



Economic Affairs Committee

Corrected oral evidence: Annual scrutiny session with the Chancellor of the Exchequer

Tuesday 22 July 2025

2 pm

Watch the meeting

Members present: Lord Wood of Anfield (The Chair); Lord Agnew of Oulton; Lord Blackwell; Lord Burns; Lord Davies of Brixton; Lord Lamont of Lerwick; Baroness Liddell of Coatdyke; Lord Liddle; Lord Londesborough; Lord Petitgas; Lord Razzall; Lord Turnbull; Lord Verjee; Baroness Wolf of Dulwich.

Evidence Session No. 1

Heard in Public

Questions 1 - 15

Witnesses

I: Rt Hon Rachel Reeves MP, Chancellor of the Exchequer; Beth Russell, Second Permanent Secretary, HM Treasury; Stephen Farrington, Director of Fiscal Policy, HM Treasury.

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Examination of witnesses

Rachel Reeves, Beth Russell and Stephen Farrington.

Q1 The Chair: Welcome to this annual evidence session with the Chancellor here at the Economic Affairs Committee of the House of Lords. We are delighted to be joined today by the right honourable Rachel Reeves, the Chancellor of the Exchequer. With her are Beth Russell, the second Permanent Secretary at His Majesty's Treasury; and Stephen Farrington, the director of fiscal policy at His Majesty's Treasury. I should say that we are broadcasting this session live on parliamentlive.tv. A full transcript will be taken; that will be made available shortly after the meeting so that you can make any corrections.

Let me start by asking you, Chancellor, a general question about the economic moment that we are in. It is a time of huge economic challenges, with an ageing population, stagnating growth, fragile public services, the need to adapt to climate change, and tariffs from the US. Our fiscal position is also challenging, with record borrowing and the highest tax take for many years. Given these multiple constraints, can you outline what exactly your strategy is for achieving growth—the thing that you have consistently made your main priority? Slightly more pointedly, how can you restore healthy levels of growth without either borrowing more than your fiscal rules allow or boosting current spending more than your tax commitments allow?

Rachel Reeves: Thank you very much, Lord Wood. It is a real honour to come and address you for the first time as Chancellor of the Exchequer; thank you for giving me that opportunity today.

As you say, we are living in an age of insecurity and economic policy has to respond to the moment in which we live. At the same time, we also have a challenging economic inheritance, with high levels of tax as a share of GDP and historically high levels of government debt; also, economic growth in the past 15 years has been poor by historical standards because of the weak productivity growth that we have experienced in that period.

On your first point, which was about the economic moment and the age of uncertainty and instability in which we are living, the growth strategy has to be the right one for this era. In different eras, a different growth strategy would be appropriate, but we have to respond to the times we live in. This is why our growth strategy is about building resilience and stability. We think about three pillars in that: first, the pillar of stability; secondly, the pillar of reform; and, thirdly, the pillar of investment. I will take you through those in turn and, I hope, explain how they link to the fiscal rules that I brought in in the Budget last year.

The first pillar is stability. This means having fiscal rules that you stick to because, although there are always fiscal rules, they tend to change quite regularly. The fiscal rules that we have introduced both embed stability and prioritise investment. The stability rule is that we have to get day-to-

day spending funded by tax receipts; that has not happened for at least a couple of decades. The second rule is the investment rule, which I will come on to in a bit; it is about getting debt down as a share of GDP and, subject to that, being able to invest in things that improve our productivity performance. We are separating out day-to-day spending and investment spending because, otherwise, it is too easy to squeeze investment spending, which is absolutely essential for delivering long-term growth.

So stability is the first pillar. That is what has enabled the Bank of England's MPC to cut interest rates four times in the past year. In our first year, the international geopolitical backdrop has probably not been one that any Government would want, but that is what we have. Despite the challenges, in the Budget, the Spring Statement and the spending review, we have shown that we can stick to those fiscal rules; that we had the political courage and strength to stick to them; and that we will continue to do so.

The second pillar of our growth strategy is reform, which is wide-ranging. It includes reform to the planning system. The Planning and Infrastructure Bill is before your House at the moment. I encourage the Lords, when they are looking at that Bill, to think about how quickly we can get it signed into law because, the quicker we can do that, the quicker we can get things building in Britain again. One of the big challenges we have faced—similar to other countries—is the difficulty in getting things done, whether it is building transport infrastructure, energy infrastructure, the homes that we need or digital infrastructure, which is so important now given the growth of data centres, technology and AI. The issue is being able to get things built. The Planning and Infrastructure Bill is absolutely crucial to that.

We have pensions reform, which is unlocking long-term patient capital to help grow our economy. We have regulatory reform, which you will have seen at Mansion House. You will also have seen what the Environment Secretary and Sir Jon Cunliffe have done in terms of water and the regulation of the environment. Trade policy is an important area of reform where, in the first year of this Labour Government, we have managed to be the first country to get a trade deal with the US. We have reset our relationship with the European Union. We have agreed a trade deal with India and are progressing trade deals with Switzerland, the Republic of Korea and the GCC. So that is reform.

The third part is investment, which is a mixture of both public and private. The fiscal rules that I set out in the Budget last year have unlocked an additional £120 billion of capital spending during the course of this Parliament, which is why, in the spending review, I was able to set out £750 billion of capital spending during this Parliament. Then, using financial transactions—particularly through the National Wealth Fund and the British Business Bank—we are also able to unlock further investment in line with those fiscal rules, which now count financial assets on the Government's balance sheet, not just liabilities; that is the right thing to

do. This has enabled us to make decisions like the one we made today in coming to a final investment decision on Sizewell C, which will, when it is built in a decade's time, provide the equivalent of electricity for 6 million homes for 60 years. That is a big achievement, but it would not have been possible without those changes in the fiscal rules. I know that there is a lot of detail there, but that is my growth strategy.

The Chair: Thank you for that full answer on the strategy. I have a quick follow-up question. Obviously, the UK economy is having issues. Growth is still rather sluggish. Unemployment is increasing. Inflation, as we found out this morning, is still a stubborn problem. What is your diagnosis of the ills of the UK economy? What are the problems that continue to plague it at the moment?

