



Treasury Committee

Oral evidence: The cost of living, HC 343

Monday 6 June 2022

Ordered by the House of Commons to be published on 6 June 2022.

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

Questions 99-207

Witnesses

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

Examination of witnesses

Witnesses: Rishi Sunak MP and Dan York-Smith.

Chair: Welcome to the Treasury Select Committee and our hearing with the Chancellor of the Exchequer on the cost of living measures that were recently announced by the Chancellor to the House of Commons.

Chancellor, I don't think you need much introduction to us or anybody else. Dan, will you quickly explain your position as the co-pilot?

Dan York-Smith: I am Dan York-Smith, director of strategy, planning and budget.

Q99 **Chair:** Great. Welcome to you both. Thank you for appearing. Chancellor, thank you for rearranging your diary at such short notice. I know you had to go to some trouble to be with us. I have undertaken that we will finish no later than 3.15 pm, and I will stick to that.

The package that you announced—I speak for myself, not the whole Committee; they have their own views, which you will hear in a moment—I sensed was a well-placed intervention. It seemed to me that it will help millions of people who will be in great need of assistance going forward, so it was very well targeted. I did, however, raise with you after you had sat down, having completed your statement, the issue of inflation and to what degree you assessed these measures to be inflationary, which is obviously important given where we are with



HOUSE OF COMMONS

inflation at the moment, and I think you said that the situation was manageable. I think that was the word that you used.

In subsequent interviews you have really focused on three reasons why you think it is manageable: first, that these measures are targeted; secondly, that they are temporary; and thirdly, that they are funded, and there was a reference there to tax. Could you walk us through why you feel, in those three areas and any others that you might wish to raise, that this is not going to be an inflationary problem at a time when the Bank of England is putting up interest rates to try to control it?

Rishi Sunak: Thank you, Chair, for the opportunity to be with you, especially so soon after making the statement, to have a chance to answer your questions.

You are right that inflation was in the back of our mind when we were thinking through the best way to respond to this, for the reasons that you have rightly articulated. When we are in a situation where we expect rising interest rates and we are already seeing high inflation, we want to make sure that fiscal policy is responsible in that context. What does that mean? I said in the statement that where we do provide further support for people, it should be temporary, timely and targeted to minimise the risks of inflation bedding in. Those were very much the governing principles for what we put in place.

Secondly, those interventions were done with the anchor of a strong fiscal framework, which means that in the medium term we are getting our debt and borrowing in a more sustainable place, and that credibility is important for the markets and people watching.

On the specific point, clearly the interventions are temporary, in the sense that they are one-off payments.

Q100 **Chair:** Although you have left the door open. When asked whether you might have to do something in the future, you have not said that you won't do anything in the future.

Rishi Sunak: When I am asked that question, I always give exactly the same response, so I would not read anything more or less into it. Over the last two years I have always tried to be responsive to the economic situation, as I see it and as it is affecting the country, and make sure we have the right policy in place. That is my answer when I am asked any question like that.

The structure of what we have put in place is by definition temporary in the way it is designed. There is revenue attached to not all of it but a good degree of it, and it is targeted at those who most need the help. I mentioned in the statement the build-up of household savings, for example, and other things. Other commentators—and, indeed, the head of the CBI—also guarded against the idea that the right policy response here was an unfunded, very large fiscal stimulus that risked making the situation worse. That is not what we have done. We have put what I think



HOUSE OF COMMONS

is a careful and well-constructed package together, which will minimise the risk of inflation.

Q101 **Chair:** I welcome it, but isn't the targeting likely to go to people whose propensity to spend that money relatively quickly will be quite high? If you look at the enforced savings that you have referred to, they of course have gone to those who are generally better off. They are the people sitting on those savings. In that sense, isn't the targeting going to be unhelpful in terms of stimulating the economy—

Rishi Sunak: No. Dan can talk to this as well. It is making sure that we are getting that money to those whose real incomes are seeing the biggest hit. We are trying to ensure that people are not falling into a situation that we would not want to see happen, but we are not risking fuelling extra demand for these people with the targeting that we are doing. These are necessity expenditures as opposed to discretionary ones. That is the distinction. What we do not want to be doing is fuelling further excess discretionary spending, which would make the situation potentially worse.

Q102 **Chair:** But if you are transferring money to individuals, they are spending it in one form or another. They are able to conduct expenditure that they wouldn't otherwise have been able to conduct, and surely that is an instant stimulus to the economy.

Rishi Sunak: This is a package that, as I said, we believe will have a minimal impact on inflation, but inflation none the less. But, as I said, we are doing it in a responsible way, so it is going to those people who are going to spend it on things that are absolutely necessary for them to have a standard of living that we think will be appropriate.

Q103 **Chair:** When you say, Chancellor, that it will have an impact on inflation, what is your assessment of that impact?

Rishi Sunak: It will be appropriate that the OBR provide a formal independent assessment of that at the time that they do their next official forecasts. What I have said is that we believe it will have a minimal impact.

Q104 **Chair:** How would you define "minimal"?

Rishi Sunak: It is not good for us to get into having multiple sets of forecasts, which I am sure you will understand, but I think most people will understand "minimal" to mean minimal, and know what they take away from that.

Q105 **Chair:** That's like "Brexit means Brexit," isn't it? Could you just address for us the third leg, as it were, of the funding—how this is being funded through the tax increase and so on—in the context of inflation?

Rishi Sunak: Yes. One revenue-raising measure was announced at the same time, which is a new energy profits levy, which will raise, we estimate, around £5 billion over the next 12 months. Alongside that, we have said we are urgently considering the case to extend that levy to the electricity generation sector, where we do believe there are extraordinary



HOUSE OF COMMONS

profits also being made. Many other countries in Europe have taken steps to address that. We have a longer-term plan to reform the market, but we need to make sure that we have the right policy in place in the shorter term. But we are urgently undertaking that work as well.

Q106 **Chair:** The total price tag for the intervention, I think, is £15 billion. There is also the fact that you are converting what was going to be a loan arrangement on energy bills into a grant, which I think adds another £5 billion. You may be able to correct me on that.

Rishi Sunak: But that money was already in all the numbers that were published at the spring statement.

Q107 **Chair:** But it was there as a loan rather than a grant.

Rishi Sunak: No, but in terms of the fiscal impact of it, it is fully accounted for already in the spring statement forecast. What will change is the payments down the line of about £1 billion a year. That is £1 billion a year that will impact the future years, and that is in the context of an overall fiscal framework that has debt and borrowing both falling.

Q108 **Chair:** If we therefore just stick with the £15 billion, you are raising £5 billion, as you say, in the 12-month period from the windfall tax. Where does the other £10 billion come from? Is that assuming that the windfall tax carries on, assuming that the oil price is elevated through time, or—how much of that is borrowing?

Rishi Sunak: This is a temporary intervention, and we expect the windfall tax to raise around £5 billion over the next 12 months. These are one-off payments that will happen over the course of this financial year. And then, as I said, there is a consideration of extending the energy profits levy to the electricity generation sector, so that is an incremental source of revenue. And then the rest—what will be remaining—will be extra borrowing.

Q109 **Chair:** Do you have an assessment at this stage of how much extra borrowing will be involved?

Rishi Sunak: It is a function of where we end up on the electricity generation—

Q110 **Chair:** Do you have a figure in mind that you are hoping to raise from—

Rishi Sunak: No. Because it is a live situation, where we are engaging with the industry, I hope you will understand it is difficult for me to comment too much further on that.

Q111 **Chair:** Fair enough. Can I just switch to comments made by the Bank of America about the currency? I am not expecting you to say anything about where you think the currency is going and so on—I do understand the sensitivities there—but they have described the currency now as looking a bit like an emerging market currency. We are looking forward to very anaemic growth levels, possibly recession. The Bank of America has suggested that the vibe out there, if you like, is that maybe the Bank of England has been not entirely independent in the way it has interacted



HOUSE OF COMMONS

with Government around quantitative easing and the Treasury seeking to raise large amounts of debt at the same time. Do you have any general comments on that? Is sterling something that is a concern to you at the moment?

Rishi Sunak: No. Actually, I do have confidence in the medium-term outlook for the economy. In the short term, obviously we are experiencing high inflation. We are not alone in that: you saw very recent figures, after the statement, that came out from the eurozone, which showed continued high inflation there. But I think we should be clear that what is happening here, although predominantly driven by global shocks, is not exclusively.

There were three particular areas of concern that I flagged in the statement. One was the fact that we are experiencing not just the energy shock that Europe is but also the very tight labour market that the United States is. Although it is cause for celebration that so many people are in work, that obviously has an inflationary impact.

The second thing that I flagged was inflation expectations; I watch them carefully and want to make sure that they are not increasing over the medium term. They have ticked up slightly more than they have in other places, so we need to be careful about that.

