

Treasury Committee

Oral evidence: Budget 2024, HC 320

Wednesday 6 November 2024

Ordered by the House of Commons to be published on 6 November 2024.

[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; Lola McEvoy; Lucy Rigby; Dr Jeevun Sandher; Yuan Yang.

Questions 180-264

Witnesses

I: Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, HM Treasury; James Bowler, Permanent Secretary, HM Treasury; Will Macfarlane, Director, Strategy, Planning and Budget, HM Treasury; and Conrad Smewing, Director General, Public Spending and Joint Head, Government Finance Function, HM Treasury.

Examination of witnesses

Witnesses: Rt Hon Rachel Reeves MP, James Bowler, Will Macfarlane and Conrad Smewing.

Q180 Chair: Welcome to the Treasury Committee. We are delighted to welcome for the first time the Chancellor of the Exchequer to explain and answer questions about last week's Budget. It is worth saying what a breakthrough it is to have the first woman Chancellor ever, and how proud we are to have her in front of the Committee. Chancellor, that is the good bit, so take that away as we move into questions.

The Chancellor, the right hon. Rachel Reeves MP, is joined by James Bowler, the permanent secretary at the Treasury; Will Macfarlane, the director of strategy, planning and budget at the Treasury; and Conrad Smewing, the director general for public spending, who is also joint head of the Government Finance Function at the Treasury. A warm welcome to you all.

Chancellor, when you look at the OBR's approach and growth forecast for your Budget plans, it is not optimistic perhaps as you have been. Are you confident that you will see the growth that you predicted and ran for election promising?

Rachel Reeves: Thank you very much, and it is a real privilege and pleasure to be here today to take questions from your Committee. Growth is the No. 1 mission of this Government and something we are determined



HOUSE OF COMMONS

to deliver, because, in the end, it is economic growth that drives up living standards and ensures that we have the money both to keep taxes down and to invest properly in our public services.

The forecast from the Office for Budget Responsibility shows an uptick in economic growth in the first couple of years, before it starts to fall back a little bit. But then, over the longer term, the OBR says that, if we keep capital spending at the levels that we have set out for the duration of this Parliament, that could lift economic growth by 1.4% by boosting the supply-side capacity.

That is the first time that the OBR has looked at economic growth prospects beyond the five-year period of the Parliament. That is really welcome, because there is a tendency for politicians, of whichever party, to take decisions that can affect outcomes in one Parliament rather than looking to the long term. Part of what we spoke about in the election campaign—about country first, party second—is about putting our country on the right path for the future, which is why unlocking that capital investment is so important.

But am I happy with the growth profile for this Parliament? No, I am not. I want growth to be stronger and to come through faster. Crucially, I want it to be felt by families and businesses up and down the country. We have got policies in train to deliver that economic growth.

Q181 Chair: Do you think your policies will trounce the OBR's growth forecast?

Rachel Reeves: That is certainly our ambition. You had Richard Hughes and the Office for Budget Responsibility team here yesterday, and I want to thank them for all their work that goes into the forecast process. They said to your Committee that one upside to their growth forecast is the planning reform that we have begun work on. On day three, I think, of being Chancellor, I gave my first speech at the Treasury, where we started the overhaul of the planning system. So we called in a number of planning decisions—

Q182 Chair: Can I stop you there? You have announced that, and we will come to it in a bit more detail. But just to be clear, they said that they could not factor that in at this point because it is too early days. You are saying clearly and boldly today that you are very confident that the changes in planning will bring growth in this Parliament at a higher rate than the OBR forecast.

Rachel Reeves: Yes, and the OBR said it was an upside risk to their growth forecast. We were less than four months into this new Government when the OBR put together its forecast, and we have more work to do to deliver on that growth mission.

When I talk to businesses, big and small, they say that two things are most important. The first is bringing stability back to the economy, and this Budget brings stability back. We have drawn a line under the chaos and instability of the last few years. Secondly, they want planning reform so that they can get things done and we can get Britain building again,



HOUSE OF COMMONS

and that is what our plans for growth hinge on. Now that this Budget is out of the way—the Treasury is not just a Department for delivering Budgets; it might have felt like it in the last few years, given the number that the Treasury went through, but the Department is about so much more than that. The Department is about driving economic growth and prosperity in all parts of the country, and planning reform, as well as pensions reform, skills reform and our devolution agenda are all about securing that No. 1 mission of this Government.

Q183 Rachel Blake: Professor Miles was clear that the OBR was not able to factor the impact of planning reform into its forecasts, which we took to mean that there was, as you described, an upside risk. But I am interested in why you interpret that as only a positive, because I think it could be quite a big sensitivity as well.

Rachel Reeves: Our growth plans are not just about planning, but I honestly believe that, after stability, planning is the biggest thing that this Government can do to unlock growth, whether that is in energy infrastructure, digital infrastructure, transport—

Q184 Chair: We know the list, but the specific question was about you seeing it as a positive. Are you not worried about any downsides—about slow delivery?

Rachel Reeves: No, I think this is all upside, because the OBR do not take into account our planning reforms. That is not a disrespect that I am giving to the OBR; this is early on in the process. We are developing that work. We have already called in a number of planning decisions. We have got rid of the effective moratorium on onshore wind. We are doing things, but the OBR want more evidence. They want us to do more to show the impact that our planning reforms can have. That is a challenge for me, the Treasury and this Government—to show the impact that planning reform can have—and I am confident that we can do that.

Q185 John Glen: Before I ask my questions, I would like, on behalf of my party and personally, to congratulate you on securing the position of Chancellor. Having worked for four Chancellors quite closely, I know what an exacting role it is, and whatever questions I ask, I have respect for you in getting to this position.

Can I ask you about the news today from the US and the implications of it for growth? Goldman Sachs have cut their expectation of growth next year from 1.6% to 1.4% for the UK economy, citing potential tariff risks. I think EU officials, too, are forecasting a reduction in EU exports to the US of €150 billion, a 10% fall in the value of the euro and a cut to the GDP of Germany, for example, of 1.5%. How do you accommodate that in your plans? Linked to that, could you also clarify what the UK's growth target is? It has been variously expressed, I think, as 2%, 2.5% and 3%. It would be useful for the Committee if you could tell us what it is.

Rachel Reeves: First of all, thank you very much, John Glen, for what you said. We were opposite each other at the Dispatch Box for a number of years, and I think you know the esteem with which my party holds you



HOUSE OF COMMONS

and how much we enjoyed facing you—if that is the right word—across the Dispatch Box. I look forward to taking questions from you today and in future at this Select Committee.

I think it is too early to start making changes to our forecasts for the economy because of the election of a President in the United States, but I would say this: our trading and economic relationship with the United States is absolutely crucial. The US is our single biggest trading partner. Trade between our two countries is, I think, at £311 billion a year, so of course that relationship is crucial. Our special relationship obviously goes much beyond trade to our security and defence relationship as well. I am confident that those trade flows will continue under the new President. Indeed, President Trump has been President of the United States before, and we continue to have a strong and healthy economic relationship. This Government will continue to make the case for free trade. We are an open trading economy, and we benefit from that in our trading relationships with Europe, the middle east, Asia and, of course, the United States.

You also asked about our growth target. In our manifesto, our No. 1 mission was to have the highest sustained growth in the G7, with good jobs and productivity in all parts of the country. The reason we chose that metric, rather than picking a number, was that you could have, as we saw in the last Parliament, the invasion of Ukraine or a pandemic, and then an arbitrary growth number wouldn't be the right approach. The reason we compared it with similar countries was that, regardless of the shocks, those shocks are often global—so it is, "Where are we in the league table?" rather than an absolute number.

Q186 John Glen: Can I come back on that? I totally respect that on day one, it is unrealistic to have a thorough view of that, but those are quite stark revisions to growth expectations of the UK economy by respected sources. It will be interesting, to say the least, to secure a view from the Treasury about what those tariffs will mean. It seems to me that we have a US President who will not face election again, with a strong mandate and support from Congress, and if he goes down that route, the implications will be quite severe.

I hear what you are saying about the growth target, but could I ask about the interaction, in terms of preparation for the Budget, with the growth mission boards? During the general election campaign, the mission boards were front and centre of what you were talking about. Did they meet to consider the package? Is there a sort of remit or schedule for those mission boards, in order to secure the execution of what you are trying to do? Obviously, if you don't know now, you could write to the Committee.

Rachel Reeves: On this point about the US, we are not just a passive actor in this; it is a trade relationship with the United States, and we will make strong representations about the importance of free and open trade, not just between ourselves and the United States, but globally. The US also benefits from that access to free and open trade with us and other

countries around the world. It is what makes us richer as societies—benefiting from that open trade.

Q187 John Glen: I might be sympathetic to that, but is it realistic to influence a President who seems so set on a course that is so well defined?

Rachel Reeves: Well, we have another couple of months before the inauguration. Obviously, we will begin those conversations. We will prepare for different eventualities. I absolutely do not want to sound in any way sanguine, but on the other hand, I am optimistic about our ability to shape the global economic agenda, as we have under successive Governments. I have forgotten—

John Glen: Mission boards.

Rachel Reeves: Oh, the mission boards, yes. We have had two or three meetings of the growth mission board, which I chair. I think we have about four or five permanent members of that—Cabinet members, and then other Cabinet members attend based on our discussions. The next meeting of the growth mission board is later in November, and that is to discuss the role of place in our economic agenda. You will have seen in the Budget last week the announcement of single settlements with the Greater Manchester combined authority and with the West Midlands combined authority, and our next meeting is taking place in Darlington—as you know, at the Darlington economic campus.

John Glen: We have some great champions for that on the Committee.

Rachel Reeves: Yes—see you in Darlington soon, Lola McEvoy. We will make sure at that meeting that we have representation, for example, from our mayors, because delivering growth is not just a Government mission; it is now our national mission, and we know that we cannot just deliver growth from Westminster or Whitehall. We have got to engage business leaders and local leaders in that, which is why we are meeting not just in London, but around the country and involving key actors. In fact, at the last meeting of our growth mission board, we had the chair of the National Infrastructure Commission. I did not take the growth mission board through a detailed account of what was going to be in the Budget—that would not be appropriate—but, in terms, I set out the seven pillars of our growth strategy in the Budget last week, and obviously the No. 1 pillar is stability. Those seven pillars are something that we worked with the growth mission board to develop.

John Glen: Thank you.

Q188 Dame Harriett Baldwin: I add my congratulations on your appointment, Chancellor. I appreciate, as you will, just how much power and responsibility you have now, particularly with 400 MPs to vote through any measures you wish to implement. I recognise that one of the aspects of the financial world that you do not control is the markets. The Office for Budget Responsibility told us yesterday that the additional £350 billion of public spending that was announced in your Budget has, in their opinion, permanently increased the level of interest rates and inflation.



HOUSE OF COMMONS

What steps did you take before the Budget to reassure yourself that, at a time when the Bank of England is also selling gilts, the gilt market would be able to cope with that additional level of public spending?

Rachel Reeves: We had an auction of Government gilts yesterday, and that was very comfortably oversubscribed, which is very welcome. If you look at the forecasts from the Office for Budget Responsibility for interest rates and inflation over the course of the Parliament, both are on a downward trajectory. If you take inflation, it peaked at just over 11% in the last Parliament. The peak of inflation forecast by the OBR in this Parliament is 2.6%, but then it falls back to target during the course of the Parliament. Interest rates are also on a downward trajectory throughout this Parliament.