Rachel Reeves: The key problem is productivity. Investment is the answer—investment in human capital, investment in physical capital and investment in new technologies. That is in both the public and private sectors. We have, I think, the lowest private investment and lowest total investment as a share of GDP of any country in the G7. The result is that our productivity performance has not kept pace with that of our competitors and similar countries around the world, which is why the fiscal rules that I have set out treat investment spending differently.

You saw in the previous Parliament—you see it also in the plans that we inherited—that public investment fell as a share of GDP to 1.7%. We are instead going to keep it at 2.4% or 2.5% of GDP. The easy thing to do as a Chancellor is cut capital spending because, frankly, you are not likely to be the Government who see the full benefit of it. However, we are not going to keep making those short-sighted, wrong decisions, which is why we have set out these changes to the fiscal rules. I regard productivity as the key reason why our performance on government borrowing and debt, on GDP and on inflation has not been where we would want it to be. My job as Chancellor is to turn that around.

Q2 Lord Blackwell: Chancellor, you mentioned the high levels of taxation at the moment, which, as you say, have been rising in recent years. Since the war, no Government have, until now, managed to get more than 35% of GDP in taxation. It is now about 37.5%. Do you have a view on what is sustainable in terms of levels of taxation? The OBR, as you know, forecast that, with the ageing population, government expenditure could go up to 60% of GDP within the lifetime of current young people. Do you have a ceiling for or view on the right level of taxation in the long run, once you get through the current debt problem?

Rachel Reeves: The OBR forecast for this Parliament has tax as a share of GDP at 38% in the final year of the forecast period. That is not a target, but it reflects the fiscal rules. Those are the things that are my constraints. The anchors for fiscal policy are those two fiscal rules, rather than a tax-to-GDP ratio. I would argue that the best way to reduce that ratio but still have the public services that we need is to increase the denominator: GDP. That is where all my focus is. If we can grow the

economy, we can reduce that ratio without cutting investment in public services.

I would also say that public services are not just about money. We have to reform the way in which our public services work. That is why we did a zero-based review as part of the spending review; it was the first time a Government have done a zero-based review since 2007. We managed to find bits of government spending that we just did not need to do any more. In the Treasury, we are cutting the cost of government by 20%; that admin reduction is the same for all areas of government. In Treasury, it bites a bit more, of course, because almost everything we do is admin cost.

If you want to reduce the tax burden, the way to do so is to increase GDP; that is what I am focused on.

Lord Blackwell: So your target would be to decrease that ratio rather than allow it to increase?

Rachel Reeves: I have to set out my fiscal rules. They are not tax-as-a-share-of-GDP rules; they are a stability rule, to balance day-to-day spending with tax receipts, and an investment rule, to get that down as a share of GDP. The 38% is about where we end up at the end of this period but my focus is on growing the economy. The investment rule really enables that, while the stability rule means that the Bank of England can continue to cut interest rates, as it has done four times in this past year.

Q3 **Lord Petitgas:** Chancellor, my question is about the rolling debt target framework. You may recall that, in its national debt inquiry, this committee was very critical of the concept because it can be gamed. It said: "It allows the possibility of debt rising for four years, with success being claimed if it falls in year five—even if debt at the end of the five-year period is higher than in the first year". I should also say that that is compounded by a sense that there is a systemic optimism bias in our growth forecasts. Given that you have retained the existing rolling target system, does this mean that the market should have any discounted claims to meet the stability rule based on future tightening?

Rachel Reeves: We have changed the five-year period to a three-year one. In the first year, it was five years; it then becomes four years, then three years, and then it rolls three years after that. For the first two years, there is no rolling; we just move towards it. The three-year period is about trying to get us out of this situation where it is always in the next Parliament. The Lord may be virtuous, but not quite yet. The whole point of bringing it forward two years is so that the horizon is not too far in the future.

Also, because of debt dynamics, you cannot game the system. If you are taking on more debt, you have those debt servicing costs pushing up the debt-to-GDP ratio in future years. I think that the three-year target is the right one. You would never want to have it for that year, but I think that

three years is right. If you look at the OBR forecast, it has us currently meeting both rules—the stability rule and the investment rule—two years early, at a three-year horizon, not a five-year one. It has both debt to GDP and the deficit as a share of GDP falling over that five-year horizon. It is not flatter then falling in the fifth year, which is, I think, the criticism of how the system has been gamed in the past. I do not want to meet the fiscal rules in that way; I want to meet them genuinely with sustainable policy.

Again, I come back to the point that this is why we have taken investment out of the stability rule. I do not want to be in a position where we cut a major transport infrastructure project or an energy infrastructure project, or decide that we are going to build not 300,000 homes but 50,000 this year, because we cannot afford things according to our fiscal rules. I think that we have got the right balance there. I recognise that you never get to three years either, but it is a bit nearer than five years, and the debt dynamics mean that it is harder to game the system.

Stephen Farrington: The three-year period is also the duration of the spending review period, so that three-year horizon is covered by spending plans that are detailed and at the departmental level. That guards against some of the sort of Augustinian approaches that you have seen in the past for those sorts of rolling targets.

Lord Petitgas: Going back to your comment on GDP growth or productivity growth being the core variable in the whole multivariable model, we have had the OBR and the Bank of England come here. It seemed to me that there was a debate, with the OBR being a little more optimistic than the Bank of England. The big risk in this three-year period, even if it is reduced, is whether the GDP forecasts are hit or not; I therefore think that it must be the key variable.

Rachel Reeves: That is a statement of fact, Lord Petitgas. As you rightly say, the OBR forecasts for productivity and growth are substantially higher than other forecasters'. We are on track at the moment to meet the OBR forecasts for growth for this year. However, growth is not exogenous; we can have an impact on it. That is why we are pursuing these policies around reform and investment: to try to make Britain the most attractive place to start, scale and grow a business, as well as for inward investment.