The third thing is that if you look at our inflation, even outside food and energy, which are the most volatile bits of it and there are external shocks, core inflation is still elevated and is very broad-based. I think almost 90%, or almost all of the goods and services in the basket are experiencing above-target inflation.

Those are the three particular things that I flagged as areas of concern. That said, I am confident that we have the tools and the determination to get inflation down over time: fiscal policy; a strong, independent monetary policy; and supply-side reform. Those are the three tools we have. We are using all three of them and that will get inflation down over time. I am confident of that and I want people to be reassured that that is the case. In the short term, I think that the support that we have provided will make a meaningful difference to people.

Chair: Thank you. I wish we could continue this discussion, but time is against us. Anthony.

Q112 **Anthony Browne:** As the Chair alluded to, as your own figures point out and as various campaign groups have said, the support that you gave was very targeted, so that those who need the help the most get the most help. My question, though, is whether that is still sufficient. There are still potentially some gaps; as the Resolution Foundation pointed out, multiple-children households have bigger costs but do not get more help. Do you think that the support you have provided is sufficient to prevent an increase in child and pensioner poverty?

Rishi Sunak: I think it will make a very significant difference and I think it has been widely acknowledged as making the biggest difference to those who are most vulnerable. Three quarters of the money we announced



goes to those vulnerable households and pensioners. The most vulnerable third of households—those on means-tested benefits—will receive around £1,200, which, for a sense of scale, is roughly approximate to the expected increase in energy bills, on average, year over year. I think that comments from both the IFS and the Resolution Foundation—their own analysis—suggest that the vast majority, if not the entirety, of the energy bills increase, or the cost of living increase, has been met now by the various interventions that we have put in place. So I think it will make a very significant difference. It was rightly targeted at those who most need help and I think that the distribution analysis that we published at the event also demonstrates that. Dan can probably add a bit more.

Dan York-Smith: The only thing I would add is that for the bottom decile the total value of the support is something like 7% of their household income. It is a very substantial amount of support for those at the bottom end of the income distribution.

Q113 **Anthony Browne:** Have you done analysis of the impact on child poverty?

Rishi Sunak: Not expressly, but we know that the single biggest driver of children being in poverty is children growing up in a workless household. The record over the last few years has been very positive in reducing the number of children who are in workless households; there are over half a million fewer children today in workless households than there were 10 years ago. That is good progress. The policies that we put in place even before the announcement the week before last—for example, raising the national living wage and cutting the UC taper rate—actually really support that incentive for people to work and help to make sure that they move off welfare into work as well.

Q114 **Anthony Browne:** With some of the support you have, there are cliff edges. For example, you could earn £1 more, taking you off universal credit, and lose all the support for universal credit recipients. Did you explore options for removing the cliff edge, or was that just too complicated?

Rishi Sunak: Wherever you draw a line, there will be some people the other side of the line; that is the inevitable consequence of any policy that is trying to target things. What I would say is that we have taken what is the state's existing definition of the most vulnerable people in our society who are deserving of state support. That is all those people on means-tested benefits. Regardless of the cost of living situation, we already have a definition of people who need state support to help with their income. That is the definition we have taken, and we have been generous in our treatment of them.

But we also have a universal piece of the support. Even if you are not on benefits, my view is that it is still right that the Government are trying to do something to ease some of the burden of the increases we are seeing, given their scale. We have done that both with the council tax rebate already, and then with a further £400 through the energy bills system



HOUSE OF COMMONS

over the autumn. That is £550 of support on a universal basis, which is obviously significant.

The other thing to say is that those people are more likely than not to be in work, so they will benefit disproportionately from things such as the national living wage increase and the rise of the national insurance primary threshold, which is coming in July and is worth £330. There are other things we have done that will benefit that group of people.

Dan York-Smith: I will just add that we recognise that there are difficult cases where people are just outside the targeting, which is why the household support fund was increased by a further £500 million so that it runs until the end of March next year. Where people are unable to access the targeted support for one reason or another, there is an opportunity to get targeted support via their local authority.

Q115 **Anthony Browne:** Chancellor, you said that it is right that the Government provide the support, and I think we would probably all agree. In 1990, inflation was at a similar level, but there was no expectation that the Government would step in and help people with their household bills, and they didn't. Do you think public expectations of what the Government should do in terms of inflation have changed, and what are the implications of that?

Rishi Sunak: Yes. I do not have it to hand, but I would imagine that the impact on real incomes would have been smaller than it is expected to be now. That would be the difference: the impact on real incomes as a result of inflation at these levels is more significant now than it was then.

Q116 **Anthony Browne:** The impact on living standards is far greater even though inflation is similar.

Rishi Sunak: Exactly. That is why I think there was a case for us to provide some support to help with that bridge.

Q117 **Anthony Browne:** There were some comments at the time of your announcement suggesting that you will need to do more in future. You will presumably say that you will keep it all under review, but are you braced for having to provide more support in the autumn?

Rishi Sunak: As I said, what we have put in place is significant and extends all the way through to the end of the financial year. We waited until we had a clearer sense of what would happen to energy bills in the autumn, which we have now that we are about two thirds of the way through the price cap observation window. You heard from Ofgem about that recently. We have now put in place something that will provide the support that people need.

Linking to your previous question, it is not possible for a Government—any Government or any Chancellor—to try to make whole all the increases in people's costs of living. That is simply not possible, and is probably not advisable either, for the reasons that we talked about previously, with the risks on inflation. But where we can make a meaningful difference to ease some of the burden, we can and we should, and that is what we have



HOUSE OF COMMONS

done. The best way to help people over time is to make sure that we have a growing economy with people in work and their wages going up. All the plans we have in place will make progress on that goal.

Anthony Browne: I would love to ask more questions, but I have run out of time, I am afraid.

Chair: I am going to keep us to time so that everybody has their time.

Q118 **Kevin Hollinrake:** Thank you, Chair. Chancellor, you got broad support—including from me—for what you did for households, but you chose not to provide any support whatsoever for businesses. Why?

Rishi Sunak: Thank you, Kevin. There were a couple of reasons. First, the inflation we are seeing is the result of prices being passed through the chain to consumers, in a sense. That is why we are seeing inflation measured for consumers at the levels that we are: they are seeing it being passed on by businesses. That is happening, and this is the right way to get at it.

Secondly, we have already provided different types of support for business, including, notably, business rates holidays coming into this year—a 50% discount worth £1.7 billion. Many businesses will benefit from that; it is worth £5,000 for a typical pub, for example. There is also the employment allowance tax cut that came into force in the spring. That will mean that half a million small businesses—give or take—will see a £1,000 tax cut on their employment national insurance bill. That is quite significant, broad-based support, targeted particularly at small and medium-sized businesses.

Slightly more proactively, we are supporting businesses to grow, be it through Help to Grow: Management; Help to Grow: Digital or the annual investment allowance, which is a very generous tax relief on investment. Both the Help to Grow schemes are worth thousands of pounds to support businesses' further growth and productivity, so there is a lot in place already.

The last thing I would say is that for the energy-intensive industries, an existing scheme is in place, and in the energy security strategy, the Prime Minister and the Energy Secretary made some comments about the future direction of travel for those schemes, which they are engaging with those companies on as we speak.

Q119 **Kevin Hollinrake:** Sure. I know you listen carefully to organisations like the Federation of Small Businesses. They say that 200,000 businesses are in serious trouble due to cash flow, and 300,000 more have only weeks left. They put a lot of this down to the current cost of living crisis, or cost of doing business crisis, particularly around energy costs. Those numbers must be a real concern to you.

Rishi Sunak: We track things like business insolvencies and business profitability quite carefully, and we haven't seen anything alarming in the numbers we are seeing. In aggregate, business deposits—the excess cash



HOUSE OF COMMONS

that businesses are sitting on—are worth about £100 billion, and that is true, I think, even looking exclusively at small and medium-sized businesses: there are higher cash balances today than before the crisis. Similar to what you've got on the household side, where over £230 billion of excess savings have been built up, over £100 billion of excess cash deposit savings have been built up in the corporate sector, so there is a good amount of resilience there. We are not seeing any signs of distress.

As I said, the typical small business—particularly in the hospitality industry, for example—will see a £5,000 business rates tax cut this year and a £1,000 employment NICs tax cut. They have access to the recovery loan scheme as well, which is still out there if they need extra help with liquidity issues. Another option, which over a million businesses took, is bounce back loans; they will be thinking about the repayments for those in their cash flow. We have a programme in place called “pay as you grow”, which enables those businesses to benefit either from six-month payment holidays, interest-only periods, or to change those loans into 10-year loans, which almost halves the monthly repayment. Again, given that those loans were taken out by quite a large number of businesses, almost all of them will be able to do something there that helps them with their cash flow needs.

Q120 Kevin Hollinrake: I know you are always clued up in terms of international comparisons, but you have seen France, Germany, Italy and Greece all step in with support—cutting business energy taxes, or providing subsidies and grants. I think France has a multibillion-pound package. We seem to be the outlier in not providing some support for business in this area.

