:** We have heard previously—you have just mentioned it—that North Sea oil extractors have significant losses being brought forward. The Government are not going to allow these to be applied against the new levy. Do you have any comments on whether that is fair, or do you accept the logic behind the Government's decision on that?

Mike Tholen: The sector as a whole was somewhat taken aback. We actually have not got a conventional tax. This is a cashflow tax looking at immediate impact. The consequence, when for months we have been encouraged by the Exchequer, by the Government, by No. 10 and by the Secretary of State for Energy and Industrial Strategy that we invest in energy, is that, if we take more cashflow out of the business, there will be less cash to reinvest in some of the opportunities we face. There is a tension with what we do. The Government's choices mean there will be less money to invest, both in short-term security of supply and long-term in the energy sector.

Q275 **Dame Angela Eagle:** The Chancellor announced alongside the windfall tax, although he did not call it a windfall tax, a very generous and newly increased investment allowance. Is that seen as a good thing in the industry?

Mike Tholen: It is perversely seen as a necessary thing. In the last 20 years we have seen three major increases in the taxation of the sector, some of which have dropped over time, and after each of those increases, sometimes straightaway or sometimes subsequently, we have seen investment incentives come in to try to rebalance the drive to invest in the North Sea after a period where we have seen otherwise investor sentiment being damaged. It is from that perspective that some of the foreign companies I speak to, looking in at the sector in one or two muted ways, describe the UK as being a very noisy place to do business in all of a sudden. These incentives are needed to try to rebalance the attractiveness of the sector. Hopefully, if we see the tax come off, we will see the need for these incentives go as well.

Q276 **Dame Angela Eagle:** The oil and gas extraction sector makes long-term investment decisions. Those would have been based on oil and gas prices that were significantly lower than what the industry is currently receiving because of the huge hikes in prices. Why would a windfall tax deter investment decisions that were otherwise going to go ahead? Is it future investment decisions we are talking about being deterred rather than investment decisions that were made when prices were much lower?

Mike Tholen: We have had a long period now since 2011 where tax rates have declined and certainly oil prices for the most part have substantially declined. Companies make investments based on a mixture of forward projections, sometimes static and sometimes dynamic projections, assuming, even now, the current dynamics in oil price, but they also hedge against those prices to assume they can basically book an income to come against those investments. The combination of hedging and going through a price process means that they do not always expect to see volatility, but they do expect to see some volatility to help what is otherwise a very risky business to invest in.

Q277 **Dame Angela Eagle:** This is a 1970 kind of price shock. They do not come along like that very often, do they?

Mike Tholen: They certainly do not.

Q278 **Dame Angela Eagle:** That is on the upside for you as an industry rather than on the downside.

Mike Tholen: It is, but it is not that the sector is squirreling this money away. It pays a substantial amount already back in taxation. It is looking to reinvest that within the UK economy and not least within the UK energy sector on the upstream and downstream.

Q279 **Dame Angela Eagle:** The basin itself is an ageing field and it costs more to extract what is left of it. I know that, but if we look at some of the investment allowances that have been given in 2019 and 2020, in both those years close to £5 billion of investment allowances were given for investment in the basin. This windfall tax is only expected to raise that amount of money back. Does that not just show that it is not actually raising that much money? It is simply taking back some of the investment allowances that have already been paid over to the industry.

Mike Tholen: Previous investment allowances have been offset against revenues already. The energy profits levy is very much a forward-looking tool for Government and is disallowing many conventional costs, including decommissioning. The two cannot easily be conflated. It is looking forward seeking extra rent off the industry and, as you say, we will have to see how that transpires.

Q280 **Dame Angela Eagle:** Do you expect the new investment allowance, which is pretty generous at 80%, to increase investment in the North Sea, or do you think that the fact that there has been a windfall tax announcement will actually drive people away?

Mike Tholen: We are hearing pretty much every single answer to that question, as you would imagine.

Q281 **Dame Angela Eagle:** Yes and no, in other words.

Mike Tholen: I am afraid so. As you would imagine, it is a very diverse basin and for some companies the extra taxation has meant less cash investment in the first place. In others, they will look to see if they can accelerate investments in a period when the Government and we all know we are very short of energy. The thing that could completely blow all the predictions about energy prices this winter off course is something untoward happening as a result of the Russian invasion of Ukraine. The sector as a whole is really trying, in one sense, to rise above the discussions around taxation to make sure it does its best to invest in the natural resource we need at this time.