Today, we announced the final investment decision for Sizewell C. It is not just government money going into that but investment from EDF, Centrica, Amber and CDPQ, the Canadian pension fund. This shows that Britain is increasingly an attractive place to invest. In the first year of this Government, we secured £120 billion of inward investment; today's announcement is, of course, on top of that.

Q4 **Lord Londesborough:** Good afternoon, Chancellor. Can we zero in on what you describe as the key problem of the economy: the critical issue of low levels of productivity in the UK? We continue to lag behind France,

Germany and the US by wide margins—between 12% and 20%, in terms of output per hour—and we have done so for decades. The UK's productivity in this first quarter has actually fallen by 0.2%, as compared to a year ago, and is standing now at just 1% higher than it was five years ago. It may well drop in Q2 given what is happening to the GDP numbers. How are the Government seeking to address this productivity challenge, what specific policies will turn the dial, and when can we expect to see results?

Rachel Reeves: There are three things that affect the productivity numbers: physical capital, labour supply—and quality of labour supply, so human capital as well as the numbers—and total factor productivity, so technology.

On capital, in assessment of the first year, physical capital is where we have done the most. I have mentioned the £120 billion of extra CDEL, capital spending, by the Government over the five-year period, keeping capital spending by government flat as a share of GDP—rather than it falling substantially, which were the plans we inherited—and using financial transactions through the National Wealth Fund, the British Business Bank and other public financial institutions to have additional capital spending.

There is also using things like the National Wealth Fund to leverage in three times as much private investment. That is the model we have used for Sizewell C, where the National Wealth Fund is the debt underwriter for that project. As I said to Lord Petitgas, we have managed to bring in £120 billion of private investment just in this first year of the Labour Government.

On labour supply, despite the increases in the unemployment rate, we have also seen an increase in the employment rate. Those two things can obviously be consistent, because we have seen a reduction in economic inactivity. That is really positive, because we are still the only OECD country that has a lower participation rate in the labour market than before the pandemic. Therefore, reducing those economic inactivity numbers is absolutely crucial. The first step is that you move from being inactive to looking for work, and then, hopefully, you move into work.

There are still around 650,000 to 700,000 vacancies in the economy. We want to better match the people who are available for work with the jobs available. We also want to help people who are currently economically inactive. This could include people who took early retirement and are perhaps regretting it, which was the experience of some during the Covid period; or parents struggling to balance work or childcare; or the growing number of people on sickness and disability benefits. We know there are many people who are desperate to work but who are not given the support.

In the spending review, we also invested significantly in both apprenticeships and further education. That has been the Cinderella service of the education system for this last decade and a half. It is great

that 50% of kids go to university, but 50% do not. In my constituency of Leeds West and Pudsey, the majority of kids do not go to university. Therefore, investing in FE and apprenticeships is crucial for this Government and our wider objectives around opportunity. We have done some of this at the spending review, but this is a certainly an area where we can do more to address the productivity issue, through improving labour supply and human capital.

The last thing is around technology and total factor productivity. Andy Haldane, former chief economist at the Bank of England, talks about this long tail of low-productivity firms. The DSIT Secretary, Peter Kyle, has three focuses in his area. The first area is attracting businesses at the technological frontier, which is crucial for growth. We are very good at that in Britain; we have a lot of very highly skilled people—I was at Imperial College this morning. However, we should not rest on our laurels.

The second area is using technology better in delivering public services. It is not just about how much we spend on public services but about getting value for money. The third is the point about the long tail of productivity and better take-up of AI and technology by smaller businesses and less productive firms. We are working on all those areas. There is a big opportunity. The IMF and others say that if we integrate AI and technology, we could boost productivity by 1.5% over the next 10 years. So there are huge opportunities there which we have to seize. We are very focused, as I hope you can tell, on that agenda.

Lord Londesborough: Can I ask you about the fiscal impact of continuing low productivity? The OBR admits that its productivity forecasts are “the most important” yet “uncertain forecast judgments” it makes and admits to the fact that it has been successively too optimistic on productivity forecasts. Current productivity trend forecasts assumed by the OBR, of 1% growing to 1.2% over the forecast going to 2029, currently look very optimistic—that is certainly the Bank of England’s view. What will be the fiscal consequences if productivity continues at the current low rates, averaging about 0.2% per annum over the last five years?

Rachel Reeves: The OBR forecasts long-term productivity growth of 1.25% a year and the Bank of England has a forecast of 1% a year. Both are very low by historic standards. Productivity over a long period of time is higher than that, but as you rightly say, the last decade and a half has been lower. So I guess you have to decide whether you should just look at a short period of time for average, long-term productivity, or whether you should look at a longer time series. As I have said, the OBR is looking at that at the moment. Perhaps I will pass on to Steve to give a bit more detail.

Stephen Farrington: I saw the evidence David Miles gave, which was a balanced assessment of where the OBR had come out, that it thinks that productivity has been depressed by a series of shocks over the last 15

years. But even abstracting from that, it certainly does not expect productivity to return to the pre-financial crisis level of 2.5%.

Equally, however, you can veer into being too pessimistic, that the recent number of 0.2% is likely to persist. The OBR's view was that there are reasons to expect that the sequence of shocks might not continue, but also that there is potential for future technologies. In particular, it sees AI as a potential new general-purpose technology to be a source of innovation needed in TFP growth, which supports its forecast of productivity gradually picking back up to 1.25%.

One other element I would add to the list the Chancellor gave of policy measures is the impact of the Government's planning reforms to support productivity, which the OBR scored as increasing GDP within the five-year forecast. Coming to Lord Wood's first question, this is also a very good example of how it is possible to increase productivity, given the constraints of the fiscal position. Those steps on planning are a really good example of how it is actually possible to do that.

Lord Londesborough: My concern is probably more about the short term, in that the current OBR forecast looks very optimistic and, I would say, ripe for downgrade. That is echoed by the consensus of independent forecasters. The Bank of England has actually downgraded its productivity forecast to 0.6% or 0.7%. That is going to have an immediate fiscal impact this autumn, is it not?