Rishi Sunak: As I say, if you look in total at the support we have provided with the cost of living, it is about £37 billion over the various things we have done. It is worth about 1.5% of GDP, and with the best comparison we can do, that puts us either ahead of, or very much comparable to, France, Germany, Italy and Japan—the other big G7 economies that are energy importers, unlike the others. In an aggregate sense, we are very much providing—

Q121 Kevin Hollinrake: That is the business element?

Rishi Sunak: That is looking across the board. It is very comparable support. We may have chosen to target more of that at vulnerable households—so be it; I am comfortable with that choice. As I said, we have put other things in place that are benefiting businesses that do not feature in my £37 billion, such as the business rates discount and the employment allowance tax cut. Something like fuel duty is a good example. Dan will correct me if I am wrong, but we estimate that about 40% of the benefit of the fuel duty freeze and cut—again, those two things together are worth £5 billion in support—goes to businesses. A typical van driver this year, as a result of the fuel duty freeze and the fuel duty cut, is going to save about £200 relative to what otherwise might have happened. That is quite significant. For a HGV driver, it is probably about £1,500, from memory.



HOUSE OF COMMONS

There are other things we are doing—and, by the way, none of those countries has anything like the annual investment allowance, which we have temporarily kept at this million-pound level that we have spoken about in this Committee before. It is a very generous, easy-to-use tax relief for investment for those companies as well.

Q122 **Kevin Hollinrake:** On that, at the Mais lecture and then in the statement, you talked about improving incentives for businesses to invest. What are you going to do?

Rishi Sunak: Without pre-empting it, what we have published is a document—I don't know if it is an engagement document or a consultation document, but it is one of the two; Dan can correct me—which has a range of different options for how one might better incentivise business capital investment through the tax system. In the interests of time, I will not go into all the details here, but there are four or five different ways that one could go about that, and they are all detailed in the document. We are in the process of talking to businesses and business groups—and any other interested parties—about their views on the right approach, and would very much welcome any thoughts that the Committee might have.

Q123 **Siobhain McDonagh:** Chancellor, I am sure you would agree that, given the challenges facing public finance, it is vital that all taxpayer-funded support is targeted to reach those households generally struggling with the cost of living crisis. How many second home owners will receive an £800 discount on their energy bills?

Rishi Sunak: I completely agree; it is right that we target support where it is most—

Q124 **Siobhain McDonagh:** That is 772,000 households, or £620 million. How many people own three homes, and are therefore in line to get £1,200?

Rishi Sunak: Sorry, are you carrying on? Do you want to finish, or shall I answer?

Q125 **Siobhain McDonagh:** I just want you to know how much money is going to people who some of us would think probably do not need that help.

Rishi Sunak: Yes, you are absolutely right; there will be some people who do not need the help. That is, unfortunately, the consequence of having to do policy in practical terms. I think we were talking previously about providing support on a more universal basis. I am assuming that you agree with that—which you may not, and that is fair enough, in which case, fine. However, if you do agree that we need to provide support on a more universal basis, given the scale of the challenge, then you have to think, “Well, how best can we do that?” So—

Q126 **Siobhain McDonagh:** There are 61,000 people who own three properties and will benefit to the tune of £1,200. That is a £73 million taxpayer-funded windfall. How much help will you get with your energy bills?

Rishi Sunak: Actually, I am donating mine to charity. I made that clear a couple of weeks ago. So again, just to answer your question—



HOUSE OF COMMONS

Q127 Siobhain McDonagh: That is very philanthropic, Chancellor, but isn't it being philanthropic with other people's money? As Mrs Thatcher famously said, there is no such thing as Government money; there is only taxpayers' money.

At a time when the total tax burden has risen to the highest level since the 1940s, is it really good use of taxpayers' money for somebody on *The Sunday Times* rich list—or indeed for any MP or Minister—to be receiving second-home support when others are choosing between eating and heating?

Rishi Sunak: I think the Labour party policy was a VAT cut, which would have done the same thing, but potentially even more so, because it is linked directly to the size of your energy bill. That would equally apply to VAT policy, and that is the challenge with universal policies: they apply to everyone. So actually, a VAT cut could be even more generous if your energy bill was particularly large, which, if you had a very, very large home, it might have been.

Q128 Siobhain McDonagh: Yes, but we are asking you about your choices and your policies. Is there any reason why you could not tackle people receiving multiple rebates through the self-assessment tax return, like you do with child benefit?

Rishi Sunak: No, we actually had really only two ways to do something like this. We could have done VAT, as the Labour party proposed, but what we are doing, I believe, will be more generous to those on low and middle incomes than VAT because it is a flat-rate payment.

Q129 Siobhain McDonagh: I am sorry Chancellor, but what I am asking you is why you could not have ameliorated the system you chose by using the self-assessment tax assessment, just like you do for child benefit. Or perhaps you could have used local authorities, who are completely aware of who owns second homes.

Rishi Sunak: Right. Because we are delivering something through the energy bill system, what we have through local authorities is the council tax system. We could—you are right; you can use the council tax system to do this. However, as we are seeing currently with the delivery of the £150 rebate, that comes with its own set of challenges, and we wanted to ensure that the help got to people in as effective and efficient a manner as possible, and that is why we have chosen to do it through energy bills.

Now, you could choose to do it through council tax bills; definitely, that is an option. However, we chose to do it more universally than that, so as not to have people excluded, whereas the council tax system is only a rough proxy for household income; it is not a perfect proxy—it is only a rough proxy, so even—

Q130 Siobhain McDonagh: Could it not be a question of timing? For five months, you resisted Labour's calls for a windfall tax, adding £53 million to Britain's household bills for every day that you dithered. Why was it that, after five months, in the week of the Sue Gray partygate report, you felt it was necessary to intervene?



HOUSE OF COMMONS

Rishi Sunak: The reason we intervened when we did was very clearly and simply that we had more clarity about what was going to happen to energy bills in the autumn, and as we were talking about before—

Q131 **Siobhain McDonagh:** In that particular week?

Rishi Sunak: We heard from Ofgem that particular week, but we were also, at the end of May, about two thirds of the way through the observation window for the price cap, the way the methodology works. That seems to be a reasonable balance between having enough information to have good clarity about what the price cap is going to be so that you can size and scale the support appropriately, and going early enough to provide reassurance.

Q132 **Siobhain McDonagh:** But there is a pattern of behaviour: when the Government gets into crisis, taxpayer money can be thrown at everything in order to get off the hook. Surely we should have more respect for people who go out to work and pay their tax, who are finding it very tough at the moment.

Rishi Sunak: That is why we announced very significant support to help them. That was done after we knew what the size of the problem was, which meant that we could get the support right. Had we done something months ago, as other people were saying, it probably would not have been sized appropriately and we would not have been able to make sure we provided the reassurance that we were able to give. I am glad we have done that, and I believe it helps people who need it, but no policy is perfect. People may have other ways in which they think they can deliver universal support. From our perspective, having gone through all the options, I don't think there is a better way to do it. We have erred on the side of being universal, and I think that is the right thing to do. You might disagree with that and say that we shouldn't be giving money to those on middle incomes, but I think we should.

Q133 **Siobhain McDonagh:** I don't think we should be giving money to people who own three homes.

Rishi Sunak: Then you need an alternative way of excluding people on middle incomes.

Q134 **Siobhain McDonagh:** Perhaps if you did things at the right time, you would have the time to consider how you could do that.

Rishi Sunak: As I said, we have not found a way to do it, but if there is an alternative that you have found, please do let us know. Having looked at the various delivery options that were in front of us, we think this is the most effective way to get support to a very large number of people in a timely way to help them when they need it.

Q135 **Emma Hardy:** The No. 1 group of people who are contacting me at the moment really worried are pensioners. I see that the targeted part of your package on the benefit system requires that people are part of the system. DWP data for year end 2020 shows that pension credit has a take-up rate of 73%, so we know there are lots of people who are



HOUSE OF COMMONS

entitled to pension credit who are not currently receiving it. My first question is: are you doing anything with the DWP, MaPS, etc., to advertise that pension credit is available and increase the rate of take-up?

Rishi Sunak: I think DWP are in the midst of a project to increase the take-up of pension credit. I don't have the precise details to hand. I don't know whether you do, Dan. I don't know exactly what they are doing, but I think they are doing that. One of the reasons we provided universal support to pensioners is that we know the take-up of pension credit is not 100%, so there is an additional £300 cost of living payment for pensioners that will be delivered in the autumn, alongside the winter fuel payment. That means that a typical pensioner household will receive about £850 of support this year.