We had to achieve a couple of things in the Budget last week, which I was very open and honest about: we had to fill a black hole in the public finances, to put them on a firmer footing, and we had to properly fund our public services. As you know, Dame Harriett, as you were Chair of this Select Committee in the last Parliament, there had not been a spending review since 2021.

Q189 **Dame Harriett Baldwin:** On the gilt market more specifically—there will be questions on those other topics as we go through—did you have conversations with the Debt Management Office or the Bank about the capacity of the gilt market to absorb that extra issuance as a result of the actions that you took?

Rachel Reeves: Yes—so I regularly meet both the Debt Management Office and the Governor of the Bank of England; I have met both since the Budget and I talk to them regularly. I am sorry—I have met the chief executive of the DMO since the Budget, and I have spoken to the Governor of the Bank of England. The week before the Budget, I had the opportunity to talk the Governor through the Budget when we were at the IMF annual meetings in Washington together.

Q190 **Dame Harriett Baldwin:** Was the announcement at the IMF meetings about the change to the fiscal rules—that got the Speaker so upset with you—partly to prepare the markets for the impact of your Budget? Was that following advice?

Rachel Reeves: In the election campaign and the manifesto, we set out the two fiscal rules. The first was to balance day-to-day spending with tax receipts, and the second was to get debt down as a share of our economy. I do take very seriously the importance of ensuring that markets understand Government policy and the profile of Government borrowing, so I thought it was useful ahead of the Budget, on advice, to give some more information, but not to set out the fiscal rules ahead of the Budget. It was right that we set out the measurement of those rules and also the path to meeting those rules at the Budget, which is what we did.

Dame Harriett Baldwin: I will come back in later, if I may.

Q191 **Chris Coghlan:** Thank you, Chancellor, for coming in; congratulations on



HOUSE OF COMMONS

your appointment. I very much welcome the Government's focus on growth, but gilt yields rose 10 basis points on Friday. That is highly unusual, outside of the mini-Budget, and indicates to me that your ability to do a similar-sized fiscal event in the future is restrained. You talk about growth, and in the Budget you rightly talk about the productivity crisis and how one of the factors causing that is historically low public investment. So I was surprised to hear from the OBR yesterday that you are keeping public investment flat in the Budget, despite this being one of the largest fiscal events in recent decades. Can you explain to me how you think about public investment, and why it is remaining flat in the Budget?

Rachel Reeves: We have not had the chance to meet before, but I am very much looking forward to working with you and taking questions from you in this Committee. You had evidence yesterday from Richard Hughes and I think he noted that the gilt market response was just a response to higher volumes of gilt issuances. He added that gilt yields "are broadly in line with that expectation or maybe a little bit above, but not significantly." Andy King stated that, "essentially, the gilt market has now reacted. It was a relatively small reaction." That is just to put the market reaction last week in perspective.

Will we do something similar in the future? No. This was a Budget to reset, to draw a line under the OBR's description in March, with the last Budget, that the spending plans were worse than fiction. We have drawn a line under that now. There has been a reset, and that means our public finances are now on a firm footing and the trajectory of public spending is much more honest. We will never need to do another Budget like this again; it was a once-in-a-Parliament reset so that we start on the right foot. Also, it was to give businesses, families and markets confidence that we now do have our public finances on a firm footing. We have set out the fiscal rules, we meet those two years early, and against the debt rule there is £15.7 billion of headroom in the final year.

You asked about public investment. The profile we inherited for public investment took public sector net investment from 2.5% of GDP in the current year down to 1.7% by the end of the forecast period. That would be a real-terms cut of a third in public sector net investment during the course of this Parliament. I believe that would have had a profound impact on our growth potential as a country, and I did not think that was a sensible path. We have massive opportunities as a country to invest in digital, in energy and housing infrastructure, plus a desperate need—as we all know—to rebuild our schools and hospitals. So, we have taken public sector net investment back to that 2.5% of GDP average over the forecast period. That is £100 billion in additional capital investment that would not have happened under the previous Government's profile.

Q192 **Chris Coghlan:** I fully agree with you that cutting it would be damaging, but you are keeping it flat. Surely this is a missed opportunity to increase it, given that you cannot do that again.



HOUSE OF COMMONS

Rachel Reeves: I have to say a couple of things. We are keeping it flat as a share of GDP, so it is growing in real terms, over the course of this Parliament, in line with GDP. It is £100 billion of additional investment. I think that is the responsible path. There are obviously guardrails on our investment rule around how we can invest that money, but I think that is the right approach.

Q193 **Chris Coghlan:** On the quality of the public investment, many economists, such as Paolo Surico of London Business School, think that mission-oriented, very specific and targeted R&D is the most effective way to use public investment to crowd in private investment and help address productivity. I was really pleased to see that in the Budget, but I was very disappointed to see that you are spending £25 million on that out of £70 billion. There obviously is a big R&D number overall, but can you talk to me about how you think about R&D and about using that as a way to boost productivity?

Rachel Reeves: The R&D budget next year is £20 billion; that is significant investment in research and development. And in the second phase of the spending review, which we will set out in the spring of next year, we will set 10-year budgets for R&D and other capital spending to give that longer-term certainty.

On Friday last week, just after the Budget, I went to the Cambridge Biomedical campus to meet the San Francisco-based business Prologis, which is investing £500 million in that science park, creating over 2,000 jobs there. It is investing in Britain because of our commitment to R&D spending. It confirmed that after the Budget, which I think is a real vote of confidence, both in terms of our capital spending more generally and our commitment to R&D in Britain.

Q194 **Yuan Yang:** Congratulations, Chancellor, on your historic appointment. I hope it brings more young women into our economics departments. The OBR's expectations of inflation are very much linked to its assessment that the UK economy is very close to productive potential, and that there is very little slack in the labour markets and in the economy overall. Do you agree with the assessment that we are very close to our productive potential, and given the unusual and historically high levels of inactivity in the labour market, do your policies go any way towards remedying that problem? If so, over what time period would you expect to see loosening and more productive capacity being added to the supply side of the economy?

Rachel Reeves: Thank you very much for that question and for your kind words.

The output gap is a measurement at a point in time, as you know. It comes back to my answer to Dame Meg's question about what opportunities there are to grow the economy. We want to grow the UK economy through what I describe as modern supply-side policies to boost its productive capacity. Planning reform is a really big and important part of that, because if we can invest in infrastructure, we can improve the



HOUSE OF COMMONS

trend growth rate. If we do that, then the output gap widens and there is more scope to catch up to the potential of our economy.

But there are other areas beyond planning where we can do that as well—you picked up on the issue of our labour markets. One of the reasons why we have a small output gap is that we have a lot of people of working age who are not working, and that is a tragedy. It is a tragedy for those people individually, many of whom could work with the right support, and it is a tragedy for our country because we are losing out on growth opportunities and, frankly, we are also paying out more in benefits than we otherwise would have to.

I announced at the Budget last Wednesday that we will shortly be publishing a White Paper called “Get Britain Working”, which is a joint paper with the DWP, Department of Health and Social Care, and Department for Education. That is to address the problems that you mention, Yuan Yang, about how we can improve the supply-side capacity of the economy by growing the labour market. This will be a really important part of what we are trying to achieve as a Government—to reduce the sickness bill, whether because of mental or physical health, and to help people of whatever age get back to work.

Part of the reason for the £22.6 billion investment into the NHS over the next two years is to try and reduce those waiting lists and get more people into work. One reason why we have made that commitment to more mental health support in our schools and communities is to try and help more people get back to work and live the fulfilling lives that I believe work offers.

We will be publishing more details in the White Paper in a couple of weeks’ time, but I think we can agree across all political parties that everyone who can work should work. The Government have a role there to ensure that support is in place to get people back to work, and it can have a huge impact on our productive capacity as a country.

Q195 Yuan Yang: Over what timeframe would you expect the OBR to be able to revise upwards its expectations for growth or revise downwards its expectations of inflation? Is that what you might expect in response to your policies on health and social care and so on paying off?

Rachel Reeves: That is a question, really, for the OBR to answer. Our job is to develop the right policies and give evidence to the Office for Budget Responsibility about the impact that they can have on potential growth in our economy. I am determined to stretch all the levers, whether on planning, on skills, on labour markets or on pensions reform. I will be giving my first Mansion House speech next Thursday where I will talk more about the growth agenda, including around pensions, building on some of the work that the previous Government were doing to try to unlock that long-term patient capital for start-up and scale-up businesses.

The opportunities in our economy really are immense, but we haven’t seen that in our productivity or our growth numbers in recent years. I am



HOUSE OF COMMONS

determined to turn that around. That is why we have the cross-Government growth mission board, and why growth is our No. 1 priority. We have already been able to unlock £63.5 billion of private sector investment through our international investment summit. There is a lot more to do to drive that growth, but I feel that we are getting there and we are pulling all those levers.

Q196 Dr Sandher: I would like to address a question to the officials, beginning with the permanent secretary. We saw that gilts fell during the Chancellor's speech and rose afterwards, apparently after people had seen the OBR document and the expected path of interest rates. What proportion of the rise in gilt yields is to do with changing expectation of bank interest rates, and what portion is to do with other factors?

James Bowler: I am absolutely not going to give a running commentary on market movements. That would be consistent with my predecessors and the right thing to do, because I do not know what the answer to your question is, nor would I want to consider that.

I merely echo what the Chancellor said. We have had strong auctions this year, and those have continued after the Budget. Markets are in an orderly fashion and there is a lot of news out there at the moment. Essentially, the Budget set out the really important fiscal credibility and fiscal framework that we are following. It put things on a long-term footing, where perhaps it had been more short term in the past, which is deeply important.

I would pull out a couple of things from that, such as the fact that we are, for the first time in a while, measuring our fiscal rules ultimately over a three-year rather than a five-year basis. Market participants and others had been critical that we had said, for example, that we would deliver on our fiscal rules but we had never quite got to a rolling five-year average. I think the right thing for us to do is to set out our remit, set out our fiscal credibility under that, but I am not going to get drawn into giving a running commentary on the markets, if you don't mind.

Dr Sandher: No worries.

Q197 Lola McEvoy: Chancellor, I want to say congratulations on your 800-year-old glass ceiling smashing. It was absolutely brilliant and, from all the other maths women and girls, I say well done. It is brilliant to have you here.

My question is more broadly about the impact that the Budget will have on constituents like mine in Darlington—as you said, you are familiar with Darlington. Across the country, we pledged in our manifesto to deliver on bringing down the cost of living for working people and increasing opportunities in our regions. What is your view on the measures that you have taken this time in the Budget, and the impact that they will have on people in Darlington and in other constituencies?

Rachel Reeves: Thank you for your question. Now I get to spend even more time in beautiful Darlington, because of our economic campus there.



HOUSE OF COMMONS

As I said in answer to an earlier question, the growth mission board will meet there later this month. It is fantastic that, because of that campus, we have civil servants who otherwise I don't think would have entered the civil service. It means that we have a more diverse range of civil servants who bring perspectives from all round the country. That is really welcome in economic policymaking, and policymaking more widely.

If you look at the measures in the EFO—the OBR forecast around living standards—there is some very positive news. First, real household disposable income, probably the key metric for living standards, increases by an average of 0.5% a year during the forecast period. Obviously, that compares with pretty stagnant living standards in the previous Parliament, which was the worst Parliament on record for living standards. If you look at other measures, wage growth is forecast to rise during the course of this Parliament, and GDP per capita, which had been on a downward path, is forecast to rise in this Parliament by the Office for Budget Responsibility.