Rachel Reeves: The Bank of England's forecast for long-term productivity growth is 1%.

Lord Londesborough: Long term?

Rachel Reeves: Yes. That is what drives the models. The OBR is higher than that.

The number I gave you earlier is slightly wrong. The IMF analysis suggests AI could boost UK cumulative total factor productivity over the next five years by 1.4%. That is the point that Steve Farrington is making, that there have been a series of shocks over the last five years. Whether it is the global financial crisis, Covid, or Russia's illegal invasion of Ukraine, they have all had a negative effect on productivity and growth.

Looking at some of the underlying drivers of productivity, there is perhaps reason to be more optimistic in the future. If we can contain some of those shocks, in part by building a more resilient economy—which is what we are trying to do with clean, home-grown energy, for example—some of those underlying factors, such as the increasing use of technology, might give us a bit more cause for optimism.

Q5 **Lord Turnbull:** I do not know whether on your desk you have carved Hamlet's complaint, "When sorrows come, they come not single spies but in battalions", but let me pick out one of those battalions: demographics. Much has been written about the impact on public finances of the growth

in the number of older people. Less appreciated, I think, is the alarming—or certainly severe—worsening of the dependency ratio. We used to think of the labour market starting at 16. Not many young people get to work at 16 these days; sometimes, it takes them until their mid-20s. The birth rate is very low. The circle has been squared by the acceptance—I do not know whether to call it the promotion—of very high levels of net migration. There are also concerns about whether the people who are now coming have the same characteristics as those who used to 15 years ago, whether they wanted to stay more or bring more dependants. How do you square this migration issue with protecting the public finances; the needs of the labour market; big shortages in health, care and food processing; and the social pressures that this migration is causing?

Rachel Reeves: Thank you very much for your question, Lord Turnbull. Countries around the world, certainly developed countries, face a number of demographic challenges. The UK is not the worst by a long way, but we do face those challenges as well. As you would have seen on Monday this week, we launched a pensions commission to look at the adequacy of pensions in retirement and the state pension age. One of the most transformational pieces of public policy in the last couple of decades is automatic enrolment into pensions. That has brought 11 million people into saving for retirement who were not previously doing so. The truth is that a lot of people, even with automatic enrolment, find that their pension pot is not worth as much as they need it to be on retirement. That is why the Pensions Minister, Torsten Bell, has just started that piece of work, led by Suzy Morrissey, on the pensions commission. Baroness Drake, Sir Ian Cheshire and Professor Nick Pearce are doing that wider piece of work on the adequacy of pensions. That is important work, which is ongoing.

You will have also seen that the pensions Bill is making its way through Parliament at the moment to create those mega-funds in pensions, so that, when people save for retirement, they get a better return on those savings. This is more similar to what you have in Canada, Australia or the Netherlands, for example, where you have a smaller number of big pension schemes that generate better returns for savers. As I set out at my Mansion House speech last year, the pensions Bill is aimed at a consolidation in pensions, and, under the Mansion House accord, which we agreed with, around 90% of the biggest pension funds have agreed to invest 10% of their main funds in private assets, of which half should be in UK assets. There are opportunities here, as well as concerns around fiscal sustainability.

On immigration to meet the skills need and the labour demand in the economy, my first answer would be that there are a lot of people here in Britain who are not working, either because they are unemployed or because they are economically inactive. We have 20% of people of working age who are economically inactive¹, and we have an unemployment rate of just over 4%². I do not think that businesses

¹ “[The latest ONS release estimates this figure to be 21% - HMT]”

should always resort to the immigration lever to fill vacancies. We need to do much more to train up people who are already in this country. There are those 650,000 to 700,000 vacancies, and there are plenty of people of working age in this economy. With the right support, they should be able to work. That is why, in the Budget last year, I set out a series of trailblazers working with the directly elected mayors to help people in their mayoral combined authorities to get back to work, with a particular focus on young people. We have one in eight young people not in education, employment or training. That is not acceptable. We need to do much more to make sure that those opportunities are there for those young people. It is why, as well, we have announced £1 billion of support to help people who are currently not in the labour market back into work. Immigration has always played and will continue to play an important part in the skills mix, but we cannot just turn to the immigration lever. We need to do much more to train people up who are already in this country.

Lord Turnbull: I have one quick supplementary. You said that, in the past, the easy thing was to cut capital. You changed the rules to favour capital more, but one of the first things you announced on taking office was the cancellation of two major roads projects, the Arundel by-pass and the Stonehenge tunnel. Would you have done that under the rules you are operating now? You did not say anything about whether they were good or bad projects, just that they could not be afforded.

Rachel Reeves: Yes, we have set out £750 billion of spending during the course of this Parliament, but, through the course of the spending review, there were plenty of projects that we had to say no to, because, even with £120 billion more public investment than in the plans we inherited, you still cannot do everything that everybody would like to do. There are always going to be more demands on public resources than we have money available for, and we have to prioritise, because there is not a limitless pot of money, as much as people might like there to be or sometimes think there is. Even with the additional money available, we still have to make priorities.

I would also say this: we did have to cancel things, but we cancelled things where the money was not there. There are lots and lots of projects that the previous Government had announced and committed to delivering without allocating a single penny to pay for them. That is how you end up, in politics, with levels of distrust in politicians and in the democratic system. I think it is unforgivable to make a load of commitments without having a single clue about where the money was going to come from. I am not going to do that. It does mean you are going to have to disappoint people sometimes, but I always think it is better to be honest than to say that you can achieve something without saying where the money is going to come from.

² “[The latest ONS release estimates this figure to be 4.7% - HMT]”

That is why we have just done a multi-year spending review where we have settled departmental budgets for day-to-day spending for three years and for capital spending for five years and, alongside that, have published a 10-year national infrastructure plan. The difference between this and what we inherited is that every single thing we have said we are going to do in the next three years for day-to-day spending and the next five years for capital spending is fully funded and fully costed. That is very different from the plans that we inherited. Yes, we had to cancel things, but they were things that would never have been delivered because there was not a single penny allocated to them.