Q136 **Emma Hardy:** One of the things that pensioners are talking to me about is that they really don't understand the way these different benefits and announcements interplay with each other; they don't really understand the system. Elderly widows often tell me that their husband was the person who dealt with all this, so they don't understand the system and they don't really know what is out there. I am pleased that you say that the DWP are looking into this, because my biggest concern about your announcement is that it is not actually reaching the people it is meant to reach. Are you working through MaPS and with the DWP to look at increasing take-up, at the qualifying rules that are available, and at providing some clarity of information about how these things work with each other? I am not speaking for every MP here, but we often tend to use charities and organisations like Turn2us to calculate the benefits and things available to people. In your role of looking at financial inclusion and support, what are you doing to ensure that what you have announced is reaching the people it is meant to reach?

Rishi Sunak: The extra payment will be automatic, and that's a good thing; it won't need to be actively claimed. We are using the winter fuel payment system, and one of the benefits of that is that it is largely automated and DWP actively send the payments through, so people don't actively have to claim it. They don't have to worry about that; they will just get the cash, which is a good thing. That is how we have done it. Whether people are confused or not, the cash will be coming to them, and we will figure out how best to communicate to them that it is coming.

Q137 **Emma Hardy:** It still means they have to actively support it, and this is my concern with lots of these announcements. On the £500 million for the household support fund, is it your expectation that councillors should push this money out to the households that they know are in need, or that those households need to proactively identify themselves and make an active request for support?

Rishi Sunak: In general, it is a discretionary fund, and councils will do it in slightly different ways, I would imagine. What we tend to do—this is what DHLUC will do¹—is provide some guidance that gives a sense of the

¹ Note from HM Treasury: The witness meant to refer to refer to the Department for Work and



types of people who we expect to be covered. One group that I mentioned is those on only housing benefit. That data is not held centrally, and it is hard for DWP or HMRC to do the payments there, but we know that there are a number of those people. The guidance will say, "These are the types of people who should be a priority for this discretionary fund."

Q138 Emma Hardy: Is the expectation that councils will be proactively contacting them? I keep asking these questions because I am concerned that the people who really need it do not know it is there, are not aware that it has been announced, and would not know how to apply for it even if they did. They are the people I am really worried about. In issuing this guidance, are you saying to councils that they should proactively look for these people?

Rishi Sunak: Emma, in terms of the people we most care about, a third of all households are going to get the £650, and the cash for energy bills on top of that, automatically. It is automatic, and we know that those are the most vulnerable people in our society—that is a third of all households. There will always be people on the margins, but a very large number of people will get a significant amount of support, essentially automatically. It is the same for pensioners: they are going to get the extra payment automatically.

For the discretionary fund, I imagine it will be a bit of both, because there will be groups of people—for example, housing benefit-only claimants—that the local authority will know about, and we will be clear in the guidance that they are a priority group. They will probably go to those people proactively, and then also be reactive to those who need—

Siobhain McDonagh: No council is going to people proactively—they don't have enough money to do that!

Q139 Emma Hardy: The reason I am asking, Chancellor, is because when you gave people money back on the council tax and the £150, the way the scheme was designed means that the people who do not pay by direct debit have to complete forms or fill in some kind of self-identification in order to receive the money. What was the thinking behind doing it that way rather than issuing councils a set amount of money and saying to them, "Discount your council tax bills"? By putting in this extra step, what you are actually doing is preventing some of the people from receiving the £150.

Rishi Sunak: Sorry, but what is the extra step?

Q140 Emma Hardy: If you don't pay your council tax by direct debit, you have to identify yourself to the council as a non-direct debit payer. You have to fill in some form of identification to verify that it is you who is on the council tax bill. If you are not the named person, there are additional steps. So you have people who have the least amount of money, and who are not paying by direct debit, waiting the longest time for payment for this. What was the decision behind doing it that way rather than just



HOUSE OF COMMONS

saying to councils, “Discount your bills by £150”?

Rishi Sunak: For the simple reason that not everyone actually has a council tax bill or a bill that is large enough to cope with that. The council does not have their bank details, so it needs to go through a process of talking to people.

Q141 **Emma Hardy:** If you had discounted the bills when they were issued, you would not have had to put these additional steps in.

Rishi Sunak: Some people were trying to give the money as a lump sum, so rather than have it discounted over a period of time, people were getting the money as a lump sum.

Q142 **Emma Hardy:** I will be putting these questions to the Treasury to find out how much money has not been taken up by people unable to claim the £150. What I would really be keen to hear is that you are looking to continually improve and design a system that gets rid of some of these flaws.

Rishi Sunak: Always, and that is why delivering £400, on a universal basis, through energy bills will mean that you don’t have to deal with all those issues for far more people. As we were discussing previously, every delivery mechanism has its own positives and drawbacks, but doing this through the energy bill system should be effectively quicker and get to more people in a more seamless, automatic fashion.

Dan York-Smith: I would say only that part of the reason the forms are there is to prevent fraud and make sure that you are who you say you are and that you are entitled to the £150 discount, whereas with the energy bill support scheme, because it is about electricity meters, there are different checks and balances in place, and people already have a relationship with their energy provider.

Rishi Sunak: This is a good example. When you have a process, and we have talked about bounce back loans in this Committee before, that helps mitigate against it, we are now talking about, “Oh gosh, this process is”—

Q143 **Emma Hardy:** I don’t quite understand the point, because if someone was a registered council tax payer and they paid their bills as a council tax payer, I am not sure where the fraud would come in when discounting that bill just because they chose not to pay it by direct debit.

Dan York-Smith: It is also where people move homes and have a different local authority—

Emma Hardy: It would be the issuing of the bill that would be discounted. That doesn’t quite make sense—

Chair: I am sorry, Emma. Is it a quick question? Literally a one liner with a one-line answer, if you can.

Q144 **Emma Hardy:** It is a one liner. My final point, on a different topic, Chancellor, is on remote working. Could encouraging remote working reduce regional disparities and reinvigorate left-behind areas?



HOUSE OF COMMONS

Rishi Sunak: I'm not sure that has a one-line answer. The answer probably is that it depends on the circumstances to the business and the employees in question. I don't think you can have a blanket response to that.

Emma Hardy: I will have to write to you on that then.

Chair: You could drop us a quick line with some further thoughts, Chancellor. You may not have many further thoughts on it, but if you do, that would be good.

Rishi Sunak: I probably do. It would just depend. I don't think there is a blanket answer to the question, or not one that I have seen any work on.

Q145 **Dame Angela Eagle:** Chancellor, if the Ofgem price cap turns out to be higher than its initial estimate, will you provide further support or is what you have announced it?

Rishi Sunak: My previous answer stands: we are always responsive to the situation on the ground. We have a pretty good sense of what it is going to be. It is, in any case, an average, so plus or minus a bit would probably not change the overall picture, largely. As I was saying before, it is not possible for the Government to fully insulate people from increases in the cost of living and inflation, so it is not as if it is something that we can precisely try to eliminate. It would not be right to have policy designed to do exactly that, because chasing such a target could be dangerous. We believe that it is a significant intervention that, on the basis of what we know, makes a big difference. The converse thing is if it is lower—

Q146 **Dame Angela Eagle:** Will you come back for the money?

Rishi Sunak: We will not come back either if it is lower. I think we will probably find that it is equally the same on both sides of it.

Q147 **Dame Angela Eagle:** You told the Chair that a third of the cost of this package so far will be covered by the windfall tax, leaving two thirds of it—£10 billion—effectively taken from borrowing.

Rishi Sunak: Yes. The final split will be a function of what happens on electricity generation.

Q148 **Dame Angela Eagle:** When are we likely to know about that?

Rishi Sunak: As I said, we are having those conversations urgently.

Q149 **Dame Angela Eagle:** Yes, but when are we likely to know? Is that another mini-statement? A bit of a Budget?

Rishi Sunak: Because it is a live tax policy, Angela, there is not much more I can say other than what I said at the statement, where I explained the rationale, and we are now having those conversations with the industry to ascertain the scale of those extraordinary profits.

Q150 **Dame Angela Eagle:** But a significant amount of the cost of this package will come from borrowing, won't it?



HOUSE OF COMMONS

Rishi Sunak: It will depend on the scale of—

Dame Angela Eagle: We are at two thirds at the moment.

Rishi Sunak: Yes. That is an upper bound.

Q151 **Dame Angela Eagle:** Which is possibly why it went down so badly with parts of your own Back Bench. Craig Mackinlay called it “tripe”. Richard Drax, rather oddly, called it “throwing red meat to socialists”. I must say I never thought you were one of us, Chancellor, but it wasn’t universally popular on your own Back Benches, was it? How can you claim when you have introduced a package like this, which at the moment is unlikely to remain financed by borrowing rather than tax rises, that you are fiscally conservative?

Rishi Sunak: What I am claiming is that the overall fiscal policy that we have in place is a responsible one, partly because we have taken a series of decisions that have been unpopular. That is fine, because I want to do the thing that I believe is right, and that is what I always try to do. Those difficult decisions mean that we are on a trajectory to have borrowing reducing significantly over the next few years, including this year, from the peak that it reached, and our debt falling sustainably again. I think that is the right approach. Having a strong medium-term framework provides credibility to the markets, which is important, and it allows us, because of those decisions, to have the space to respond to shocks and challenges as they arise, and that is what we have done.