If you look at some of the specific measures that we are taking, the increase in the national living wage by 6.7%, taking it to £12.21 an hour, and in the 18 to 21-year-old rate of the national minimum wage to £10 an hour, have a big impact, particularly in the lower wage part of the labour market. That has a particular effect on women in the labour market because, sadly, 54 years after the Equal Pay Act, it is still the case that women on average earn something like 14% less than men, and women are more concentrated in those very lowest-paid minimum wage and living wage jobs. So the increase in the national living wage and the national minimum wage has a particular impact on female workers.

We are also taking some specific action around carer's allowance: we are increasing how much you can earn before you lose your carer's allowance. Something that many parties, but particularly that of the right hon. Member for Kingston and Surbiton, spoke about during the election campaign was the fact that people worked extra hours as carers and then lost all their carer's allowance. We have now increased what you can earn on a weekly basis before you lose your carer's allowance. I think it is the biggest increase in how much you can earn on carer's allowance since 1976; and again, it is predominantly lower-paid and often women workers who benefit most from that change.

Some of the changes we have made around universal credit deductions are also really important for lower-paid workers. It was previously the case that if you got into debt with the Department for Work and Pensions, 25% of your universal credit payment could be deducted. We have reduced that to 15%. That is worth, I think, up to £420 a year for families affected, and the impact on family poverty, but particularly child poverty, could be really big.

Those are just some of the measures we are taking to try to address the cost of living crisis for families.

Q198 Lola McEvoy: To follow up on that, you mentioned women in the labour market, and Yuan Yang mentioned getting people back to work. We know



HOUSE OF COMMONS

that a lot of women are forced out of work to do childcare, and the SEND crisis is forcing a lot of mums to stay at home. In what sort of timeframe might you expect some of these people to be back in the labour market because of the measures that we are taking?

Rachel Reeves: Thank you for asking that question as well. There is a section in the autumn Budget document about women in the economy, which I am really pleased about. I will not be able to find it now, but it is about the impact that our policies are having on women in the economy. It is still the case that women do the majority of childcare in our country, so measures around childcare have a particular impact on women in the labour market. We have increased by £1.8 billion the amount we are spending on childcare, taking that to £8 billion, to try to improve both the quality and the availability of childcare. That will give children a really good start in life, but it will also give parents and particularly mums a chance to get back into work.

There is also a commitment to roll out breakfast clubs at primary schools. That is something that we are rolling out to all primary schools from the next academic year, but we want to get started on it, because we know what a big impact it can have on children's development, but also on the ability of parents, particularly mums, to work some extra hours every week.

We have also put more support, almost £1 billion, into special educational needs. I think the Prime Minister said today at Prime Minister's questions that it was the fifth Prime Minister's questions in a row where a Back-Bench MP—from all political parties—had raised the issue of special educational needs. We all know from our postbags as MPs how much parents struggle with support for some of the most vulnerable children.

Obviously, that additional money will make a massive difference to the lives of those children, but we know it will make a massive difference to their parents as well, because the biggest stress you have as a parent is when your child is struggling at school. If you know your child has that extra support, it enables you to continue working as well. We know that otherwise a lot of kids with special educational needs drop out of school. That is a huge loss for them, but it has an impact on their parents too.

Q199 Chair: How will the Treasury be evaluating the impact of these measures in economic terms? When Parliament has looked at childcare before, evaluating whether it is actually getting parents back into work can sometimes be missing. Presumably the Chief Secretary will be partly responsible for this, but is that something you are writing into the plan? I ask because you can sit here and make these promises, but people on the ground want to see these things. You want to see people in work, and they want to see themselves in work, but are you going to make sure that the money actually delivers that outcome—Mr Smewing?

Conrad Smewing: Yes, I will pick that up. Obviously, when the expansion of childcare was initially announced, a lot of analysis and work went on with the OBR to make some assessments about what the impact of that



HOUSE OF COMMONS

would be. To your point, it is crucial to have a proper impact evaluation of what is actually happening to it. That will be central to the DFE's roll-out of that policy, and there are a number of ways in which they will evaluate that. It will take some time, obviously, for us to gather a really robust evaluation. As with all the public policy interventions that we are doing, the cycle of evaluation, testing and then re-evaluating is something that we will carry on following through.

Q200 Chair: The other area that Ms Yang wants to come in on as well is about the health money going in. There is a lot of money going into health over the next two years. We know from bitter experience that money can be poured into the health service and not always deliver exactly what seems to be required. The OBR warned of just a degree of scepticism about whether the health money would focus on those who could get back into employment, because with health priorities coming first, the money for hip and knee replacements, for example, could be focused on people who were not really going to get back into the workplace for other reasons, particularly age. How are you going to make sure that that investment is actually delivering on your workforce plans?

Rachel Reeves: It would not be right for the NHS to prioritise people based on whether they are in work or able to get back to work. However, we have had a commitment from the NHS that the money we made available in the Budget last week will enable us to meet our commitment of 40,000 additional NHS appointments every single week, taking us to those 2 million additional appointments a year. Because of the investment we made last week, we will be able to achieve that 40,000 a week in the first year of this Government.

Q201 Chair: The first year up to the end of March?

Rachel Reeves: The first year of this Government, so to July. We will be able to deliver those 40,000 additional appointments a week by then. As I said in answer to the question from Yuan Yang, we will be publishing the "Get Britain Working" White Paper in the next couple of weeks.

Q202 Chair: So we should expect to see more detail there.

Rachel Reeves: One of the things that I am really pleased about with the White Paper is that it is not just from the DWP, but something we have worked on across Government. That is the value of the mission boards, because they encourage that cross-team working. It has always been a criticism of Government that it works in silos, and we are trying to break out of that.

Chair: Joined-up Government—the holy grail.

Rachel Reeves: We are only four months in, so ask us again in a year how it is going.

Chair: All I will say is good luck with that, Chancellor.

Rachel Reeves: I think it is really important, because getting people back to work cannot be something that the DWP is going to achieve alone.



HOUSE OF COMMONS

Q203 Chair: But on the health money, it is going to be a challenge. As you rightly say, you cannot instruct the NHS to spend the money just on people who might get back into work. Do you have or will you be developing a metric through the White Paper that is coming out about how you are going to measure the impact of that money on employment numbers?

Rachel Reeves: I am very happy to come back after the White Paper is published and answer more questions, and I am sure that the Work and Pensions Secretary would be happy to do that with the relevant Select Committee as well. I think that is a really important point. We all know that you cannot just spend your way to better public services; you have to run them better as well.

There has been a collapse in productivity in the health service since the pandemic and we need to improve that. There are lots of reasons behind that: morale in the health service has been very low, and there has been a problem with the lack of capital investment in public services in general, but particularly in the health service.

I was at St George's hospital in Tooting last week ahead of the Budget and the staff were telling me that they are still using scanners and diagnostic equipment bought under the last Labour Government—so, 15 years ago—that should have been written off and obsolete by now, but they have not had the investment to update that equipment. There are also the statistics on the number of wards and beds on any given day that cannot be used because of poor conditions in NHS settings. We need to improve those things.

Q204 Chair: So you are saying capital investment and the £22 billion.

Rachel Reeves: The £22.6 billion is day-to-day spending, but we have also announced £3.1 billion of additional capital investment in the health service next year. That is really important, because unless you are working with modern diagnostic equipment and you have NHS settings that are able to provide healthcare, you are not going to get value for money. That is not the whole solution. I think using digital much more, rather than analogue—

Q205 Chair: You are in danger of sounding like the Health Secretary.

Rachel Reeves: But I expect all of us who use the NHS—either ourselves or our children—have had, in the last couple of months, a letter through the post from the NHS. They probably have our email, so we need to make sure that we are improving the use of technology to reduce costs and, indeed, to improve service to patients.

Q206 Chair: I would say that some of us around the table have seen money going into the NHS before, and I am sure the Treasury will be watching it very closely. Mr Macfarlane may want to enlighten us about that.

Will Macfarlane: It was less specific to health but, if I may, I will link a few of the Committee's questions about implementation, follow-through and when these things will have an impact, as well as Mr Smewing's point



HOUSE OF COMMONS

about evaluation and Mr Glen's question about the mission board. The Chancellor has established the growth delivery unit in the Treasury, which is specifically focused on these sorts of announcements and how they are followed through the system. That will be reporting in real time on how these things are being followed through, linked to the growth mission, but very much about the announcements in each Budget and how they will then be delivered.

Q207 **Chair:** We may have that team in front of the Committee.

James Bowler: Indeed, and one fiscal event a year will mean that we are not just in constant policy development, but actually in delivery mode.

Chair: You look almost relieved, permanent secretary.

James Bowler: Praise the heavens!

Chair: That is one way to get your permanent secretary on side, Chancellor—reduce their workload.

Q208 **Yuan Yang:** To briefly go back to the question of timeframes, Chancellor, when you look at the scale of the problem of the post-pandemic scarring of the labour markets, do you see that as a one, two or five-year problem? Or will it take longer than that to start to heal?

Rachel Reeves: There is no time to waste. We are publishing the White Paper because we know how important that is and we have been working on that over the summer and into the autumn. It would be better for me to come back once that is published to give more evidence on it, but as you can see, that is a crucial part of our growth agenda.

Chair: I think, Chancellor, you are the first of our early witnesses who is keen to come back regularly, from the number of options you are giving us.

Rachel Reeves: I didn't know I had a choice.

Chair: Indeed you don't, but I was putting it politely as it is your first appearance.

Q209 **John Glen:** Can I ask Mr Macfarlane about the mechanisms for accountability for expenditure? I recall numerous times when, in the run-up to any fiscal event, there was another call for extra resources for the NHS—probably absolutely necessary—but there was never a mechanism to assess the productivity of that investment and to hold people accountable for it, such as other Ministers, or a transparent mechanism that would allow you in the Treasury to say, "Right. We've put this money in. We've got these outcomes."

That is true in particular with health. I recognise what the Chancellor has said and what the Government are trying to do with the backlog, but there is a danger that the backlog, principally from the covid experience, will be cleared, but that there will not be clarity on where money is spent efficiently going forward. Do you have any thoughts on how, in the



HOUSE OF COMMONS

constant process of iteration, you can create structures that will actually bring about that accountability?

Will Macfarlane: I may defer to Mr Smewing on this one.

Conrad Smewing: It is obviously a very important question. I would distinguish between two different kinds of things. One of them is the impact evaluation of new policy initiatives, which I talked about a minute ago. The other is performance measurement, and tracking the performance of public services, as the money is going in or as investment is taking place, and the efficiency and productivity of those things.

The Government have, as you will probably know, the Government efficiency framework, which is a good way of conceptualising the kinds of questions of interaction between input, output and outcome that you have in monitoring public services. In phase 2 of the spending review, we will want to refresh that performance framework, particularly in a world where we are looking at missions that are bringing in a broader number of areas of public spending that all have an impact on the same outcome. Thinking through how we properly measure and track how the policies that we are implementing have an impact on that is really important for the next spending review.

Q210 **Chair:** Does that mean that you will require bids in the spending review—maybe this is for the Chief Secretary, but Mr Smewing is here in his place, in a sense—to add evaluation into every project?

Conrad Smewing: It has been the case in previous spending reviews, and I think we will do the same in this spending review, that particularly for new initiatives, it is important to build in the evaluation from the beginning and have a robust evaluation plan.

Chair: It's a rounding error, isn't it, to pay for an evaluation.

Conrad Smewing: That is exactly right.

Chair: So that will be an absolute requirement—it will not get across the line in the spending review unless that is robustly included.