Q6 Lord Blackwell: One of the other long-term challenges you are having to deal with as Chancellor is the rising cost of welfare. This committee recently completed a report on the economic impact of long-term sickness. As you will be very well aware, spending on incapacity and disability benefits has risen more than 40% over the last decade, and there are currently 3.7 million people who receive the health component of universal credit, 95% of whom are not working and 80% of whom have been out of work for more than two years—tragically, many of them young. What we discovered from the evidence is that this does not seem to reflect any rise in sickness levels in the population as a whole. In fact, the survey of the health of the nation has been pretty stable over that period.

The conclusion that we and many others have come to is that it has more to do with the structure of the benefits system and the incentives within it. Indeed, Alison McGovern, the Employment Minister, told us: “The current system does not work”, as it was “supposed to be designed” to “incentivise work and it has turned out not to do that”. She also said: “It is obvious that it is not” financially sustainable. Do you agree with that assessment? I know you are waiting for the Timms report, but do you accept that, if we are going to deal with the ballooning cost of credit and, indeed, help the people who are in this situation, it will need much more fundamental reforms for both economic and social reasons?

Rachel Reeves: Thank you for that very topical question. As you say, Stephen Timms is doing the review now of sickness and disability benefits of personal independence payments, but we are not just going to wait for that review. Before Covid, seven in 10 assessments for personal independence payments were done face to face, but it is now one in 10. I do not think anyone truly believes that those assessments are going to be as effective on the phone, on Zoom or whatever as they would be if they were done face to face by better trained and better supported assessors. So we are changing that by recruiting and by giving DWP the resource to have more trained assessors and more face-to-face assessments to ensure that the people who need the support get it, but then people who are able to work are given the support to get back into work.

At the same time, we are providing £1 billion-worth of support to help people who are economically inactive back to work, and that will include supporting NEETs, where I think the biggest crisis exists. We know that if

you are out of work early in your working life, you are going to earn less and be in work less over the whole period of 40 to 50 years that you should be in the labour market. So we have a real focus on back-to-work support and face-to-face assessments, as well as the Timms review.

On universal credit, we are making reforms. We are reducing the health element of universal credit in real terms and increasing the standard allowance, because we know that a lot of people have found it almost impossible to live on the standard allowance, and all the big charities—Joseph Rowntree and so on—have said the standard allowance is not enough to live on. So, people were doing their very best to get on to the health element, and once you are on the health element, you do not have to be actively seeking employment. Narrowing the gap between those two benefits is one important way in which we can encourage more people to actually look for work.

I will also give you a couple of statistics about people on sickness and disability benefits that are quite telling. There are 200,000 people claiming health and disability benefits who said they would work if the right job and support were available, while an additional 1 million people said they would be able to work in the future if their health improved. So the investment we are putting into the National Health Service on both physical and mental health, as well as targeted back-to-work support, is about enabling people and giving them the support they need to access work that is appropriate for them. We are already seeing a reduction in the economic inactivity rate, which is really encouraging, but there is an awful lot more that we need to do to help more people of working age to have the fulfilment that I believe comes from having a job.

Lord Blackwell: I am sure you will be the first to say that this is not just an economic issue, but would you measure your success by the fact that in five years' time there ought to be a lot fewer people on health-related benefits and a lot more of them in employment?

Rachel Reeves: Let us be clear: even with the original plans in the legislation, you would have seen an increase in the number of people on personal independence payments. All that our plans would have done was to stem some of that increase.

I want more people to be in work. I believe it is good for them, their families and the economy. You are half as likely to be in poverty if you are in work compared to if you are on benefits. We also need to support people in work with greater security in work, which we are doing through the Employment Rights Bill, and by a wage that you can afford to live on, which is why we increased both the national minimum wage and the national living wage in the Budget last year. I want to see more people have the chance of meaningful employment, which is why we are investing in skills and training, and that is why we are putting support in to help people back into work, while the Timms review is looking at the gateway to sickness and disability benefits.

Q7 **Lord Verjee:** What are the fiscal consequences of the Government's

concessions to ensure the passing of the benefits Bill? Does the short-term volatility in government policy undermine the UK's fiscal credibility? How are you going to address the painful long-term decisions that we have to make, with the short-term volatility in government policy at the moment?

Rachel Reeves: As the Secretary of State for Work and Pensions said at the time, there is of course a cost for the changes in the welfare Bill. The OBR will do its costings in the autumn and will set that out, and it will probably be to the tune of £5 billion. But we have restated our commitment to the fiscal rules. Those are non-negotiable because it is the fiscal rules that provide stability, underpin a successful, thriving, prosperous economy and give government bond holders the confidence to carry on buying those government bonds. We are still very reliant on the good will of strangers in buying our government bonds; £1 of every £10 of government spending is spent servicing government debt.

I am a Labour politician; I do not think there is anything progressive about spending £100 billion a year, often to US hedge funds, when I would rather spend that money on the health service, on our defence or on better schools for our children. That is why I am going to stick to those fiscal rules so that we can start to bring down the costs of servicing that debt and free up that money, whether that is to have lower taxes on working people than we otherwise would do or to have more money for our public services. The fiscal rules are not some sort of construct by me or this Government; they reflect the economic realities and fiscal realities of the world that we live in today. As Andrew Bailey, the Governor of the Bank of England, said to the Treasury Select Committee this morning, in the world as it is today, with geopolitical and trade uncertainties as well as the increase in the global issuance of government debt—take the US or Germany, for example—all those things are pushing up government bond yields and the cost of borrowing, including for the UK. I am determined that we do not just keep spending more and more on servicing the debt, because I believe that when people pay their money in taxes, they want that money to be spent on things that matter to them and their families. That is what I want to achieve as Chancellor.

Lord Verjee: I want to go back to the question of productivity. I know it is hard for a number cruncher to talk about culture, but that seems to be a key factor of increasing productivity. We talk about the American dream and the success of the US. It is hard to talk about the British dream today. How does someone in your position change the culture of work productivity? To me, that seems to be a key factor in increasing productivity for our country. How do we get the British dream going?