Q152 **Dame Angela Eagle:** The subsidies already going into North sea oil—in tax breaks for continuing to explore there—are very substantial, aren’t they? £3.1 billion 2019 and £2.5 billion in 2020. You are really only raising, in the windfall tax, the subsidies you have already given to people to carry on operating in the North sea, aren’t you?

Rishi Sunak: I don’t look at it like that. We are raising what I think is a meaningful amount of revenue—£5 billion—but doing so in a way that is supportive of investment in the North sea, with a new investment relief that doubles the amount of investment and tax relief that exists in the system, meaning that for every £1 that people invest, just over 90p of it they can get back in tax relief. We have designed it in a way that is balancing raising revenue and taxing profits fairly, with a desire to continue to support investment. It has been largely acknowledged as doing that.

Q153 **Dame Angela Eagle:** Would you consider taking more than £5 billion?

Rishi Sunak: As I said, I think this strikes the right balance between taxing of profits fairly and incentivising investment.

Q154 **Dame Angela Eagle:** Your former colleague, the former Financial Secretary to the Treasury, Jesse Norman, has written a letter today calling on the Prime Minister to resign. Do you agree with him?

Rishi Sunak: No.



Dame Angela Eagle: No?

Rishi Sunak: No.

Q155 **Dame Angela Eagle:** You worked with him for a couple of years. You must have some respect for him.

Rishi Sunak: I worked with Jesse for a while, since I've had this job, and he did a very good job, and I am grateful for the job he did for me.

Q156 **Dame Angela Eagle:** In his letter, Jesse Norman says to the Prime Minister on the Sue Gray report: "To describe yourself as 'vindicated' by the report is grotesque." Do you agree with his judgment on that?

Rishi Sunak: I am not entirely sure what this has to do with the statement, but I disagree with him, as I said. I support the Prime Minister but I thank Jesse for the job he did when he was a Minister in the Treasury.

Q157 **Dame Angela Eagle:** I think political stability has quite a lot to do with how we perform economically, Chancellor. In his letter, he also says: "Breach of the Northern Irish Protocol"—which has been constantly threatened by this Government—"would be economically very damaging, politically foolhardy and almost certainly illegal." Do you agree with him about that?

Rishi Sunak: That is not the intention. The intention is to have a dialogue with our partners, which we are continuing to do, to make sure we can try to reach a sensible settlement to some of the challenges that we are seeing about Northern Ireland's place in the United Kingdom economically. There are very clear challenges and the protocol is proving to be a barrier to a resumption of a functioning Executive in Northern Ireland. It is right that we try to take steps to address that.

Q158 **Dame Angela Eagle:** Do you agree with the Prime Minister's anti-corruption champion John Penrose, who resigned today because he judges that the Prime minister has broken the ministerial code and ought to resign?

Rishi Sunak: Again, I disagree.

Q159 **Rushanara Ali:** Chancellor, I want to talk to you about the interaction between your announcement, the Ofgem cap and the OBR. When you gave evidence last, after the spring statement, you said: "it is very difficult to sit here today and speculate on what will happen to energy prices and, therefore, the biggest impact on living standards in the autumn. Let's wait until we get there, and then we can decide on the most appropriate course of action". Obviously, it has only been two months. What made you change your mind? Was it political pressure?

Rishi Sunak: No. The way the price cap works is there is an observation window that runs from February to August, from memory. Until you are through that observation window, you do not know what the price cap will be. That is how it is calculated. While people might have estimates and all the rest of it back in February, what you do not have is any actual data



HOUSE OF COMMONS

that informs how the price cap works. We are now about two thirds of the way through that observation window. The data that will actually set the price cap, we have a lot more of, and back then we had close to zero of it.

Q160 **Rushanara Ali:** There was no political pressure on Mr Brearley to provide a rough forward estimate for the price cap? There was no political consideration or pressure?

Rishi Sunak: We are, of course, in constant dialogue with Ofgem—on a weekly basis to get constant estimates—as I have been throughout the observation window. I am always asking for estimates of what the price cap might be towards the autumn. Obviously, the further along you go through the observation window, the more confidence you have in that estimate being a reflection of what will actually happen. It's not a perfect estimate now because there's still a period to run, but obviously the more you have behind you, the more confident you can be in the final estimate. However, it is just that: it is still, even now, an estimate. As I say, I believe that about two thirds of the actual data required is now formally in our hands.

Q161 **Rushanara Ali:** Given the week in which you made that announcement, people are very sceptical that it came out the day after the Sue Gray report, as Siobhain said earlier. Wouldn't it have been more orderly to have had an OBR assessment and to have made that announcement earlier—during the spring statement—rather than two months later, during a week when it was clearly an attempt to divert attention from lawbreaking by the Prime Minister?

Rishi Sunak: The spring statement forecasts all close at the beginning of March, at which point the observation window for the autumn price cap had barely opened. Anything that you did then had the potential to be quite wrongly sized. You could have done something, but you wouldn't have been confident that it was the right thing to do because you didn't know what was going to happen to energy bills. Now, you have had more of the time that you need—February, March, April, May; four of the six months of the observation window are behind you and the data is in—which means you can have a much more informed sense of what is going to happen to energy bills. That is why you couldn't do that. With regard to OBR—

Q162 **Rushanara Ali:** You had indicated that you would look at it later on, in the autumn. What changed your mind?

Rishi Sunak: Nothing. I have always said I wanted more clarity around the price cap—

Q163 **Rushanara Ali:** You got clarity in that week? You seemed to have clarity to make an announcement in a week when the Prime Minister was in trouble. You made an announcement the day after to—

Rishi Sunak: I have always said that I want to strike the right balance between providing reassurance to people—there is a lot of anxiety about this, and many people have said that it would be good to know what's coming—and waiting to have enough information to ensure that what we



HOUSE OF COMMONS

did was more likely than not to be appropriately sized. That is a straightforward trade-off. There is no perfect way to trade those things off. Again, I announced it in Parliament so I could answer yours and others' questions—

Rushanara Ali: The day after the Sue Gray report.

Rishi Sunak: Maybe you would have preferred to wait longer, but that would have meant people—

Q164 **Rushanara Ali:** Couldn't you have done it earlier?

Rishi Sunak: Then it could well have been wrongly sized.

Q165 **Rushanara Ali:** A couple of weeks earlier, even. Anyway, there is no political pressure on Mr Brearley. You have had regular conversations with Ofgem with no political pressure.

Rishi Sunak: We have. The team are in touch with Ofgem on a very regular basis. We are constantly asking for updates on what the price cap is likely to be in the autumn. We track that on a very regular basis.

Q166 **Rushanara Ali:** Are you concerned that your announcing large fiscal measures outside the Budget or spring statement means they are announced without us seeing the impact on the wider economy and without independent costings analysis from the OBR? We understand why, during the pandemic, things needed to happen in a different way. However, isn't the way you are making these announcements of concern?

Rishi Sunak: No. I think the circumstances are reasonably exceptional, given the scale of the challenge we are seeing, that it meant that it was the right thing to do.

Q167 **Rushanara Ali:** "Exceptional" in that the Prime Minister was in a lot of trouble and needed you to come out with a rescue package the next day.

Rishi Sunak: The Committee will know that the way the OBR forecasting process works does not particularly lend itself to moving at speed. It is a process that generally takes something like a dozen weeks from start to finish. It doesn't lend itself to more rapid policy and decision making.

Q168 **Rushanara Ali:** Making this announcement at this point lent itself to nothing, which is not a particularly helpful way to make policy. There is no opportunity to have any assessment.

Rishi Sunak: There are always independent think-tanks and other bodies that have provided their assessment.

Q169 **Rushanara Ali:** With respect, Chancellor, the OBR has a particular function. We have a role to scrutinise you in what you do. You are leaving Parliament and this Committee in a position, not for the first time, where we do not have that independent assessment. I do not think that is acceptable.

Of course, I welcome the announcement and the support being provided. That is not the point. The point is about how the Government conducts



HOUSE OF COMMONS

their business. It speaks to a wider problem with the way that this Government—your Government—have been operating. They have been playing fast and loose with big decisions that need proper consideration and scrutiny, which is not happening. You made that announcement the day after the Sue Gray report. It is clear that this was a political decision, not an economic decision that we were given the opportunity to see the evidence for.

Rishi Sunak: I think it is just a trade-off. If you think it would have been better for the country and for people to have waited 12 weeks to have it, then so be it. I just disagree with that.