Conrad Smewing: I think it will be a requirement in any spending review guidance that people set out how they would evaluate the spending that they do.

Chair: One bit of me lives in hope that it will actually deliver. The cynic in me, after a decade, says that it still might be challenging, but at least that is an important step.

Q211 **Lola McEvoy:** Mr Smewing, forgive my ignorance, but were there not effective evaluation matrixes before this Government came in?

Conrad Smewing: There have long been a set of frameworks that place requirements around producing evaluation of public policy impacts. As the Chair was indicating, it is not always the case that those frameworks are followed to the letter. There is a very important role for the Treasury in



HOUSE OF COMMONS

providing a demand signal for robust evaluation to the broader public sector, by setting out the kinds of requirements that the Chair was referring to, and by taking that evidence, using it and responding so that if the best impact evaluation evidence suggests that this policy is working and this one is not, we shift resources across.

Lola McEvoy: So it does not just go into a filing cabinet after the meeting.

Conrad Smewing: Exactly.

Q212 **Chair:** The challenge is taking projects away from people.

James Bowler: The only thing I would be very keen for this Committee to be supportive of as we go forward is that, as we try to change the way we do things for the better by learning what works and what does not work, we need to change things. You need to stop some things as you start some other things. You need to do the things that work more and the things that do not work less. That absolutely has to be at the front of a reform agenda going forward, not least because it is not the case that additional money will be the answer to all of these things. Have you heard me say that before?

Q213 **Chair:** Yes indeed. Many Governments are challenged to say no to things, but we have the iron Chancellor—is that what you are called nowadays?

Rachel Reeves: One of the things that we are going to be doing, Chair, is a zero-based review for every Department as part of the next phase of the spending review, which I think is really important.

Obviously, we did phase 1 of the spending review last week alongside the Budget but, to be honest, that was quite a quick spending review. It had to be, because we did not have any spending allocations beyond next March. So we had to get that done this autumn to give Departments a chance to prepare for the next fiscal year.

But I think we could do better in phase 2 because we have longer to do it, and we will be kicking off that spending review shortly. That spending review will be much more bottom-up, with the zero-based review, to do exactly what the permanent secretary has spoken about to get that prioritisation.

Q214 **Chair:** Is that a warning that some things may be dropped?

Rachel Reeves: And so they should be. If things are not priorities and other things are greater priorities, we should put more resource and more time and effort into things that are priorities. That requires difficult decisions, because there will always be, understandably, vested interests to defend the things that already exist.

Q215 **Chair:** So you are not afraid to take on vested interests among colleagues in the Cabinet.

Rachel Reeves: I think we absolutely have to be doing that, but these things also have to be led by Departments. They should not be led by the



HOUSE OF COMMONS

Treasury. If a Department does a zero-based review and has a hierarchy of the importance of things, then surely you would rather get rid of things at the bottom of the list to be able to do more of the things at the top of the list. You cannot start doing new things, when you have set the spending envelope, unless you stop doing things that are less of a priority.

Chair: That is very clear; thank you very much.

Q216 **Dr Sandher:** Good afternoon, Chancellor. I want to associate myself with the remarks of other Committee members about your being the first female Chancellor. I know how much it meant to the British Indian community to see a previous Chancellor stand up. I am sure many young women and girls felt the same as you gave your first ever Budget.

I want to ask specifically about long-term investment and growth out of your Budget. You set out securonomics as your economic philosophy, which is about the secure foundations that you need. How will this Budget begin to build long-term secure growth for the United Kingdom?

Rachel Reeves: Thank you very much for your question. Securonomics is about building strong growth on stable foundations. The most important thing is bringing back economic stability, because we know that a lack of certainty about the path of economic policy creates the instability that inhibits investment.

Securonomics is also about ensuring that our economy is more resilient to shocks. I think we can all agree that the last few years have been full of economic shocks. The problem is: when those shocks come along, how resilient is your economy to withstanding them? During the global pandemic, we found ourselves very reliant on long, complicated supply chains and found that we were very short of essentials. When Russia invaded Ukraine, we found that, although we had invested in renewables, we were still very reliant on oil and gas from overseas and on those global markets.

The idea of securonomics is about trying to build more resilience into the economy. The best example would be around what we are trying to do on energy policy. We are trying to achieve a number of things—we are trying to reduce people's energy bills, and we are trying to bring more good jobs, because this is obviously a massive growth industry. It was interesting that, when we did the international investment summit and got the £63.5 billion-worth of investment, such a large part of it was in low-carbon and zero-carbon energy. That shows that it is not just a priority for this Government, but a real investment opportunity and priority for international investors.

The third part of our energy policy is about ensuring greater energy security, so that we are less reliant on other countries around the world for our basic energy needs. I think that is the best example I can give you about what securonomics means in practice. It is about building a stronger and more resilient economy in the face of the shocks that we all face.

Q217 **Dr Sandher:** A more secure economy is very good, and I want to



HOUSE OF COMMONS

associate myself with the Chair's remarks about how what gets measured gets done. Thinking forward to future fiscal events, how can we ensure that measures to increase security are included in future forecasts? You mentioned energy, for example, and there will be others—it is all about limiting the downside risk to GDP. My concern is that even if something builds more secure foundations, it is not going to be in future growth forecasts. Will you consider building those into future forecasts? The officials might also want to feed in on that point.

Rachel Reeves: One of the really important innovations with the Office for Budget Responsibility is the longer-term forecasts. I think those are so important to try and foster—not just for this Government, but for future Governments—a longer-term approach to policy making. It is no good just doing things that will speed up a bit of growth in the next few years; we need to be making long-term decisions in the national interest. That is the purpose of having those longer-term forecasts.

Also—I guess this comes back to John Glen's earlier question about what GDP target we are chasing—I think it is important that we look at how we perform compared to similar countries. The shocks that we face tend to be global in nature, and I think that that is something that will continue in the years and decades to come. It is about how strong and resilient we are in the face of those shocks. Securonomics is about trying to ensure that when the next shock comes along, we have done more to build, for example, more robust supply chains and so on.

To come back to John Glen's question at the beginning about the United States, one part of securonomics is about caring about where things are made, who makes them and who owns them. I do not think that is about being protectionist; it is about being a realist in economic policy making. I am not in favour of new tariffs against countries, but I am in favour of trying to do things more with countries that share our values—for example, building critical mineral supply chains across countries. With the Five Eyes, for example, we have collaboration in the defence space, and we could also think about how we can use that in the economic space. As the nature of global shocks and alliances is changing, we should be mindful of that when it comes to economic policy making as well.

Q218 **Dr Sandher:** That is very helpful. I have a final question, if I may, on global shocks. You said in your Mais lecture that the growth model built on geopolitical stability is resting on "shallow foundations". Clearly, this is a far more unstable world. I do not expect you to have a fully formed answer to this question, but there is a debt crisis in Africa at the moment, and 32 of those nations are spending more on debt repayments than on health. That is going to have an impact there, but it also impacts on our growth here at home. Will you consider measures to address that, specifically given the number of private creditors that hold that debt in the UK?

Chair: A brief answer.



HOUSE OF COMMONS

Rachel Reeves: Yes—I was just going to make a joke at my own expense, actually: the Mais lecture was the longest speech I ever gave until I delivered my Budget. On the issue around African debt and the debt crisis, as one of the largest providers of official development assistance across the G7, I do think we are playing our part in pressing for steps to avoid a new African debt crisis, supporting vulnerable countries where debt repayments are crowding out investment in tackling poverty and, indeed, in tackling the climate emergency. We are an active participant in the G20's common framework initiative to assist developing countries with repayment problems, and we have already supported Chad, Ethiopia and Zambia. But we know that the current process is too slow, so we are pushing for more timely co-ordination among international partners.

Q219 **Chair:** Can I pick up one point that came up with Mr Glen and Dr Sandher? You said that the UK is not a passive actor in the relationship with the US. You also said you do not want to see it put tariffs up unnecessarily, but would you retaliate if tariffs were imposed on the UK?

Rachel Reeves: We're not in that world, and I'm not going to speculate.

Chair: Okay. Thank you very much.

Q220 **Lucy Rigby:** Chancellor, I want to add my kind words to all the other kind words this afternoon. I would add that I know you are keen to go to Darlington, but in 1205, King John moved the Treasury to Northampton—just something for you to bear in mind.

Chair: There's a bid!

Lucy Rigby: Yes. Chancellor, I want to follow up on the public investment piece. The OBR assumes certain time lags when it comes to the benefits of public investment. Do you have a view on the duration of those time lags? I am conscious that you said, right at the start of this session, that you want growth to come through faster, but are the Government intending to do anything to try to ensure that the benefits of public investment are felt as soon as possible?

Rachel Reeves: There are two types of capital investment that we prioritised in the Budget last week. The first part was those things where we can really crowd in private investment and look to grow our economy and exploit—seize—some of those huge opportunities. Probably the best example of that was what we have done around carbon capture and storage in Merseyside and Teesside, where £21 billion of public investment over 25 years is crowding in, now, £8 billion of private investment. Of course, that will unlock more investment in the years to come, creating, I think, 4,000 direct jobs and securing something like 40,000 jobs in the wider energy-intensive industries. That is only possible because of the change in our fiscal rules to unlock, as I said in answer to Chris Coghlan's question earlier, the £100 billion of additional capital investment during this Parliament.

There are other examples in the Budget of directly growth-enhancing investments that crowd in private investment. Indeed, the national wealth



HOUSE OF COMMONS

fund that we have capitalised will crowd in tens of billions of pounds of private investment. We worked really closely with Mark Carney but also with Venkat from Barclays, Amanda Blanc from—no, sorry, with Venkat, with António at L&G, and others, to develop the national wealth fund in a way that does crowd in that private money, which is really important.

That was part of what we were doing on the capital side. The other part of what we are doing on the capital side is renewing the fabric of our public infrastructure, particularly with the investment in the NHS capital—particularly around diagnostic equipment—but also the 500 new schools that we have committed to refurbishing during this Parliament. So there are two types of capital investment.

In terms of the benefits being felt, the first benefit, I guess, is through the process of building, creating good jobs, paying decent wages. The second is that with that new capital comes new opportunities, whether you are a patient in the health service, you are a child at a school or you are working in ceramics, glassmaking or steel that benefits once carbon capture and storage is at scale and up and running.

One of the things, though—this goes back to the fiscal rules that I set out in the Budget last week—is separating out capital spending from day-to-day spending. In terms of the long-term impact of this Budget, that is more important than anything else. Under the previous Government, capital and day-to-day spending were treated the same, in terms of the fiscal rule. The rule was the 3% deficit, and it did not matter whether it was capital or day-to-day spending. We have said that we will balance day-to-day spending with tax receipts. That is a really tough fiscal rule; it was not one being met by the previous Government. We are determined to meet it and the OBR says that we are going to meet it two years early, in the third year of the forecast period.

But then there is a combination of that and the investment rule that says you can only borrow to invest, but get debt down in the fifth year, moving to the third year of the forecast, and that is what unlocks this £100 billion. But also, what this rule stops you from doing, which I think has been a big mistake in the past, is shifting money from capital to day-to-day to plug gaps in day-to-day spending.

The problem with doing that is that you are almost just putting off difficult decisions, and you are making every Budget and every spending review harder than the last one, because you have not made those capital investments to improve the productivity and efficiency of our public services—

Chair: Yes, and I think those are well-worn arguments on this Committee—

Q221 **Lucy Rigby:** I am conscious, Chancellor, that you have changed the debt metric to net financial liability. Can you tell us a bit about why you think that is the most appropriate measure, relative to the prior measure, but also perhaps relative to public sector net worth?