Rachel Reeves: One of the things that I am keen to do, as you will have seen in my Mansion House speech last week, is to have more people investing rather than putting their money into cash. I would like British savers to support the British economy by giving more access to long-term patient capital for people with great ideas. We are a country of entrepreneurs. That is a great thing about Britain. A number of people have fantastic ideas that they want to turn into their own business,

working for themselves, not for someone else, but to do that we need to unlock more long-term patient capital and give opportunities to ordinary people to save and make a return on those investments.

The quintessential British dream is to own your own home, but that dream has been snatched away from far too many people these last few years because we have not been building enough homes as a country. That is why we as a Government have the ambition to build 1.5 million homes during the course of this Parliament so that more people can realise that dream of home ownership, or, if they are not able to buy a home of their own, they have the security of a home that cannot be snatched away from them on the whim of a private sector landlord, by investing more in social and affordable housing. The dream of starting your own business requires ordinary people in Britain to invest more of their money in stocks and shares than in putting their money into cash, which serves not very much purpose and does not give very much of a return, while I believe we can fulfil the dream of home ownership if we meet those targets around house building.

But, on the issue of productivity, British people work hard. I go into schools and colleges that are full of ambition. We have to find a way to capture that and nurture it better. That is why I have always been passionate about better supporting the 50% of young people who do not go to university. At the school where I went, quite a lot of years ago now, I was in a small minority who went to university, and the Government carried on investing in my education for years, very expensively. But the girls that I went to school with did not have those opportunities. They left school at 16 or 18 and never had the opportunities that I had, despite being bright, because they did not have those aspirations—they were not nurtured in them. If they wanted a few years later to go to college, they would have to pay for it themselves, rather than, like me, having their education paid for.

Even today, with tuition fees, we are still putting huge amounts of money into the education of people who go to university. I want to retilt the system to help more young people get an apprenticeship or a place on an FE course. We say that one in eight young people are not in education, employment or training. In my city of Leeds, there are more people who want to go to further education college than there are places available. Then we say, "Oh, they are not in education, employment or training", as if it is their fault. They want to go to college but there are not the places available. So we have a responsibility as well, as lawmakers and as a Government, to make sure that young people do not have their dreams snuffed out at age 16 or 18 because there is no room at the college because Governments did not make those investments in further education. That is something I am really passionate about doing. But the productivity challenge in the UK is not because American, French or German people are harder working than British people. I do not accept that at all. We have to do more to nurture the talent of people in this country.

Q8 Lord Agnew of Oulton: Good afternoon, Chancellor. Returning to your Mansion House speech, you put a lot of personal commitment behind driving forward tokenisation, stablecoin and so on. You said that you wanted our financial services sector to be at the forefront of this innovation. I wondered how you were going to do this when we have a very cautious regulator in the FCA and a Governor of the Bank of England who has come out, again, very cautiously. How will you prevail?

Rachel Reeves: I spoke at UK FinTech Week at the beginning of April. At the same time we published the draft cryptocurrency legislation, including on stablecoins. The Government have also worked hard this past year with the regulators. You will have seen my Mansion House speech last November. I updated the remit letters to the PRA, the Bank of England and the FCA, where I instructed them to regulate not just for risk but for growth. At the beginning of the year, the Prime Minister and I wrote to all the regulators—that was a lot of paper because we have an awful lot of regulators in this country. In those letters, we asked the regulators to come up with new ideas of how they could support this Government's number one mission, which is to grow the economy.

The letters that I got back, especially from the FCA, were encouraging, with new ideas, some of which we adopted. I set out in the Mansion House speech last week how we would get around 35,000 to 40,000 additional people on the housing ladder every year by the reforms to mortgage lending. That suggestion came from the FCA as to how we could better support growth in the economy rather than just regulating for risk. It was accepting that sometimes you have to take a little more risk to earn that greater return—in our case, the return for the whole economy by helping more people to get on to the housing ladder. The FCA and the Bank of England have also set up a digital security sandbox, which is really popular, not just with UK crypto, stablecoin and digital assets businesses, but internationally as well. We are attracting that investment to experiment in new products and services for customers.

Last week, I published the digital markets strategy. Key to all of this, and my philosophy around it, is that we want to be pragmatic. We have always, as a financial services capital, been really good at encouraging innovation. There is a huge amount of innovation going on in digital assets. We are leading the way in things like DIGIT, which is a digital gilt instrument. This is leading the way for countries around the world. We have just set up with the US a UK-US financial regulations working group, which is all part of the trade agreement, to build on our defence partnership with a technology partnership. This includes in areas of fintech, where Britain really is a global leader, working with the US to ensure that we have a similar framework for these new assets and opportunities.

Q9 Lord Lamont of Lerwick: Good afternoon, Chancellor. I quite understand that you will be reluctant to comment on potential Budget measures, but I still find it a bit strange that the Government have not ruled out a wealth tax, which some people in your party have been proposing and about which there is a lot of discussion. Although I

understand your reluctance to rule things out, before you took office you ruled out certain increases in taxation—you were quite explicit about that. Surely just the whiff or suspicion of a wealth tax rather undermines confidence or carries the risk that it will. Would it not be far better just to rule it out?

Rachel Reeves: In our manifesto, we made a commitment around the key taxes that working people pay—income tax, national insurance and VAT. You will know from your own experience that if you start saying no to other taxes, as soon as you do not say no, people will assume that is the one you are going to increase. With respect, what you would have done in my position—and did—would be to say, rightly, that taxes are a matter for a Budget, and we will set out our policy there.

Lord Lamont of Lerwick: I am sorry that I cannot get you to be more forthcoming. I will therefore switch the subject slightly to the subject of the questions of Lord Agnew and Lord Verjee: the Mansion House speech and the remarks you made about the need for greater risk-taking by investors, which I think is sensible and wholly welcome.