Q170 **Rushanara Ali:** It is not beyond the realm of possibility or your talents to have made this announcement during the spring statement or in a more orderly way, rather than using a major announcement to divert attention from the Prime Minister's lawbreaking. That is what was really going on, wasn't it, Chancellor? Isn't that irresponsible for somebody who has a big, important role to play? You were credited for the work you did during the pandemic, and here you are, falling into the trap of trying to save the Prime Minister by making an announcement the day after the Sue Gray report in order to take that story off the headlines.

Rishi Sunak: We are having the same conversation again and again. I took the judgment—rightly, I believe—not to do this in the spring statement, because no one had any real sense of what would happen to energy bills in the autumn. It is not physically possible to have that sense when you are only weeks into a six-month observation window. Anything we did at that point would have been quite speculative. As you say, these are big decisions, so it is important that we get them right. Making them on an entirely speculative basis would not, I think, have been the appropriate thing to do. You have to make a judgment call about when you have enough information to make an informed judgment early enough to provide reassurance to people, which is something that lots of people—including the Labour party—were calling for. Waiting another 12 weeks, or however long it would have taken, would probably not have been striking the right balance.

Q171 **Rushanara Ali:** Somebody of your gravitas and talents should not have fallen into the trap of taking part in Operation Big Dog, or whatever term people in the Conservative party used, to save the Prime Minister from lawbreaking. I think we expect better from you. You should not be dragged into his mess, frankly.

Rishi Sunak: I am glad that you said that you welcome the measures, and I am glad that the main concern seemed to be around the timing of the announcement as opposed to its substance. That is welcome.

Chair: I am going to move on to Julie now, because we are running over a bit.

Q172 **Julie Marson:** The week before you announced the energy profits levy, you said in the Chamber that you do not believe that windfall taxes are the simple and easy answer to every problem. What changed your mind?



Rishi Sunak: I still believe what I said then. I do not think they are the knee-jerk response that one should always reach for in situations like this, but as I said, I am pragmatic about their use. I think that if you have a situation, as we have here, where there are companies that are making extraordinary profits—in large part as a result of a war—it is reasonable to think that we should tax those profits fairly. It is a reasonable approach, but you want to be thoughtful about it. I have consistently said that in my mind it is about investment and making sure that you try to tax profits fairly, but in a way that continues to support investment, because investment is good for jobs, the economy and, in this instance, energy security. We took the time to design a levy that is not as blunt an instrument as what others suggested and that contains a very generous incentive to invest included within it. I think it gets the balance right between raising money fairly and incentivising investment.

Q173 **Julie Marson:** You mention extraordinary profits. During covid, there were times when the sector was making what you might call extraordinary losses. We don't subsidise a sector in those circumstances, so is it right that we should tax profits?

Rishi Sunak: There was a time, back in I think 2016, when the oil price went back down to about \$40. Harriet might remember—I can't remember if she was at the Treasury then. Back then, Philip Hammond put in place a range of measures that did beneficially improve the tax regime for all companies in reflection of the fact that oil prices were—as everyone at that point everyone thought—stuck at \$40. "Lower for longer" was the refrain that you heard. It is not completely right to say that we haven't made changes in the other direction when prices have gone lower. The Government have in the past done that. There are a range of what one might consider relatively normal ups and downs of commodity cycles. These prices are particularly high, and that is in part driven by a war. I think it is reasonable, therefore, to take this pragmatic approach and to do so in a way that supports investment.

Q174 **Julie Marson:** Another aspect is that most of the profits from companies such as BP and Shell are not made in the North sea, so there is a case to say that the windfall profits are actually being taxed twice—they are being made elsewhere and then we are taxing them twice.

Rishi Sunak: No. We have a very specific UK tax regime that has been in place for decades that applies specifically to the UK continental shelf, if I am getting the terminology right, to the extraction of—

Dame Angela Eagle *indicated assent.*

Rishi Sunak: I see Angela nodding, so good, I probably have got that right. All these former Treasury Ministers keep me on my toes. It applies very specifically to the activities of fossil fuel extraction there, so it is a ring-fenced regime that doesn't apply to profits they or any other companies make elsewhere.

Q175 **Julie Marson:** Is it fair to say that companies cannot offset their losses from this particular tax?



HOUSE OF COMMONS

Rishi Sunak: Yes, it is something we have done similarly in the past. For example, the bank levy and the residential developer property tax work in the same way. What we are trying to do is to tax genuinely excess profit. I don't think it would be reasonable and it would undermine the policy rationale around that to allow losses that had nothing to do with that to be offset against it. Do you have anything to add on that, Dan?

Dan York-Smith: That is exactly right. We did that in various things that were done with the corporation tax regime for banks, where the carry forward of losses was excluded from being set against the additional corporation tax. The other bits of the North sea regime—the 30% ring-fenced corporation tax rate and the supplementary charge—allow carry forward, but this additional 25% on top won't allow carry forward for the reasons that the Chancellor said.

Q176 **Julie Marson:** You have said that the levy will fall away when prices return to normal. Can you define "normal"?

Rishi Sunak: That is a conversation we are having with the industry as well. The last time this was done, a price target was published, which was \$74 or \$75 for Brent, so that is one benchmark. If you look at average Brent price over the last five or 10 years, that will give you something like \$60 or \$70 for oil. If you look at what most of these companies communicate to their shareholders and what they consider to be normalised oil prices, and at what they are telling their own investors, they tend to use numbers in the range of \$60 or \$70, so that gives you a sense.

We have a complicated situation because we have got gas and oil, so we need to think a little bit about that. To provide reassurance, this is not meant to be a permanent feature of the tax regime. There will be a sunset clause of just over three years in the legislation, as a backstop, but obviously if prices come back to the range that I have discussed, you would expect this to fall away sooner.

Q177 **Gareth Davies:** I want to carry on the conversation about the levy and specifically get into the detail about the investment component of it. The investment allowance of the levy is available to companies, as I understand it, at the point of investment. Can you talk us through how that compares to previous investment allowances for these companies and what the pros and cons are?

Rishi Sunak: We have discussed this previously, Gareth, and I know that you are conscious of trying to incentivise business investment. This was another feature that we changed. People have focused on the headline percentage relief that we have given, which is substantial and generous, but the other significant change we made is to make sure that that relief applies immediately at the moment of investment. That is different from how the investment relief that currently exists within that regime operates, where it does not apply until that project starts generating revenue, which is often not for years.

Dan York-Smith: Five years.



HOUSE OF COMMONS

Rishi Sunak: Five years is the average. We have made this change to make it very supportive of investment. It is not just the rate that is more generous, but, because it applies immediately, on an NPV basis, it will be considerably more generous than what currently exists. It adds to the idea that we generally want to try to bring forward that investment.

Q178 **Gareth Davies:** What modelling has the Treasury done on the impact of this allowance on investment, as compared to before the levy, for example?

Rishi Sunak: I will let Dan talk about this, but there are standard models that we use, which the OBR will no doubt publish its own analysis on when they next do the forecasts. Using those standard models and expected behavioural responses, we expect this not to have a significantly negative impact on investment. It may well be that it increases it, but these are models, so there we go. But we wanted to make sure that, at least on the models that have been used by the OBR and us in the past, this relief was generous enough that it would not significantly impact investment and that is what the models—

Dan York-Smith: I don't really have much to add. The OBR will have to do this as part of their wider forecast, when they take into account their wider investment forecast, all the measures and so on. Using the sorts of methodologies they use, as the Chancellor says, we think this will be a net positive impact on investment and that therefore there will be more investment than before, but the precise amount of that is very much subject to OBR scrutiny.

Q179 **Gareth Davies:** Inevitably, then, if it is, as you say, as modelled and more impactful, and increases investment, would you consider carrying it forward and keeping it going as an investment incentive, even when the tax element of the levy expires?

Rishi Sunak: Probably not. There is an extra levy and that comes with this extra investment relief. There is already a generous treatment of investment within the ring-fence regime; they benefit from full expensing on capital investment, so the status quo regime is already pretty generous.

However, to respond to Kevin's question earlier, we hope to make the overall tax system more supportive and generous towards capital investment anyway after the super-deduction expires. So, for all non-ring-fenced investment, that hopefully will benefit from a cheaper or more generous treatment, as I said, but this will revert back to what it is, which is a higher tax rate but more generous investment treatment as well.

Dan York-Smith: Part of the investment effect is the fact that it's temporary—both the higher tax rate is temporary and therefore the higher investment allowance is temporary. The incentive to invest while the value of your investment relief is so high, when the payback may come when the tax has fallen away, is part of the reason you get the temporary investment effect, a little bit like the wider super-deduction, where its time-limited nature brings forward investment.



Q180 Gareth Davies: Both of you have mentioned the super-deduction. You will be aware that there is some criticism that it has not resulted in as much investment as was perhaps hoped or expected, or even planned for. What makes you think that this investment incentive will be more impactful or more successful than that super-deduction?