Rachel Reeves: Yes. There is a whole spectrum of acronyms to choose from—

Chair: We have decided to spell them out in full.

Rachel Reeves: Public sector net worth would have created even more space, but I think public sector net financial liabilities is a target that is already measured. It has been measured since 2016 by the Office for National Statistics, and it has been forecast by the Office for Budget Responsibility as well since 2016. I would not quite go so far as to say it is well known, but it is out there, measured and forecast already. It is not something that we are just introducing from scratch, so it has got some sort of—I guess—pedigree.

It is a broader measure, because it takes into account the benefits of investment and not just the costs, and looks as a whole at financial assets on the Government's balance sheet. So I think it is a wider but a more honest measure of the Government's liabilities than the previous PSND measure. We thought it was an appropriate measure of the debt target and, of course, we are targeting to bring that down as a share of our economy.

Q222 **Lucy Rigby:** Chancellor, I am conscious that you also have your financial transaction control framework. As I understand it, that is intended to ensure that you provide value for money. Can you just explain a bit about how value for money will be ensured via that framework?

Rachel Reeves: Yes. There are a number of what we call guardrails around the investment rule—getting public sector net financial liabilities, or public sector net debt for short, down as a share of GDP.

The first of those guardrails is strengthening the role of institutions to improve infrastructure delivery—which I know the Chair has spoken about on a number of occasions—with the creation of the new National Infrastructure and Service Transformation Authority. That is about ensuring that we improve infrastructure delivery to get better value for money.

The next is about ensuring greater transparency and oversight—so the National Audit Office will do annual audits of Government's investment through CDEL.

The next is that all large-scale financial transactions and guarantees will be delivered by expert institutions at arm's length, independent from Government through the national wealth fund, UK Export Finance and the British Business Bank. So it is not Government—it is not me or the Chief Secretary deciding on the investments. It is those independent bodies.

Alongside that, we have the updated charter for Budget responsibility, which sets out some of the common-sense reforms to the fiscal framework—so, as the permanent secretary said, moving to one fiscal event a year, committing to hold a spending review every two years,



HOUSE OF COMMONS

setting minimum budgets of three years to avoid cliff edges, and crucially, setting five-year capital budgets that will be updated every two years.

One of the things that people say to me time and time again is that what adds costs to infrastructure investment and any big investment is a constant changing of the priorities, so setting long-term budgets is essential for getting better value for money for Government investment.

Will Macfarlane: I just want to add to the Chancellor's explanation of the move to net financial debt. That has enabled us, as the Chancellor explained to Mr Coghlan, to move immediately back to 2.5% of GDP spent on public sector net investment, and we can sustain that over the Parliament.

Ms Rigby, you asked about the time lags that the Office for Budget Responsibility has talked about. In its analysis, it has explained those time lags, but that is why it is so important that it has also done this longer-term analysis of sustaining that level of public sector net investment. The whole Budget package is therefore unambiguously positive for GDP within 10 years, and as the Chancellor said at the start of the session, there is a 1.4% benefit to GDP from this higher sustained level of public sector net investment over the long term. The new analysis that the OBR has provided is really important, despite the time lags.

Lucy Rigby: Over that horizon, yes.

Q223 **Chris Coghlan:** Very quickly, Mr Macfarlane—I should know this off the top of my head—how does that 2.5% compare with other countries with better productivity performance? What would be a healthy level—an optimal level—of public sector investment, versus, say, Germany and France?

Rachel Reeves: At the moment, we are the only G20 economy with private investment of less than 20% of GDP. The way we are structuring our capital spending, particularly through the national wealth fund, will crowd in private investment, so you should see the two together. That is why what Will Macfarlane was saying is really important. The OBR forecast is in chart 3.3 of its EFO. It is about crowding in private investment, which is really crucial as part of what we are trying to achieve.

Conrad Smewing: I was going to jump in not on the international comparison, but on the historical comparison. That 2.6% compares to an average, between 1997 and 2023, of below 2%—perhaps about 1.8%—of GDP, so it is significantly higher than the level that public investment has been sustained at in the UK over the last 30 years or so.

Q224 **Chair:** One of the challenges of the new debt measure is that it could incentivise more loans in policy than grants. Is that something that you care about? What are you doing to guard against it? How does it matter?

Conrad Smewing: The first thing I would say is that that is a feature, not a bug. If you have two policies that can both support a particular public policy thing, and one of them returns cash to the public sector in the



HOUSE OF COMMONS

future and the other one doesn't, you should have some fiscal rules that take account of that. That is a sensible thing to do.

It is important to emphasise, as the Chancellor was saying earlier, the guardrails around the quality of the loans that you are making. I will say two things on that. First, we are maintaining the Treasury's control framework on other Departments' financial transactions, so that will all still be considered in the spending review. If those are loss-making transactions, they will impact on the Department's resource budget. That will all still be in place. As the Chancellor was saying, having expert independent bodies in the centre, such as the national wealth fund, which can make those sorts of loans, are properly audited and are reporting transparently on how those loans are performing, is a really important guardrail.

Q225 John Glen: Can I ask you, permanent secretary, about the interaction with the OBR? Did anything change in the interaction between Treasury and OBR officials in the run-up to the March fiscal event? Was it any different from anything previously?

James Bowler: The thing that changed is that we found out that the way we were forecasting debt in the coming year didn't work. The way we found that out was that, previously through the OBR's existence, we had taken a top-down approach to forecasting DEL, so we essentially gave the OBR a number. We didn't do a bottom-up approach, so we didn't do the sum of all its parts. We treated DEL slightly differently; it is a decision under the control of the Government, unlike tax and AME, so we did it differently.

That had worked, as I think you heard in evidence yesterday, perfectly well in previous years, but it meant that there was a built-in assumption that if you did have pressures in year, those would be offset either by offsetting savings or by underspends. We found out that that was not the case in 2004-05—neither of those things materialised, both in February, where the OBR recorded, as the evidence we gave them, that there was a £9.5 billion pressure, and then throughout 2004-05.

We have published a document that sets this out perfectly clearly—where we were in the Budget at £16 billion and then ultimately by July at £22 billion. Those pressures grew, and the offsetting savings did not follow, and that is why we have changed our framework. That is why we said in July that we needed to change our framework, and that is why the OBR did their review and came up with their recommendations; the Chancellor and ourselves have accepted them.

If I may, I would like to take an opportunity at this point to clear up something that came up yesterday in your evidence, which is quite important to me.

Chair: Well, yes—you anticipate our questions, Mr Bowler.

James Bowler: There was a question about whether we acted within the law in this thing. It is important to me to point out that we are clear that



HOUSE OF COMMONS

the Treasury did act within the law. Indeed, it is because the law is more about what the OBR have the right to ask for rather than what is provided to them of our own initiative that we needed to strengthen the framework as we are doing.

I hope I have set out what happened there. I think the evidence you got yesterday was that the way we did things worked for the process of up to 2004-05, but it didn't work for 2004-05.

Chair: Sorry, 2024-25?

James Bowler: Yes, I am so sorry. Thank you—so many numbers.

I think the one defining feature of that year is that it was the last year of the spending review. We had had the spending review set in 2021. This was now three years on. It was that last year. We had not had another spending review. If we had had another spending review, we would have reset that year, as you do. A really important improvement in our fiscal framework is that we will now have spending reviews every two years, so that the last year always gets reset, to try to avoid this pressure—this idea of things getting unstuck.

Q226 **Chair:** But Mr Bowler, a number of us around this table have been watching public spending, including some of you on that table, for a long time. There was always an awareness that there were great pressures in the system. Lots of things were delayed, or put off—promised, but with spending later. There were commitments that had not been quite crystallised so therefore could not actually be budgeted against, but were liabilities coming up, and other contingent liabilities. It does seem extraordinary that this major material aspect was not picked up.

It is fair that the OBR wouldn't know to ask for it—I think we established that with them yesterday. Did it not occur to anyone in the Treasury that this was something that should have been flagged with the OBR more proactively?

James Bowler: I totally recognise that. I was trying to explain the difference between the top-down approach we had had before and the bottom-up approach we are going to have now—

Q227 **Chair:** To be fair, you have had some very good directors of public spending and teams who are closely watching—in fact, Departments sometimes complain about how closely the Treasury is watching their spending.

Did the Treasury take its eye off the ball because it was the late stage—the third year of the spending review period? Why weren't these pressures coming up through the system?

James Bowler: The particular focus of the OBR, when they were asked these questions, was in February. That was before the year had started. We were certainly aware of the issues there.



HOUSE OF COMMONS

We published this document that sets all of that out in detail, because we want to be very transparent about all of this.

It was the case that in previous years, pressures had been managed down either by active steps—increasing in budget, or reductions—or by underspends coming through, and it became very apparent that that was not the case as we went into that year. Indeed, the pressures rose. We document that in this document, and there is a chart in the Budget—far from Departments underspending as they had pretty much consistently been doing for the decade or so before, Departments' spending was running ahead of forecast rather than below. We set that out in the document. Both of those things were happening.

Q228 Chair: But you have accounting officers in every Department. The extra complication of an election was looming, so they knew it would come in the financial year. In the end, Parliament dissolved in May. Were all those accounting officers just missing something? The fact that there were no underspends, the fact that they were not keeping an eye on the budget—normally these pressures just come up.

James Bowler: No, not at all. Mr Smewing might want to help me here. We are in constant contact with Departments all the way through this, and the discussions at that time were on a combination of pressures rising and what offsetting savings they could have. This is in the document, but perhaps Mr Smewing can clarify it—there is then the question of what is recorded at main estimates and what is recorded at supplementary estimates. As I think you have heard, perhaps in your last Committee, colleagues at the Home Office had very significant asylum pressure coming through and growing, and the decision taken by Ministers was to look at that in supplementary estimates later in the year and work through it on that timescale. Conrad, do you want to say anything?

Conrad Smewing: Accounting officers were obviously aware of these pressures and they were communicating them to the Treasury. That exchange of information is one of the things that underlines the assessment of gross pressures, which is in the response to the OBR review that we have published. The £9.5 billion that was mentioned at the time of the February challenge panel rose to £16 billion by the time of the Budget and then rose to £22 billion by July. Accounting officers were already in discussion with the Treasury about how either those pressures would be managed or further funding would be provided. In a number of cases, the previous practice—for example, in the asylum system—because of the uncertainty of the pressure, had been to deal with that at supplementary estimates.

Chair: In February 2025?

Conrad Smewing: Yes, exactly, coming up in January/February 2025. That is the basis on which they were proceeding.

Chair: That is a significant amount for a supplementary estimate. It is more than normal.



HOUSE OF COMMONS

Conrad Smewing: That is absolutely the case. John Glen started by asking what was different this year. It was the size of the pressures and the fact that, as the permanent secretary was saying, offsetting changes to reduce those pressures did not start happening in the way it would have happened in the past, as the driver of the large overspend.

Q229 **John Glen:** I do not want this to be an act of self-justification, because I was not there earlier this year, but up to 12 November last year, I was Chief Secretary to the Treasury and I was familiar with an ongoing process of having pressures that one was carrying. Numerous meetings were held, and it was a question of budgets that were there, and we did not know whether they would be spent or not. It is very unfortunate that we got into a situation where the OBR and Treasury have sort of been politicised through this. I want to get to the core of this because ongoing pressures that a Government has to manage never crystallise until a fiscal event when decisions are made.