Q282 **Dame Angela Eagle:** Do you think that the investment allowance will mainly be applied to capital spending that was planned anyway and, therefore, not actually increase overall the amount of investment?

Mike Tholen: There is always a risk of deadweight in any allowances, but certainly when you are looking here at some of the activities that are being discussed and the North Sea Transition Authority, our regulators, identified, there are opportunities to accelerate and certainly ones that are not currently in people’s plans. I would hope to see that among all of the noise in this we can see activity step up, because it is needed to provide energy and, indeed, it will in itself deliver new revenues to the Exchequer in due course.

Q283 **Dame Angela Eagle:** Has the industry made good use of the super-deduction, which is coming to an end, but effectively pays the industry to invest?

Mike Tholen: What do you mean by the super-deduction?

Dame Angela Eagle: The tax deduction on capital investment.

Mike Tholen: The super-deduction happens outside the tax ringfence. We have a very separate regime. It is one solely inside the oil and gas ringfence offshore.

Dame Angela Eagle: The super-deduction does not apply.

Mike Tholen: It does not apply to us, no. Life is complicated enough.

Q284 **Dame Angela Eagle:** I know it is complex and a very bespoke regime that applies, as you would expect, given that North Sea oil and gas is actually owned by the state and, therefore, we have a reasonable right to tax it, but also we want to see that done in a way that is in the interests of revenue-raising, as well as ensuring that the resources are sufficiently exploited. Do you see any chance for financing green transition approaches and green energy approaches in any of the work that is being done in the basin at the moment?

Mike Tholen: There is a massive amount of work being done in that broader narrative right across the whole sector. The UK's oil and gas is already typically top quartile in terms of its low carbon footprint compared with other sources of oil and gas, particularly gas. We are doing a lot, looking at how we work with the wind sector to invest in providing renewable power for our own facilities. We invest in carbon storage and hydrogen, and many of the companies at the heart of our own business are heavily investing, for instance, in Celtic Sea and Scotland.

Our backs are very firmly in developing the best of a very clean and very different energy future, but, as I imagine you want me to say, for us as a sector that stands where we need strong foundations right through our supply chain to build from. We cannot just flip the switch and move into these new alternatives without having the industrial activity and capability. Probably our biggest concern with all the tax changes is that our supply chain, which is wobbling, will struggle to seize the billions and billions in opportunities because it is not there long enough to make the most of them.

Q285 **Dame Angela Eagle:** The final question I wanted to ask was whether you have any thoughts or comments on what the Chancellor had to say on Monday about a potential levy on electricity. How is that affecting the sector?

Mike Tholen: I am almost wanting to use an Irish joke. If I was going to do that, I would not start from here, because it will have done a lot to damage broader investor sentiment. In one sense, our own sector, sadly, is used to big political changes, but when we are looking to see £1.4 trillion, based on the OBR, being invested in the energy transition in the next 30 years, short-term fiscal risk to the renewables sector, frankly, must do nothing to develop what is still a seed corn industry.

Q286 **Dame Angela Eagle:** The Chancellor was very coy about some of the nature of that. I know my colleague is going to come in and ask you some questions about that, but I did note that £3 billion was wiped off the share price of the electricity industry as a result of the Chancellor making the mentions that he did. Again, have you got any comment about that? Might there have been a better way of doing this?

Mike Tholen: My own public affairs people speaking to me would say, "Sit on your hands and reflect hard before you say more on these things", because the big thing is not just the short-term challenge today, which the other speakers have very effectively spoken about. The challenge is how we actually engineer affordable energy transition using the balance sheets of some of these huge companies and not just oil and gas companies, but right across the energy mix. Increasing investor risk in the UK at a time when there is huge competition for energy resources globally, not least in Europe, frankly, just means they will look elsewhere to the detriment of the UK economy.

Q287 **Kevin Hollinrake:** The Chancellor has predicted it will raise £5 billion in the first year. Is that right and, if so, who is going to pay it? We heard evidence from Nathan Piper to the Committee that the ability of the UK Government to get their hands on the profits of BP and Shell is pretty small in terms of this kind of tax. Would you agree with that?