Rishi Sunak: We are still collecting data and talking to industry about the impact of the super-deduction. I think the big difference is that you obviously had omicron towards the middle of it and we were not completely done with coronavirus, so that was a big extra added bit of uncertainty that got put in the mix. It will be very hard to disaggregate the impact of that, but it probably had some impact and hopefully that is not the situation here.

I think the way these companies are making investment decisions is probably slightly different—it is quite specific. And now that we have published an energy security strategy in which natural gas in particular has a very clear role in the medium term to support our transition, and other policies that are supportive of that—for example, licensing decisions are being made at a faster pace—I am confident that there is a strong signal from Government to industry that we want to see that investment and there is also a medium-term policy framework that is supportive of it, not just the short-term tax relief.

Q181 Gareth Davies: Recent developments in Ukraine have highlighted the importance of domestic oil and gas, not just for security of supply but as a bridge to the low-carbon future that we all hope for. How clear have you been with energy companies, once you announced this investment incentive, that you hope that it will go towards investment? It says in front of me that the North Sea Transition Authority expects output to fall 30% over the next five years, and there are 363 undeveloped discoveries. Have you been clear with the energy companies about where you expect this investment to go, if they take the incentive?

Rishi Sunak: Yes. There is a ring-fenced regime, so in one sense it applies quite specifically to a group of companies, and it is a relatively small group of companies—there are only about 20 or 30 who paid any tax in that regime over the last couple of years, and it is a fraction of that number that accounts for most of the revenue, so we are only talking about a relatively small number here.

We have been clear, and not just on this. As I said, the energy security strategy was warmly welcomed by the sector as being a strong statement of support for their role in the transition, which they wanted to hear from Government. We have provided that reassurance. Then, it is not just the fiscal regime, but other things that matter—for example, the permitting and licensing—and, again, on all those things, you are seeing progress from the Energy Secretary to make sure that we can improve our energy security. That is a part of it.

Q182 Alison Thewliss: Moving on from oil and gas, could you tell me a bit more about the suggested tax on electricity generators and the timescale



HOUSE OF COMMONS

for that?

Rishi Sunak: No. I am sorry, Alison, but, given that it is a live tax policy, I cannot say much more, other than what I said in the statement, which is that we believe that extraordinary profits are being made in that sector. That is a result of how the market works, which is the price of electricity being set at the marginal supplier—which at the moment is natural gas, at these very elevated levels—so there will be lots of people whose costs of producing electricity are much lower than that. That is where these excess, or extraordinary, profits arise. We are working urgently with industry to understand the scale of what those might be and what the best way to address that is. As I said, other European countries have taken steps to do that. We have a longer-term plan, which the Energy Secretary published, to reform the market in order to deal with that, but again we need to figure out how quickly that can be put in place and whether there is a better answer in the short term.

Q183 **Alison Thewliss:** The figure of £10 billion has been bandied about in terms of excess profits. Would it surprise you to know that SSE said to me this morning that it does not recognise that figure?

Rishi Sunak: I don't recognise that figure. We have not put out any public figure.

Q184 **Alison Thewliss:** You are describing excess profits; you must have an idea of how much that excess profit is.

Rishi Sunak: Yes, but you would not expect me to comment publicly on tax policy as it is being developed—

Alison Thewliss: You put it in your statement—

Rishi Sunak: Beyond what I said in the statement. So, I am not able to get into the specifics of a tax policy that is under development. As I said, the scale of the profits is something that we are working through with the industry—

Q185 **Alison Thewliss:** You said that you believe that there is an extraordinary profit; you must have an idea of what that extraordinary profit is if you are bringing forward a policy to tax it.

Rishi Sunak: We are in the process of talking to the companies to figure out the scale of what we think the profits are. There are lots of different particular circumstances that companies might be in. For example, if they have already sold forward the energy at a particular price, that will mean that a desktop analysis looking at the current spot price will not take that into account, so we need to go through the analysis with the companies.

Q186 **Alison Thewliss:** You said earlier that you will bring that forward urgently. When should we expect a statement?

Rishi Sunak: I said as soon as we can go through the work.

Q187 **Alison Thewliss:** Weeks? Months?



HOUSE OF COMMONS

Rishi Sunak: Not months.

Q188 **Alison Thewliss:** Weeks, then.

Rishi Sunak: “Urgently” is not months and months.

Q189 **Alison Thewliss:** Are you aware that this is already having an impact on investment in the renewables sector? How do you expect to achieve net zero targets and to meet the commitments of COP26 from just last year if you are going to disincentivise investment in renewable generation?

Rishi Sunak: We already have a very generous investment regime in place, because of the super-deduction, which means that any investment in renewables happening right now benefits from the most generous treatment of capital investment not just in the UK’s recent history but pretty much anywhere in the world. It is the most generous treatment of capital investment that exists anywhere at the moment, because of the super-deduction. That is the regime we have in place, so anyone wanting to do that now should crack on—they will benefit from that relief.

Q190 **Alison Thewliss:** It is difficult for investors to crack on if they don’t know what this regime will look like in a few weeks’ time.

Rishi Sunak: But the capital investment relief exists today, so that is the relief on the investment that they are making today.

In terms of the energy market reform, that is something that we need to get right. That is why we are having the conversation with them now, to as quickly as possible figure out what the situation is. We have had this conversation about cost of living, but I believe that if people’s energy bills are being driven by the way that pricing works—so that the cost of producing electricity bears no relation to the price that our constituents are paying—that is probably something that we should try to fix. That is what many other countries have taken steps to try to do. There are different ways of doing that, but that seems to me to be the right approach.

People paying more than they have to for their electricity is not a good thing. We want to make people’s living standards higher, we want to reduce the burden of energy bills—

Q191 **Alison Thewliss:** With respect, Chancellor, that is not what this is about. This is about investment in the renewables sector, a sector that is really significant to the Scottish economy in particular, and the Scottish Government have made a huge commitment to that. What discussion have you had with the Scottish Government about your plans for taxation in the renewables sector?

Rishi Sunak: This is about that. What we are talking about is excess profits that are being made. In the same way as there are extraordinary profits being made in oil and gas, there are extraordinary profits being made in electricity generation. It doesn’t matter who is making those profits; the principle and the economic logic for it is exactly the same. If we have a war that is driving up gas prices to very high levels, levels that



HOUSE OF COMMONS

nobody anticipated, and that is causing particular people to be making these very large profits and ultimately driving up electricity bills for everyone—your constituents, my constituents—and contributing to this cost of living challenge that we have been discussing, I think it is absolutely right that the Government look at that and figure out whether the policy we have in place means that that is working as effectively as it should. That is the work that we are doing.

Q192 Alison Thewliss: There are lots of questions about what exactly this will mean for investment in renewables in Scotland, so let me ask you again: what discussions have you had with the Scottish Government about this policy?

Rishi Sunak: We would normally consult, as we always would. In the process of what we are doing, we do that. It is a reserved tax policy, so you would expect us to make the policy.

Q193 Alison Thewliss: The Scottish Government has a very clear net zero strategy. It is very encouraging to renewables—onshore and offshore wind, tidal and other mechanisms in Scotland. What discussions do you intend to have with the Scottish Government before you bring forward a policy that might hit investment in renewables in Scotland?

Rishi Sunak: We do have policies that support renewables investment, particularly in offshore wind, as we have already seen, where our track record is very strong. Because of the super deduction at the moment, it is a very generous climate to invest in renewables—to invest in everything, actually—so I feel pretty positive about the outlook. The energy security strategy was warmly welcomed by the renewables sector. I hope that the Scottish Government also will be keen on making sure that people's energy bills are no higher than they need to be. That is our priority. If we think that there are sensible reforms that should be made to the market so that people's energy bills can come down or not go up as much as they currently are, that will be a good thing for us to explore, and that is what we are doing.

Q194 Alison Thewliss: One of the ways to ensure that we are not in such a crisis in future is to reduce our reliance on fossil fuels and move more into net zero—into wind, tidal and other renewable technologies in which Scotland has a lead.

Chair, the Chancellor has not answered the question about when he is going to discuss this with the Scottish Government. I sense I am not going to get an answer.

Rishi Sunak: If there is something that they want to send us, we can make sure that that happens. That is not a problem.

Dan York-Smith: Can I add one thing on renewable investment that takes place under the contract for difference? Already, because of the way contracts for difference are constructed, it is not possible for those investments to make extraordinary profits. As part of considering how a tax might work, that is something we would want to take into account.



HOUSE OF COMMONS

Q195 **Alison Thewliss:** If they are not making extraordinary profits through contracts for difference, where is this tax then coming from?

Rishi Sunak: There are lots of legacy renewables that were not done under a CfD.

Dan York-Smith: There are electricity generators that are not in CfDs where the price of electricity was £61 per megawatt-hour in the first quarter of last year, and by the fourth quarter it was £223 or something like that. If you are on a contract for difference, that would be clawed back—in effect, a tax of sorts. If you are not on a contract for difference and your costs have not changed, it is possible you are making these large profits, which is what we are discussing.