I am concerned that it was, unfortunately, convenient to characterise the Chancellor's predecessor as having made a choice to obfuscate and hide pressures. You have said today that that was not the case, and that the unseasonal level of inflation and the costs going through the year meant that there was going to be a very tough rolled-over spending review, which is what was going to happen in all circumstances. But we were only seven weeks into the fiscal year when the Government left office on 24 May.

What I am trying to get at is that the characterisation of the previous Government as carrying a £22 billion black hole is at odds with the documents that were produced in good faith by all parties, Chancellors and officials at the previous Budget. Indeed, subsequently, the OBR's breakdown of that £22 billion demonstrates that it was not £22 billion. There were ongoing pressures, but it amounted to £9.5 billion, and there were further choices between the election and this Budget. I am anxious, for the good of this country, that the OBR and the Treasury are not put into this position again, and I want a reassurance about the position we are in now.

James Bowler: There is a lot there; let's go in reverse order. Will we be put in this in position again? No—because we have made the changes to make sure that that will not happen.

Chair: It is still not really clear to me why we are in this position. The last year of a spending review is not an excuse.

James Bowler: No. Well, I did try—so, will we be put in this position again? No, because we have made sure that that is the case. That is about doing bottom-up forecasting DELs, rather than just top-down single numbers, and having a much bigger share of information, and there are 10 recommendations that we have accepted.

Was it business as usual in there? No, it wasn't. It is worth saying several things there, but I think that the document that we have published, which maps this all out, sets it out most clearly. The thing to say, as the OBR has



HOUSE OF COMMONS

said—and I do not think that the OBR and ourselves are at odds on this, by the way; I don't revile the OBR's review and I don't think we disagree—is that the amount of pressure was very high in February, at that level of £9 billion. What I have tried to set out is that you would expect, through offsetting savings and decisions taken by Ministers, to reduce that pressure, and you would expect underspend to come in; we had had a long history of Departments with underspend. So, those two things would bring down that number. That did not happen, so those pressures rose, and you can see—

Q230 John Glen: But that would not have happened routinely outside of the preparation for a fiscal event. It was just that that was the business of a Chief Secretary and a Chancellor.

James Bowler: Yes, you would expect that to happen—but I would not characterise it as business as usual, and that is why we have made the changes we have, which are important. I don't move away from the legal issue, which is important to me. I do not think that we are disagreeing with the OBR at all; we had very sensible conversations with the OBR through this. What we are seeing is the OBR framework evolving and strengthening to make sure that this does not happen again.

Q231 Chair: It is always all right after the event. I will just say, though, that the memorandum of understanding between the Government and the OBR is that Government Departments will proactively provide relevant information to the OBR. Do you think that they met that, or that you met that?

James Bowler: Look, absolutely I think it would be the case—hence why we have changed the framework—that we would have done things differently for this last year, given what we know. I mean, that is why we have changed that framework.

Chair: Chancellor?

Rachel Reeves: Thank you very much, Chair. When I arrived at the Treasury that first weekend, it was made really clear to me that the starting point for my inheritance was not the forecast in the Budget from March, and that the actual spending that was happening was significantly higher than that. You can see that in the monthly public sector finance figures, because, in the first six months of the year, they were running at £11 billion higher than the OBR were forecasting back in March. That was already the case—

Q232 Chair: Do you want to outline what the pressures that were put to you were?

Rachel Reeves: We have published now the line-by-line breakdown of it, but one of the two of the biggest components of it was a £6.4 billion unfinanced pressure in asylum. This was not just a pressure; this was something that was being paid for every month with no plan to bring it down—in fact, it was rising.

Chair: But that was known; it was known that that was a big pressure

before.

Rachel Reeves: It was not known going into the election; it was something that was given to me when I became Chancellor that weekend—the £6.4 billion overspend this fiscal year, and that was a number that was increasing, not decreasing.

The second biggest component of that £22 billion overspend was £1.9 billion of payments to private rail companies, because passenger numbers were not at the levels that were previously predicted, and that was being paid out to those companies. Those were the two biggest components of the overspend.

It was clear when I arrived at the Treasury that the baseline was not the March forecast; the spending was at much higher numbers. In terms of what the OBR set out in their DEL review, we are using this number of a £9 billion overspend. It is important to be clear and understand that. The reserve set aside in March was £12.7 billion. The OBR are saying that that £12.7 billion, even at the time of the challenge meeting in February, had already been spent or allocated, and another £9.5 billion on top of that. By the time it got to the Budget—this is stuff that Treasury officials have now published—that had reached £16.8 billion, and it had reached £21.9 billion by the time I became Chancellor.

I don't know what process was followed in previous Budgets, but I will finish by telling you what did in producing our Budget and spending review totals. It was very much a bottom-up process going through each Department, not a top-down DEL number. I know that is different because it was a spending review rather than just a Budget, but it was obvious in March, given what had happened to inflation in the preceding two or three years, that the spending totals were running much higher. So I don't accept just saying that there hadn't been a spending review so there had to be a top-down number.

Q233 Chair: We can go into this in more and more detail, and we have to think about other things to do with the Budget too, but I would just observe that an official Opposition is an official Opposition. I wonder whether there is enough resource for an official Opposition to get proper sight of things, because some of these pressures and trends were apparent in the counts, but it can be difficult to pull that together.

Do you think that when you were shadow Chancellor, you had enough access to information and enough sight of things? You said that you were surprised after the election to be presented with some of these figures. You must have been aware of some of the trends, but what was the biggest and worst surprise for you, and what do you think could help an Opposition to be better prepared?

Rachel Reeves: We knew there were big pressures coming down the line. What we didn't know was that they were in the fiscal year that had already started. That was the big surprise—the baseline that we were starting from did not reflect the true spending pressures. We asked the Office for Budget Responsibility to make recommendations so that this could never



HOUSE OF COMMONS

happen again. I have accepted all 10 recommendations so that this Government, or indeed any future Government, will not get into this position again.

Q234 John Glen: Beyond the theatre of politics, what we saw was politicians of both parties, in good faith, dealing with officials and taking advice as best we could. When we were dealing with those pressures the previous summer, we settled on the workforces, and we asked those workforces—I remember having those conversations, Department by Department—to manage the pressures within the budgets in that year.

The assertion that there was a quantum of £22 billion, none of which could have been managed through ordinary work, seems wrong. I accept that there was going to be some pressure, but it just seems quite wrong to assert that there was that number so definitively at the time you walked into office. Did you have a meeting with the permanent secretary when the £22 billion was explicitly set out?

Rachel Reeves: Yes, that first weekend when I became Chancellor.

John Glen: That first weekend—so there was £22 billion on that first weekend.

Rachel Reeves: Yes. My first meeting at the Treasury was on 5 July—the Friday afternoon. We then worked all weekend, and it was on that weekend that the £22 billion number was put to me, when I became Chancellor of the Exchequer.

Q235 John Glen: Okay. Has that document been fully published?

Rachel Reeves: We have now published the line-by-line account of the £22 billion. That was published alongside the Budget last week, and it was those numbers that I was taken through on that first weekend.

Q236 John Glen: And you maintain, Chancellor, that none of that number could have been managed through decisions made by the Chancellor in terms of departmental trade-offs and underspends?

Rachel Reeves: On 29 July I set out £5.5 billion of savings against that £22 billion, and in the Budget we announced, for example, £4.3 billion in the biggest ever package of savings on welfare fraud and error. We are making savings—we have made savings—but that financial pressure still exists.

Q237 John Glen: But you also made additional choices that caused additional pressures during that period in July.

Rachel Reeves: If you are referring to public sector pay, the remits given to the independent pay review bodies were given by the previous Government, not this Government, and when evidence of affordability was given, no number was given around what was affordable, which, from my understanding, was pretty unprecedented. The independent pay review bodies reported in good faith, and at least two of those recommendations were presented before the general election was called on 22 May—for the



HOUSE OF COMMONS

Ministry of Defence and for schools. Those pressures were known by the previous Government; the remits were set by the previous Government.

Q238 John Glen: As you will be advised in subsequent years, the choreography of when you settle is part of the process of resolution. If you settle one by one, you create a dynamic to those resolutions. It is not unreasonable to have two back, and then to hold them back until you have the others.

Rachel Reeves: I am not suggesting that they should have been settled before the election, but what I am saying is that those pressures were well known by the Government at the time of the general election.

John Glen: Thank you for those answers.

Chair: As I say, we could go on about this at length, but we will now pass to Harriet Baldwin.

Q239 Dame Harriett Baldwin: On a completely different subject, I want to go back to the IMF. It struck me, as they welcomed your budget with their quote about “sustainably” raising revenue over the weekend, how many of the measures you have adopted are from their article IV report on the UK economy, and how many things that they set out in that report are part of the framework you are working with. I will list them for the record: the relaxation of the green-belt restrictions; the enhanced role of the Office for Budget Responsibility; moving to an annual Budget cycle; upskilling the workforce; including more assets in the inheritance tax net; bringing the tax rates on capital and labour closer together; crowding in private investment; and more regular spending reviews. Those are all IMF recommendations that you have taken forward into Government.

I note, however, that there a couple of big ones that you have stayed well clear of, and I want to probe them. First is one that you supported in a paper you published earlier in your career in Parliament: to overhaul council tax and replace it with a broad-based property tax. Is that something that you considered in this Budget and have rejected, or is it something that we can anticipate you will be considering in the future?

Rachel Reeves: It was one of the many things that was put to me as an option. It is not something that we wanted to take forward. People have gone through a massive cost of living crisis in the last few years, and increasing council tax above the 5% increase a year that the previous Government capped it at would not be the right approach.

We are pleased with the clean bill of health that we were given by the International Monetary Fund. They published their article IV report on the UK economy just as I was going to Washington for the annual meetings the week before the Budget. I had not seen their most recent article IV report, although I had obviously read the previous ones. As you rightly say, Dame Harriett, we have done a number of things that the IMF have been calling for, both to sustainably raise revenue and achieve the fiscal consolidation that is much needed to get the debt and deficit down, and to raise the growth rate—something they have focused on.

Q240 Dame Harriett Baldwin: So you looked at that, you decided not to do it,



HOUSE OF COMMONS

and it will not happen in this Parliament?

Rachel Reeves: I am not going to write five years' worth of Budgets—I have just written one! I would say that the commitments that we made in our manifesto, around income tax, employee national insurance, VAT and capping corporation tax at its current rate, are for the duration of this Parliament.

Q241 Dame Harriett Baldwin: The second big thing that struck me that you might do in this Budget was around fuel duty. You have actually extended the 5p off fuel duty for another year. The Office for Budget Responsibility highlights the risk that eventually we will not have any fuel duty because we will all have moved to electric cars. Are you planning, during this Parliament, to move beyond fuel duty and to introduce a system of road pricing?

Rachel Reeves: We are not looking at road pricing. I think you make a fair challenge. At the moment, though, the focus is on trying to increase the uptake of electric vehicles. We have fallen behind the target that the previous Government set for the roll-out of electric vehicles, and that has an impact on manufacturers, which will be fined under the rules that the previous Government set out for not selling a certain proportion—I think it is 80% by 2030—of electric vehicles. One of the things that we tried to achieve through the Budget was to keep, and enhance, those incentives for the take-up of electric vehicles.