However, risk-taking is not real risk-taking if it involves compulsion. It is not really changing the culture if what you propose involves compulsion. Therefore, my one reservation about what you said was on the power to mandate pension funds to invest in certain assets. I understand you are taking that in the pensions Bill only as a residual power, but why should you have it at all? That is not really going to achieve your objective of changing the culture.

I put to you that it is also at odds with the responsibilities of trustees of pension funds, and it also carries the risk that this power might be used to direct investments into particularly politically favourable projects. I am not suggesting that you would do that, but it is a risk. If you really want to change the culture, you do not want compulsion at all.

Rachel Reeves: Thank you very much for that question, which I will answer a bit more freely than the last one, you will be pleased to know. There are two parts to this: the pensions side and the retail investment, so I will take each of those in turn.

I want people to know that we are serious about pensions reform, for two reasons. First, people have been badly served by too many pension products in the UK. They are not getting the returns on their savings that they would in other jurisdictions around the world, because we have too fragmented a pensions system with too many small funds that do not have the economies of scale or the expertise to make the best investments on behalf of their savers.

The reason why that is so bad is because when people save for retirement, they sacrifice consumption today, especially at a time when the cost of living challenges are as acute as they have been in the last few years. For that money not to be working as hard for a saver as it could be is really letting people down. That is why, through the pensions

Bill, we are requiring the consolidation—that is not, “We would like you to consolidate”; the Pensions Regulator will have powers to consolidate. I think that that is the right thing to do, because the current system is failing too many people, and the lessons from Australia, the Netherlands and Canada are that a smaller number of bigger schemes deliver better returns for pension savers.

Within the local government pension scheme, we have 96 different administering authorities at the moment, and we are going to take that down to eight pools. We are not going to say, “You can put your money in the pool if you want to”; the money will go into eight pools. We are not having 96 different authorities managing different schemes. We are going to consolidate local government pensions, because we want them to work better for savers and for taxpayers.³

We are going to consolidate the DC landscape as well. We built on what the previous Government did—what Jeremy Hunt did, when he was Chancellor of the Exchequer, with the Mansion House agreement—with a new Mansion House accord. This is in the spirit of what he did, but it takes the next step: 10% of assets in main funds will now be invested in private assets. I think around 90% of the biggest pension funds have signed up to this. Here is the crucial difference: of that minimum 10%, at least half has to be in UK private assets. This is because we know that there are massive growth opportunities with infrastructure and private assets, and we want British savers to be able to benefit from those opportunities here—and abroad, but here as well. We have not mandated that: it has just happened. Mandating is there if things do not move in the way we expect them to; there is no reason to use mandation, because the pension schemes are voluntarily signing up to that, but that reserve power exists if we ever need to use it.

The final thing that the pensions Bill does is make it easier to achieve surplus extraction for some of the DB pension schemes that, over the last decade or so, have built up large surpluses—to be able to extract those for investment but also to return that money to pension scheme members.

That is what we are doing on the pensions side. The aim is to better support savers and the real economy.

On retail investing, ahead of the new ISA year, starting in April next year, we are changing the rules around advice and guidance. Post-financial crisis, it is almost impossible for somebody on a modest or middle income to get advice on how to invest their money, so we are going to make changes there. This work is being led by Chris Cummings at the Investment Association to make it easier for providers of financial services to give a nudge to customers to say: “You have £20,000 in cash earning 3.5% or 4% a year, but if you look at what is happening in stock markets, they go up by usually nominal GDP, higher than inflation and

³ “[The correct figures are that there are 86 different administering authorities, with plans to take that down to six pools – HMT]”

higher than the base rate. If you put money in there, if you are in your 20s or 30s, by the time you retire or are ready to buy a house, it is likely to have made a better return than just leaving your money in cash". At the moment, you are not allowed to do that as a financial services provider; you are not even allowed to nudge somebody towards a product that might be more suitable for them. That advice and guidance review, and the change we are going to bring in, is about encouraging people to diversify and to invest their money in a way that is probably going to be better for them. Yes, it involves taking a bit more of a risk, but an informed risk based on your circumstances is probably better for many people than the status quo at the moment.

We are also looking at the ISA framework. We announced the long-term assets fund—is that what it is called?—that will be merged into the main ISA so that people can take advantage of those innovative products. We did not announce any wider changes, as you know, to ISAs. The big change we have made on retail investing is around the guidance that customers can get, to encourage that culture of investment, I hope, and allow ordinary British savers to benefit from fast-growing British businesses and new opportunities.

The Chair: I have to say to colleagues in advance that we have a hard 3.30 pm finish so, with apologies, we have to be brief in our questions in the follow-up.

Q10 **Lord Davies of Brixton:** I do not want to pre-empt Baroness Casey's review of adult social care, but do you accept that she is due to produce a solution to an oncoming crisis? Are we building into our plans for the future the fact that it will involve a lot more money? As I say, I do not want to pre-empt what conclusion she is going to reach, but that is my guess. Where is that money going to come from?

Rachel Reeves: Baroness Casey's phase 1 report will be published in 2026, looking at how we can use existing resources better. A huge amount of money goes into social care, both privately funded and publicly funded. I expect that, like most public services, that money could be better used than it is at the moment. So phase 1 is about quick wins—how to use the existing money in a better way—while phase 2 in 2028 will be about future arrangements, including financing. In the meantime, we have set out that we are going to bring in a fair pay agreement for social care, and we will be saying more about that in the months ahead. The local government settlements that we made in the first phase of the spending review and the Budget last year, as well as in the multiyear spending review last month, gave settlements to local government that were real-terms increases in their spending, the first sustained real-terms increases for a number of years, as well as additional investment in the NHS of £29 billion a year.

There is a wide consensus that the social care system needs reforming. We are making changes ahead of the Casey review, particularly around local government funding and fair pay agreements, but we recognise that much more systematic work needs to take place, which is why we have

asked the person who can deal with intractable problems, Baroness Casey, to do the review.