Mike Tholen: There are two parts to that question. Is the £5 billion number about right? It is ballpark, and I will explain why it is ballpark. It is because it depends a huge amount on how much is produced, oil and gas prices, which are moving around like yo-yos at the minute, and the exchange rate, which is the big thing compared with when oil prices were last this year. In 2011 we saw oil prices similarly high, but $120 is now equivalent to what would have been $160 then, simply because of the poor exchange rate we now face in the UK. All of that is damaging us. Those things aside, £5 billion or £6 billion is the ballpark rate.

In terms of the question about some of the supermajors, we have to remember the Shells and the BPs make a very small amount of their money and their profits in the UK. The energy profits levy simply impacts the UK continental shelf, for which BP and Shell are meaningful but small parts these days.

Q288 **Kevin Hollinrake:** Who is going to pay it? Is it Harbour Energy and people like that?

Mike Tholen: It will be pretty much on production, so there is Harbour Energy. Total certainly will pay, and Equinor, right the way down to many smaller companies. A classic one might be something like Seneca, which is a UK-centric company doing a massive amount to really maximise gas production. It has had the stock value of its business really put under pressure by this. It is visibly active and investing, but it is typical of those paying the bill as well.

Q289 **Kevin Hollinrake:** Do you know roughly what BP and Shell will pay in terms of extra tax because of this?

Mike Tholen: I would struggle to tell you. We will have to see what the year brings.

Q290 **Kevin Hollinrake:** The reality is they will be affected pretty minimally.

Mike Tholen: They will be paying, as every other company does, based on their revenues in the UK and their costs in the UK from those. You have to remember, the UKCS is a very small part of the global whole. We produce under 500 million barrels a year of oil and gas, which is nothing compared with global production these days.

Q291 **Kevin Hollinrake:** Is that why the BP chief exec said that a UK windfall tax would not affect investment, because it would not really hit them?

Mike Tholen: People have to understand also that it is not that investments are simply turned on and off on one day's announcement from one thing. I am not sure I would want to invest in a company that was so short term in its focus and, certainly as far as I heard from what Mr Looney said, those investments he chose he will want to proceed with, but he does not say more about the next round of investments.

Q292 **Alison Thewliss:** Turning to the issue of a tax on electricity generators, Energy UK has said that this proposed tax represents a threat to net zero and energy security and would put upward pressure on bills. Would you agree with that analysis?

Mike Tholen: I can believe it would. It is not an area I want to stand as an authority in, but yes.

Q293 **Alison Thewliss:** There seemed to be some uncertainty around the level of extraordinary profits that electricity generators were making. The Chancellor was not willing to put a figure on what he considered extraordinary profits. Is there anything floating around that you would consider a figure for that?

Mike Tholen: In one sense, the dilemma recognises the nature of the energy markets we are in, where you know where to find the offshore sector. I am afraid we have noticed that. In terms of the broader energy mix, it is a whole diverse range of companies and energy is not just simply point of sale. It is traded. There are the commercial constructs with Government. There is no one single person to go to, and that is why I would be concerned that it is simply trying to pursue windfalls across the energy sector generally, because you are more likely to damage the drive to invest than you are to secure extra revenue for the Government.

Q294 **Alison Thewliss:** Is there a sense in which the electricity generation sector is experiencing extraordinary profits in the same way as oil and gas have?

Mike Tholen: I would question whether that is fundamentally the case, because, again, they too have higher input costs. It is not just a case of power out and higher revenues from the sector as well. You have to take one step back to really look at all of these things. The question is whether that will actually be worth the challenge, the risk and, frankly, the disturbance to long-term investment.

Q295 **Alison Thewliss:** Is there a distinction to be drawn between those who are burning gas to make electricity and those who are renewables generators?

Mike Tholen: Yes, so as you are probably well aware, even in the renewables sector, the nature of the contractual basis, where they are rewarded for the production of electricity, is evolving fast and the newer models are different to some of the long-term ones. Again, it is something that is going to be less of an issue in the future based on the current support mechanisms. The more you beat up the producers of electricity, the question is, "Is that actually worth the effort for some slight strength in Government?" My own sector will this year probably be contributing something like that £13 billion to the Exchequer, which covers most of the support package that has been discussed today.