There are two reasons I decided not to increase fuel duty or indeed to reverse the cut that was introduced during the pandemic. First, it was partly because the cost of living crisis is still biting. Inflation has come down massively, but obviously that higher level of prices is locked in, as are higher interest rates, which have come down since the election but are still at much higher levels than when people took out their mortgages. We therefore decided that it would be the wrong thing to do—it would actually be a 7p increase if we reversed both those things.

Secondly, with everything going on in the middle east, it felt like the wrong time to start increasing fuel prices because we do not know what is going to happen in the next few months with that conflict. I did not think, under that backdrop of huge uncertainty, it was the right time to do that.

Q242 Dame Harriett Baldwin: But it is baked in for next year.

Rachel Reeves: It is baked in, as it was for the previous Government, but it did not feel, given the cost of living challenges that families and businesses continue to face and given the uncertainty in the middle east, that it was the right policy approach at the moment.

Q243 Dame Harriett Baldwin: The final IMF recommendation was that the family home should attract capital gains tax on sale, and I assume you have ruled that one out as well.

Rachel Reeves: We'll not be doing that.

Chair: I am sure that the Chancellor would love to be here for a lot



HOUSE OF COMMONS

longer, but I ask her to make her answers slightly shorter. I am sure that Bobby Dean will be an exemplar of shorter questions from the Committee, so we can give the Chancellor time for a cup of tea before the votes—not that we are necessarily worried about you having a cup of tea before the votes, but we are nice people. If we can be a bit sharper, that would be helpful.

Q244 Bobby Dean: I will try my best, Chair. Can I add my congratulations to you, Chancellor, even though it is late in the meeting? I have not had a chance to say it yet.

I want to move on to employer national insurance contributions—I know there has been a lot of conversation around that—particularly focusing on the OBR's forecasting in relation to that. The OBR talks about the effect on wages and employment. There was lots of discussion yesterday about how they see them as a key drag on the growth forecast as well, and obviously results in declining revenues over the course of the Parliament.

You indicated earlier that you accepted the OBR's forecasts, and that you might have some comeback later with policies such as planning reform to add to that growth forecast, but do you accept their analysis and their assessment of the impact on wages and employment over the forecast period?

Rachel Reeves: Thank you very much. We have not had a chance to work together before, and I look forward to taking questions from you today and in future on this Select Committee. Congratulations on your election.

I am not going to dispute the independent analysis of the Office for Budget Responsibility. I have a huge amount of respect for the work it does and for the detail that goes into its forecasting. When we inherited the fiscal position that we inherited, we had to make some difficult choices about how we were going to plug that gap between the amount of money that was being spent, the spending plans that we inherited and what we had coming in.

There were some people who said that the previous Government cut national insurance on employees under a false pretence—the pretence being that the money was there to actually be able to afford those cuts to national insurance. There were some people who argued, including, I think, the former Bank of England Governor, Mervyn King, that we should just take employer national insurance back to where it was before.

I think that would have been the wrong approach for two reasons. First, it would have been in direct breach of our manifesto commitment, and I think trust in politics is really important. Secondly, I thought that to put all of the burden directly and immediately on working people, which they would see in their payslips, was the wrong approach.

What we have done with the increase in employer national insurance is leave it to the business to work out how to absorb it. Businesses are amazingly creative and have great ingenuity, and one of the things that



HOUSE OF COMMONS

they do really well is drive efficiency and productivity performance. Some of the increase in national insurance will be absorbed through efficiency and productivity gains. Some of it will be absorbed through profits.

As the OBR says, there will be an impact on wage growth down the line, but I am really pleased that if you look at the package of measures that we have announced as a whole, wages increase and real household disposable income increases. That is in sharp contrast to what we saw under the last Government, which had the worst Parliament on record for living standards.

I will say just one other thing. When we put together the plan on national insurance that we presented at the Budget, I listened carefully to what the Federation of Small Businesses said, which was that small businesses struggle most with national insurance contributions. We increased the employment allowance from £5,000 to £10,500, so that on a NICs bill that would have been less than £10,500, you do not pay any NICs whatsoever. That means that around 1 million smaller businesses are paying either no more national insurance or less national insurance than they were previously. We were pleased with that. That is that is one of the virtues of the way we put together this package.

Q245 Bobby Dean: Clearly, it was a choice. You had many economic choices in front of you, but you narrowed some of your political choices through what you said in advance of the election and the commitments you made in your manifesto. Given the way that the OBR has assessed the impact on growth, would you like to have had a wider set of economic choices in front of you when you came to make that decision?

In particular, an awful lot of the revenue is attributed to the change in the threshold, and that has had a particular impact on low-wage workers. We heard yesterday about how that means that almost every income level is going to feel worse off by the end of this Parliament, once you take into account all the tax and benefit changes—I am referring to Resolution Foundation research in particular. Are you concerned about how the change has affected low-wage workers, particularly those in sectors like hospitality and retail?

Rachel Reeves: It is really important to note that there is a floor beneath which wages cannot fall, and that has just gone up by 6.7% in the national living wage increase, and it has gone up by more for workers aged between 18 and 21. The lowest-paid workers will not see any of the national insurance increase passed on to them, because it would be illegal to take wages below that floor. There is that protection for the lowest-paid workers.

I was pleased that, if you look at box 2.A in the autumn Budget fixing the foundations document and the distributional analysis there, the only group that is worse off is the top decile. That shows that we got the balance right in this Budget, by asking those with the highest incomes—those with the broadest shoulders—to bear a bit more of the burden.

Bobby Dean: That is exactly the graph that I dispute. I think you might



HOUSE OF COMMONS

be talking about—

Rachel Reeves: That is 2.A.

Q246 **Bobby Dean:** I have 1.A in front of me. The IFS said yesterday that the distributional analysis in figure 1.A did not include the impact of the national insurance contribution changes. When the Resolution Foundation made an attempt at this itself, you are right that the spread was similar, but everybody ended up losing out in some respects. Do you have a further comment about the way that the change was implemented, in particular the threshold, having that impact?

Rachel Reeves: Let me say something about that, and then I want to answer the earlier question about choices. As you rightly said, we did have choices about the way in which to plug the gap. The way that the Treasury has always done its analysis looks at direct taxes on people, and the impact of spending decisions on people, because extra money for the NHS is felt by patients who use the NHS, and extra money for schools is felt by people who have children at state schools. That is how the Treasury has always done its distributional analysis. I will pass over to Will to say a bit more about that, but I want to come back to the issue of choices, which you rightly mention, Mr Dean.

Will Macfarlane: I echo what the Chancellor said about the approach we have taken. I think you have 1.A from the distributional analysis document, Mr Dean; the Chancellor has the same chart, repeated in 2.A in the Red Book—they are exactly the same. That is the approach that we have taken consistently, including under the previous Government, to modelling the direct impact on households of changes in taxes and benefits that impact directly on households, as well as—because of the data available to the Treasury on public spending for the years for which we have set public spending plans—the benefits that effectively flow to households across the income distribution and, typically from public services, further down the income distribution. We are able to present it like that. That is consistent with what we have done previously.

On the Resolution Foundation's analysis—I know that Dr Brewer spoke to you yesterday—it has made some assumptions that build on those that the OBR made about what the pass-through from the employer NICs changes could look like in later years. We do not make those assumptions in the Treasury's analysis, because it is based on firm data next year of changes to household benefits and taxes, and changes in public spending that we know about, so it is based on firm facts. We totally respect the approach. They do not also choose to model public services numbers—they do not have that technology and that data—so there are different approaches.

What you also heard yesterday, including from Dr Brewer, but also from Yael Selfin and, indeed, from Professor Miles, is that the estimates of how these things pass through are very uncertain estimates. The OBR has made some assumptions, but as the Chancellor has explained, different businesses in different sectors will absorb the change in certain ways.



HOUSE OF COMMONS

We have sought to protect lower pay through other moves, such as on the national living wage in the Budget. Other reliefs within NICs—for example, for under 21s and under-25 apprentices—remain in place, and there are the changes to the employment allowance. So, hopefully, you have that factually there, in the different approaches in distributional analysis, which are very established on our part, but also in the way in which the whole package is designed.

Rachel Reeves: I want to answer the earlier question about whether there were other choices. As I said, we could have reversed the cut to employee national insurance contributions, but I think that would have been the wrong thing to do. Another thing that we could have done, which is what the previous Government did to raise money, was to freeze thresholds for longer. I know this was a big package—£40 billion of tax increases—but the threshold freezes in the previous Parliament actually raised £45 billion. They raised more than the previous Government had planned when they made them, because inflation and therefore wage growth were higher. Those threshold freezes were worth £45 billion, which is more than the tax increases announced in the Budget last week, so we could have continued down that path.

Q247 **Chair:** Just to be clear on the timescales and the Budgets: that is about this year and you are comparing several years. I see the point, but just to be clear.

Rachel Reeves: What I am saying is that there are other ways to raise this money. We could have frozen thresholds for longer and on a wider range of taxes. I do not think that was the right approach. Again, a lot of people were speculating—and arguing—that we should have frozen income tax and national insurance thresholds for a further two years beyond those that the previous Government had already set out. That would have taken more money out of the pockets of working people and I do not think that would have been the right approach, but it is an alternative approach that I could have taken last week.

Chair: Mr Dean, it is all about choices, as we hear.

Q248 **Bobby Dean:** I totally accept that there is uncertainty about how that may take effect. Yesterday the OBR said that 75% was their central forecast. It could be anywhere between 66% and 90%, so it could go either way.

One final, potentially unforeseen consequence of the policy is on your mission to move more of healthcare into the community and out of hospitals. That is an admirable mission, which I would support. However, there will be an impact from employer NICs on NHS associated services, such as GPs, care operators and voluntary organisations that might be delivering NHS services—they are all going to face that additional cost. We have information from the NHS Confederation here saying that they are extremely concerned about their ability to deliver that, and that although they have had that big cash injection, it may be undermined by the change. Are you going to consider, not necessarily exemptions, but



HOUSE OF COMMONS

any compensatory activity for those organisations too?

Rachel Reeves: Thank you for that question. First of all, that is the approach that Governments take when making compensation, otherwise you would be making arbitrary decisions around what is public and what is private. This is the definition of what the public sector is and that is what is being compensated for.

Q249 **Bobby Dean:** So that is a no.

Rachel Reeves: Let me say this: you have spoken particularly about health services. As you know, we made a £22.6 billion commitment for day-to-day spending over the one-and-a-half to two-year period in the Budget last week. The Health Secretary is making allocations in the usual way for GPs, for example. For local government, there was a 3.2% real-terms increase in their budgets next year, including £600 million for social care. So we are confident, within the settlements that we have made, that those costs can be absorbed.

Q250 **Bobby Dean:** On social care, is the £600 million the totality we are pledging towards social care? That would mean that for every £97 we spend on the NHS, £3 goes on social care. Lots of people would see the opportunity for a lock in social care reform freeing up money for the NHS. Is that the extent of the pledge to social care in the Budget?

Rachel Reeves: We have done a 3.2% real-terms increase for local government, including £600 million in additional money for social care. That is phase 1 of the spending review. As the Health Secretary has said, in the spring we will be setting out the 10-year plan for health, which includes looking at social care.

Q251 **Lola McEvoy:** Thank you, Mr Macfarlane, for outlining that it is not predetermined by the Budget how businesses implement their NICs rises. I think some of the forecasting has seemed as if that is predetermined, but it is not. In my previous role, I spent time working with brilliant businesses that go further than the Government minimum and look after their employees very well, so I encourage businesses to look at other options.