Rishi Sunak: That is the reform that many other countries in Europe are in the process of making to their market. That is the UK's plan as well—it was in the energy security strategy—but this is obviously an acute issue at the moment and is causing people's energy bills to be higher than they otherwise would be. We probably all share a collective desire to ease the burden on our constituents of the cost of living and higher energy bills. I imagine the Scottish Government would support that, but maybe not.

Alison Thewliss: I sense some horrible conflicts in a couple of weeks.

Chair: Perhaps we will write to the Chancellor with any further questions that you might have on that, Alison. Finally, Harriet.

Harriett Baldwin: Chancellor, you have mentioned quite a few times your desire to make sure that our constituents don't pay higher energy bills than they need to. I want to use my questions to explore historic decisions made by the Government and regulators that may have had the opposite effect. The first area I want to explore is around the number of different energy providers that have failed, including Bulb, which I understand is going to end up costing taxpayers about £2 billion. Is it possible that Ofgem has let you down by not properly ensuring that these companies were adequately capitalised? What are we going to do about that? We don't want the Treasury to keep on having to provide sticking plasters for the failure of this element of energy policy.

Rishi Sunak: That is an excellent question. I'm sure you understand that Ofgem and the Energy Secretary are responsible for how the regulatory regime works, so I want to make sure I am not treading on the Energy Secretary's toes. I think he is having conversations about whether our regulatory regime is working as it should be. Ofgem has already put out some consultations about how to tweak some things.

Q196 **Harriett Baldwin:** It is costing the Treasury £2 billion, isn't it?

Rishi Sunak: Yes. Well, it is costing bill payers—all of us. As we heard previously, there is no Government money; it is all everyone else's money. That is the cost of these companies failing, so we have to make sure the regulatory regime that we have going forward is doing what it needs to do. I am sure there are lessons that can be learned, and I am sorry not to be



HOUSE OF COMMONS

more specific, but it is a question for the Secretary of State. It is for him to decide how best to go about making sure we learn the lessons.

Q197 Harriett Baldwin: You traded through the financial crisis, so you saw how expensive it was for the taxpayer when the banks failed. Now, it is going to be expensive for the taxpayer, and effectively bill payers, because of the failure of all of these companies. Presumably you are giving a very strong steer to the Business Secretary that you don't want to see this happen again.

Rishi Sunak: You can expect that that is what I will say. You are right. As with all these things, there is a trade-off. You want a regulatory regime that is supportive of competition, because in general competition is a good thing for driving down prices for consumers and improving choice, but it needs to be competition that is based on sound underlying fundamentals. Obviously, if we have businesses that are not fundamentally sound, the tab is going to have to be picked up by taxpayers. That is not a good outcome, so we need to make sure we have a system that means that doesn't happen.

Q198 Harriett Baldwin: Another decision that probably was not yours but may have resulted from short-term thinking at the Treasury was that it would be too expensive to subsidise the Rough gas storage facility. It was old infrastructure and it was closed down, but now we have heard reports that it is likely to be reopened and subsidised by the Treasury. Is that correct?

Rishi Sunak: Again, that is a question for Energy Secretary, who is responsible for the storage aspect of things.

Q199 Harriett Baldwin: So am I hearing that you, from the point of view of being Chancellor, will not be providing money to do that?

Rishi Sunak: You would not expect me to comment on things before they are done. In general—again, because I am not the Energy Minister, you will have to forgive me for not having the exact details to hand—given the challenge we are experiencing, I am not sure that would make—

Q200 Harriett Baldwin: Is finding a way to subsidise the reopening of that gas storage facility the subject of a live conversation between the Treasury and the Business Secretary?

Rishi Sunak: No, not one that I am actively involved in. There are always conversations going on in Government. We should make sure we have the right energy security, and there are lots of different things that one might want to do. From what I have been told, I don't think that one storage facility is going to be the difference between people's energy bills going up the way they are going to go up and not.

Q201 Harriett Baldwin: Gas prices have come off a lot, haven't they, since the peak, so you could fill it up now.

Rishi Sunak: At the moment, but given the scale of the increase, the storage—I don't have the numbers—is not that significant in the scheme of



HOUSE OF COMMONS

things. It would clearly make a difference because, as you say, right now, gas prices are very low temporarily. There is a lot of LNG coming into the country and we are exporting or sending as much as we can to continental Europe; typically, the flow is reversed. Clearly, if we added more storage right now, that would be good. It would probably mean that the price would be not as low. That is part of the reason that it is so low. I don't think it would make the difference though. I imagine we would still be sitting here talking about a very significant increase in energy bills in the autumn. I don't think it would make a massive difference to the scale of the challenge, from what I understand.

Q202 Harriett Baldwin: Turning to the scale of the challenge, Jesse Norman, a former Energy Minister, alluded to nuclear generation in his letter today. He thinks the expectation of the speed of building new nuclear is unrealistic. There is talk of extending the life of Hinkley B further, but apparently EDF has said that that is technically not possible because we have missed the deadline for doing that. Are you in conversations with any of the nuclear power stations about subsidising extending their life?

Rishi Sunak: Again, Harriett, that is a question that BEIS is responsible for.

Q203 Harriett Baldwin: But are you in conversation with them about it?

Rishi Sunak: We are in conversation with EDF all the time. Obviously, there is a very large nuclear project that we are in the process of trying to move to a final investment decision at an effective pace, so we are always having conversations with EDF in general anyway, but again, those are led by the Energy Secretary.

Q204 Harriett Baldwin: In terms of your goal of trying to keep future energy bills down, how much is the Treasury prepared to subsidise some new nuclear and extending the life of existing nuclear?

Rishi Sunak: I think there is a balance in having an energy mix that is reliable, secure and affordable. There is not a perfect solution, so you are constantly trading off against those things. Our approach would be to try to make sure that we have systems that can provide affordable energy at as competitive a price as possible that is also renewable or non-carbon. Nuclear is reliable base load power, which is a good thing, and we can have it here. It has not historically been the cheapest form of energy, and has required a decent amount of Government involvement going forward.

Q205 Harriett Baldwin: But you are open to continuing to subsidise in that area.

Rishi Sunak: We are having those conversations, for example with EDF on Sizewell. The Government have to be involved in these large-scale nuclear projects because of the way that they are financed, and that obviously impacts on bill payers. We are also providing R&D and capital grant funding for SMRs, which may well be a promising technology for the future as well.

Q206 Harriett Baldwin: Another way consumers can keep their energy bills



HOUSE OF COMMONS

down is by getting better insulation, triple glazing and so on. You put some measures in the statement that helped with keeping those costs down, but there are a lot of other ways to encourage that, and other countries do more in this regard. There are also ridiculous rules around conservation areas—not doing double glazing when you have an older building—that councils are very strict on enforcing, and things like that. Tell us about your thinking on how we can help consumers keep their bills down from that point of view.

Rishi Sunak: You are absolutely right. In the spring statement, we cut VAT on energy-saving materials.

Q207 **Harriett Baldwin:** Does that include insulation?

Rishi Sunak: That includes the existing set of measures. It is not insulation-related; it is things like heat pumps and—no, actually, it does.

Dan York-Smith: The reduction in VAT on energy-saving materials applies to loft and cavity wall insulation. They are less expensive to buy and fit than, for example, a heat pump, but it does make a difference.

Rishi Sunak: It will make a difference, yes. Over the Parliament, we are spending over £6 billion on energy efficiency. I think it is over £6.5 billion on a range of different things—everything from heat networks to the boiler scrappage scheme, to public sector building decarbonisation and lots of schemes focused on those in fuel poverty and social housing, and so on. There is a big pie available; whether we are getting the best bang for our buck with that pie is a fair question. We are going to make sure that we are.

You are right that there are things that are relatively easy to do that will save people real money. Insulation is the obvious one, particularly cavity wall and loft insulation and smart controls. Those things can all be done in relatively short order—in a day, or two at max. They tend to cost £250 for smart controls, £250 for loft insulation, and just over a grand for cavity wall insulation. They are not the £10,000, very expensive things, so they are much more manageable, and they tend to save something like £200 or £300 a year off energy bills once they are done, so it is quite a significant return there.

We are looking how the market is working. To your point, in Ireland, for example, they have pioneered a one-stop shop approach. There are some good mortgage-type products or loan products; there are energy companies that can help; there are building people who want to do it; and there are Government grants available. The question of whether we can knit those things together in a slightly better way to make them more accessible is a really fair challenge, and one we are actively looking at.

Chair: I'm going to pull stumps there, because I did personally assure you that we would be done by quarter past and I am going to stick to that. I thank the Committee for being very disciplined in the questions you put within time, and I thank you, Chancellor, for making yourself available to be accountable to this Committee on the statement you made to the



HOUSE OF COMMONS

House at short notice, on a day when, I think it is fair to say, there is rather a lot going on. On that note, this hearing is concluded.