Q296 **Alison Thewliss:** Given the complexity of that, how easy is it going to be for the Chancellor to find and tax that money in the timescales that he suggested? He suggested that it would be a matter of weeks for this to be brought forward.

Mike Tholen: I would never like to say never on anything, but it would be very difficult to get down to balance sheets of companies and P&Ls in a way that would surgically do something like this and, frankly, the consequences for the energy sector more generally would be rather unedifying.

Q297 **Alison Thewliss:** In terms of the uncertainty that this kind of uncertainty brings, could you tell me a wee bit more about the impact that that would have? Will it discourage investment in the new infrastructure that is very much required to meet net zero targets?

Mike Tholen: We need three things as a society to meet the energy transition and decarbonise: a long-term industrial strategy, a long-term fiscal strategy and energy policies built around that. Even within my own sector, we are keen to meet both with the Secretary of State for Energy and indeed with the Chancellor, because investors are bound to be knocked off their perch with things like this. You cannot say otherwise, given the scale of the hit. The opportunity to meet, engage and help refocus is going to be vital, because investment is not just a practical thing; it is an emotional thing as well, and we need to work right across those opportunities.

Q298 **Alison Thewliss:** If you were an investor trying to put money into companies that are producing electricity through wind turbines or through more emerging technologies, like tidal, would you do that in this context? Would it deter you?

Mike Tholen: We are looking hard, but we have such a big challenge that I would like to think that folks, not least in the Department for Business, Energy and Industrial Strategy, can help maintain those relationships, so we can see somewhere beyond this to address the long-term challenge. That is why political engagement is important right across the energy sector at a time like this.

Q299 **Alison Thewliss:** Is there a wider impact on the energy security strategy of measures like these being brought in all of a sudden and in quite a rushed way?

Mike Tholen: It is not very helpful. As I say, even within my own immediate focus on oil and gas, for months the Chancellor has been, "No windfall tax. We are really focused on investment in energy", and then all of a sudden about two weeks removed he is 180 degrees on that. We live in very straitened times and there is no way our own sector is not going to respond to the energy challenge. It would be utterly wrong to do otherwise, but we need to find a way to build a conversation that is long term at the minute, which reaches beyond politics and really ensures we can hit the energy transition and try to help address energy poverty in the UK.

Q300 **Alison Thewliss:** Is it your impression, because we had some evidence in this room from Nathan Piper from Investec before, that the UK Government do not really have a proper plan for stewardship of the North Sea and more widely now of renewable technologies as well, in the way that Norway does?

Mike Tholen: Ironically, I was in Denmark last week speaking with the Norwegians and the Danish about such a thing. It is fair to say they were scratching their heads at me with what has been going in the UK at the minute. The North Sea Transition Authority, our own regulator, recognises, leaving aside oil and gas, the North Sea as a whole offers something like 60% of the energy and decarbonisation solutions we need for the UK economy. Having a coherent energy policy that really gets joined up thinking right across that space is vital and we are still wrestling with that as a sector.

Q301 **Alison Thewliss:** Thank you. Finally, I just wanted to ask around carbon capture and storage. Are you disappointed not to have more development of the Acorn Project in Peterhead? Would you like to see more of that from the UK Government as part of the transition plans?

Mike Tholen: I am very confident, not least from some of the voices even in this room, that the Government recognise the challenge. We quite simply cannot deliver a net zero future without Peterhead going ahead alongside the major projects in England. Hopefully, it is a short queue, not a long queue, and they are right at the head of it, because it would be utterly wanton to do otherwise. It is probably one of the best placed to really make the best of the resources we have in the northern North Sea, with an amazing supply chain and capability behind it.

Chair: That brings us to the end. Thank you very much indeed to our four witnesses for joining us this afternoon. It is fair to say whatever else the Chancellor has done, it was a significant intervention that he has made and quite targeted, but not without wrinkles, as we have examined. It has been useful to look at perhaps some of the deficiencies of the approach as well. Mike, thank you very much indeed for your input on oil and gas and windfall taxes. That concludes this session.