I was going to follow on from Mr Dean's point, but because I think we have addressed that, I will quickly highlight a question about the cross-departmental approach that Mr Smewing outlined and the impact-driven approach that we will have going forward in this Government. The huge amount of investment coming in through the national wealth fund will create—or is intended to create, as far as I am aware—jobs in different areas. Will those jobs be included by the Office for Value for Money when they are evaluating the tax receipts about those investments? Is there a correlation between the Office for Value for Money, the national wealth fund investment, the jobs and the taxes that come from the jobs having higher wages in those areas?

Conrad Smewing: When the Office for Value for Money is looking at the value for money of policies, including the national wealth fund—if that is where it ends up focusing—it would look at all of the impacts of that. That



HOUSE OF COMMONS

would be both impacts on the economy and on the output of public services. The focus of the Office for Value for Money, particularly for phase 2 of the spending review, will be a lot about how we get the most out of public services that we are already operating, how to do those most efficiently, and how to ensure that things like the capital programme are delivered effectively. It will look across a range of things. If it does look at the national wealth fund, I am sure that the broader impacts of that would be part of its considerations.

I should say that the Office for Budget Responsibility would think about the macroeconomic impact of something like the national wealth fund and the crowding in of investment that it would do. They would be picking that up in their forecasts.

Q252 Rachel Blake: Chancellor, I want to offer you my congratulations on this role. We want to move now to departmental spending. We have talked quite a bit about efficiency and monitoring of impact, but I want to look at the unprotected Departments and the impact of spending in those in '25-26, and to really probe how that would be managed. This is a question about risk and pressure in the next few years, should those pressures arise, given the widespread acknowledgement that this Budget is front-loaded. How likely is it that we might need to increase spending next March?

Rachel Reeves: We have now set the envelope for spending for this Parliament, and we are not going to be coming back with more tax increases or, indeed, with more borrowing. We now need to live within the means that we have set ourselves in the Budget and those allocations of spending totals.

In terms of what that package means, day-to-day spending is now forecast to grow at an average of 2% per year in real terms between '23-24 and '29-30. Obviously, we have already announced the first year and a half worth of those allocations. This is a significant increase in spending, both in terms of day-to-day spending but also crucially in capital spending, which can help drive productivity and efficiency improvements in day-to-day spending as well.

Q253 Rachel Blake: Thank you. Can I just come back on social care, which we have started to talk about? We have looked at the front-loading of spending, particularly on the Department of Health, and the £600 million specifically into social care. What assessment has been made of the level of interaction between health and social care, and how we might see the benefits of that front-loading from health feeding into efficiency within social care?

Rachel Reeves: These are things that absolutely, in the second stage of the spending review, we want to do more of. I will go back to the points I made earlier to the Chair's question about this. In the second phase of the spending review, we are going to be looking from the bottom up with a zero-based approach to make sure that we are driving value for money. Linking back to an earlier answer to Yuan Yang's question about cross-



HOUSE OF COMMONS

Government working, it is really important that in the second phase of the spending review, we are not just looking at this Department by Department, but looking at the outcomes. That is what the mission boards and the mission approach to government should enable us to deliver. You are absolutely right that spending on social care through local government can reduce pressures in the health budget, so it is important, as we go into the second phase of the spending review, that we look at outcomes, not just departmental silos.

Q254 John Glen: Can I ask about the tax view you have about competitiveness and tax? If you add up the increases in national insurance, the retention of the corporation tax rate, the changes to CGT and other changes to business property relief, you have obviously put a lot of emphasis on the distributional impact of it. But is there a concern for those who invest in the UK when they think about the £5 billion coming from the Employment Rights Bill? If so, how are you managing that concern and evaluating the overall impact on those who are prepared to invest? A lot of emphasis in this Budget has been on investment in public sector reform, and you have given a reasonable analysis of why that is, in terms of getting people back to work and so on. But what is the bottom line in terms of the impact and increases in tax? Because £179 billion is a lot; is there a limit on how high taxes can go?

Rachel Reeves: This Budget was a reset Budget. We are not going to be repeating a Budget like this again—

Q255 John Glen: No new taxes—no additional taxes?

Rachel Reeves: As I said to Dame Harriett, I am not going to write five years' worth of Budgets—imagine if that had been done in 2019. We might not have had all the tax increases that we've had—

Q256 John Glen: So you don't rule out additional taxes, then.

Rachel Reeves: It would be naive to try and get—you started this session, Mr Glen, with uncertainties about what is happening in the global economy. I am not going to write five years' worth of Budgets now, but we have drawn a line under the unrealistic path for public spending and the trajectory for public finances and put those on a firm footing.

In terms of what I would say to business, alongside the Budget last Wednesday, we published a corporate tax road map, which has been widely welcomed by business, capping corporation tax at its current rate of 25% for the duration of this Parliament. There were numerous changes to the rate of corporation tax in the last Parliament, which was not good and not welcomed by business. Alongside that, we have made a commitment again for permanent full expensing, the £1 million annual investment allowance and the R&D budget—£20 billion next year. We also published a consultation on business rates as we move to a fairer system, which also encourages investment. We had to raise money in the Budget last week, and I think we have done that in a balanced way—balanced when it comes to what we have done on carried interest and capital gains tax etc as well.



HOUSE OF COMMONS

Q257 John Glen: Can I ask you one specific question about the APR changes that you have put in? We are talking about the £3 million relief, which the Prime Minister spoke about at PMQs. Would you not accept that even if you want to target that at wealthy people who buy vast tracts of land, you could have looked at business asset roll-over relief? If you had a higher threshold, you would then save up to £5 million or £7 million. You would also save a large number of farms that just do not have the liquidity—and the only way that they can secure that liquidity is to sell land, which is part of the equation of food production, food security and national security.

Is there any scope for the business asset roll-over relief, whereby people could sell businesses, put that into land and secure the deferral of CGT by buying additional assets as an alternative mechanism? The apparent lack of an assessment of how that will affect functioning food producers in this country is alarming a lot of people. I recognise the imperative to raise more money, but the impact of that on the countryside, despite your commitment to save the DEFRA budget, is quite profound.

Rachel Reeves: Let me start by answering your question directly about paying the bill, when there is a bill, and then I will take you through how the numbers stack up. I want to be clear that, for estates where there is going to be an inheritance tax bill, that bill can be paid over a 10-year period, interest free. That doesn't exist for anyone else paying inheritance tax, but we thought it was right for the reasons you set out.

Q258 John Glen: But they make about 1% profit. On an £8 million farm, which is not that significant, with the £3 million relief, you are still talking about £1 million. That is £100,000 a year for 10 years. Now, £100,000 a year, in terms of income for a farm, is a massive amount of money. I recognise the bigger picture, but it is not true for farms—

Rachel Reeves: Then let me come to the issue of the taxation of estates. In the last year that data was available—2021-22—the average claim for agricultural property relief was just under £500,000, and 73% of claims were for less than £1 million.

Q259 John Glen: But if the denominator is a hobby farm with 3 acres, you will increase that 73% number. That does not do justice to the reality of the distribution of land, the asset price and the liquidity that will be vested by selling.

Rachel Reeves: In the last year that data was available, 40% of agricultural property relief went to 7% of estates, and 22% of relief went to 2% of estates—*[Interruption.]* Let me just finish this point. That was worth £119 million, and it went to just 37 estates. It is not possible to continue the rate of support that was previously available. I think we have a fair balance, and we will work with farmers to explain how this new system will work. I recognise that there has not been inheritance tax on agricultural property since 1992, so this is a change to the system. It doesn't come in until April 2026.

Q260 John Glen: I understand that, and that will allow some time for planning.



HOUSE OF COMMONS

I recognise the distribution—I am not disputing that—but I am just questioning whether there is a more effective mechanism to capture the small proportion of large landowners who you are focusing on and who are the focus of your narrative. Your proposal will have an impact on a very long tail of functioning farms, which are ill-equipped to sell tracts of land, even over a 10-year interest-free payment period. That will cause significant harm.

Rachel Reeves: I am happy to write to you with more detail about the distribution—

Q261 **Chair:** I was going to suggest that.

Rachel Reeves: I will write to you, Chair, with the information. We think we have the right balance, given the need to raise money, and given that all communities, including rural communities, rely on stable public finances, because of the cost of capital, and a well-functioning education and health system.

Chair: There are a number of points that we could have gone into in more detail, but we are already going over time, so we will write to you on a number of issues.

Q262 **Lucy Rigby:** I have a quick question, Chancellor; I want to get to the data point. I am conscious that, in the Budget, you talked about the better use of data and data sharing across Departments. How important is that to you? Presumably you see benefits in it. What level of priority would you give it?

Conrad Smewing: The short answer is that it is very important. One of the things that we announced in the Budget is the creation of a national data library to allow access in a simple, ethical and secure way to public sector data assets, to give researchers and businesses insights into what that data can demonstrate to them. That is really important for all the kinds of things that we were talking about before, including doing a proper evaluation of the impact of public policies. That resource is, at present, underused, and with the national data library we can get much more out of it to help to improve productivity in public services and the private sector.

Q263 **Lucy Rigby:** I am interested in the possibility of targeting economic support at households. Presumably, greater data sharing would allow that too.

Conrad Smewing: That is exactly the sort of thing that you could do if you get this right.

Q264 **Chair:** There is so much we could talk about on data sharing and how much easier it would be to forecast, project, model and check things.

I thank all our witnesses very much indeed for their time. To summarise, today we have heard some robust statements from the Chancellor about the spending envelope. I think spending Departments will be listening—I am not sure eagerly is quite the word—and getting the message very



HOUSE OF COMMONS

clearly. The Chancellor believes that her economic plan will surpass the OBR's forecast for economic growth, so we will be holding her to account on that.

We also heard that the UK will continue to be an open global trading partner, and we will be a global advocate for free trade. That is obviously particularly in the light of the recent election of President Trump in America.

The Chancellor has been clear that she will not conduct another large fiscal reset event in this Parliament, but you have also promised, Chancellor, that you will come in front of us more than just at fiscal events, so we look forward to nailing that down with you. You may regret that promise, but hopefully we have been a friendly bunch, even if we have to question you as robustly as we want to. We hope that you will come in front of us again and that we can pin that down.

We have also heard very clearly from the Chancellor that some Departments will need to stop doing some things to make sure that the budgets balance. I am sure my colleagues chairing other Select Committees will be looking to tackle their respective Departments on those points in detail.

Finally, we have had some interchange with the permanent secretary in particular about the relationship with the OBR and whether or not the law was broken. Certainly, the MOU may not quite have been followed to the letter, from what you have said. We will obviously keep a close eye on how the new rules work. We may consider what we will do about that.

I want to reiterate the point I made in the Budget debate, Chancellor. I think it is important that announcements about fiscal events are made to the Houses of Parliament, or through this Committee to Parliament, as appropriate, and I hope that you will commit to do that in future. Is that a nod—for *Hansard*?

Rachel Reeves: I think we did make the Budget announcements in the Budget. I think it was important in terms of the fiscal rules to indicate to markets how the investment and stability rules would work, but even those—the measure we were using, the timeframe to meeting our rules and all of that—were announced to Parliament.

Chair: Okay. I am not going to get into the detail of some of the other announcements made by other members of the Government, but I think the point has been made.

We look forward to seeing the Chancellor and officials again. Hopefully we are going to be doing some future work on the work of the Treasury. It looks like we are going to Darlington. We are being tempted to go to Northampton as well. Clearly, there is a bid to have another Treasury outlet where King John relocated the Treasury to in 1205—there's a future growth bid for you, Chancellor.

I thank our witnesses very much indeed for their time.