- Q11 **Lord Razzall:** I would like to turn to the slightly thorny issue of the rise in employers' national insurance contributions, which, as you know, has subsequently proved a bit controversial. I am interested in what you think about the impact on employment and inflation. Obviously, the bigger companies are better organised to absorb this, but if you went into your local pub, if you had the time to, I think you would find that that pub—if it was still there—was complaining to you about the impact on it. Did the Treasury model the affected changes before you introduced them? If so, what was the predicted effect?

Rachel Reeves: When we came to office last year—this links to the question earlier on from Lord Turnbull—we faced a situation where there were a number of unfunded spending commitments, and we needed to explain how we were going to pay for them. There were choices about how to address that. We could have increased taxes on working people or cut public spending. I did not think that they were the right choices, so as a result we increased taxes on business and on the wealthiest in society by around £40 billion in the Budget last year, and just under £25 billion of that came from an increase in employer national insurance contributions. Recognising that, as you say, smaller businesses would struggle more with that, we increased the employment allowance to £10,500, so if you are employing the equivalent of four people on the national living wage, you will not be paying any national insurance contributions at all. That was a doubling of the employment allowance, and it means that around 1 million businesses are paying either less or no more national insurance than what they were paying previously, but of course bigger businesses, especially employment-heavy businesses, face or have faced an increase in that burden. The counterfactual would have been higher taxes on working people, who have already had to absorb the vast amount of the cost of living challenges. It would have meant cuts in public services that had already been starved of resources for many years under the austerity of the previous Government, or it would have meant more borrowing, which just would not have been the right approach and would have meant that the Bank of England was not able to cut interest rates by four times in the last year.

Of course, those lower interest rates benefit households, especially with mortgages or other lending, and also help businesses which have paid a heavy price for the sharp increase in interest rates we have seen over the last few years. We used the money we raised, including national insurance contributions, to put our public finances on a firm footing. It also enabled us to put that additional money—£29 billion extra a year—into the National Health Service. They were the right decisions in the circumstances we faced, and I continue to defend those.

The modelling by the Office for Budget Responsibility should be the place to look for the impact of policies. In my view, you cannot look at individual policies on their own; you have to look at what the alternatives were, and they would have been an awful lot worse.

Lord Razzall: Well, I do not want to get into a debate about that; I do not necessarily agree with you. So, are you saying that the Treasury did not model the effect of this, particularly in the hospitality sector, but the OBR may well?

Rachel Reeves: You have read the OBR report, but I will let Beth say a few words.

Beth Russell: In the normal way, we work very closely with the OBR on what its assumptions are on the impact on employment. We fed into that closely. As we do for all our Budget measures, we also did sectoral analysis. As the Chancellor said, a lot of that is also looking not at individual measures but at the cumulative impact of those across the piece.

Rachel Reeves: I just also say this: I set out my policies and what this Government are doing, and of course, people can disagree, but the onus on them is to say what they would do. If you are facing a situation with a lot of unfunded spending commitments, you could say that you would not do that spending—that is definitely a reasonable thing to say—and then you would not have to increase taxes. Or, you could say that you want to pay for those public services which have been promised, in which case you can borrow to fund that. Therefore, you would not have benefited from the cuts in interest rates, and you would have paid higher costs of government borrowing. Or, you could say that you will tax someone else. That is fine, but you have to say who.

You cannot support the increase in public spending unless you support the money to pay for it. If you do not support the increase in public spending, that is fine, but you have to justify why you would not be putting the additional £29 billion into the health service.

Lord Razzall: We would have increased the bank levy and the tax on the technology companies, and taxed the gambling companies. You could have got close to £40 million through that, but now is not the time to debate.

Rachel Reeves: We can discuss that another time, but it is maths like that that got us into the problems that we are in today.

Q12 **Baroness Wolf of Dulwich:** Good afternoon, Chancellor. I would like to go back to one of the things that you raised when talking about your reforms: namely, planning and infrastructure. I think everybody in this room is well aware of the history of the bat tunnel, the 359,000 pages of planning documentation before you get anywhere on the lower Thames Crossing, and so on.

You particularly said you would like the Lords to get the Planning and Infrastructure Bill through fast. In that context, there has been some surprise expressed about the fact that the Bill has come to the Lords with some government amendments that actually seem to make it easier than in the original drafting to block and delay things on environmental impact grounds. Could you say a little about that? It seems like a good moment

to ask you to do so. Also, much more generally, how will you know whether the planning reforms are really adequate and cutting through? Therefore, I have a specific question about the environmental impact and whether the effect on nature is permanent. Secondly, this is an ambitious Bill, but is it ambitious enough? How will you judge whether it actually needs to be followed by further planning interventions?

Rachel Reeves: Thanks very much for engaging in this issue. This and the trade deals we have done are probably the most important things we have done to date on unlocking growth, because there is a wide consensus that we need to improve our productivity and growth performance.

I did a “Today” programme interview where I sort of laid into bats, great crested newts and lizards or whatever—I do not know about the lizards—and I think the “Today” programme got quite a lot of feedback. We cannot always say no to infrastructure investment. We announced Sizewell C today; I see that there are quotes from the Stop Sizewell C group, and I understand why it has concerns, but if we say no to every new airport runway, housing development, onshore or offshore wind farm, power station, data centre and film studio, we will not boost our productivity: we will see it decline further. I am not willing to be the Chancellor that lets Britain go on this path of steady decline, because it would be a path of our own choosing. I have chosen investment rather than that path of decline. It does mean having some fights and taking on some people who do not want change. I am willing to have that argument. Home ownership has gone backwards, our energy bills have gone through the roof, and we do not have the security of energy supply. That is why the Planning and Infrastructure Bill, combined with the regulatory reforms, is absolutely essential.

You made the point about the government amendments. We have taken two separate sets of legal advice as a Government ahead of putting those down. We do not think that they water down or weaken the Bill, but they give some of the assurances to, frankly, encourage people at your end of this building to get on and do what we need to be done, which is to pass the Bill. If it means that we can shave off a couple of months on the Bill, that would be my urging to all of you, because the quicker we can get it on the statute book and into law, the quicker we can get on.

I know you have not asked this question, but if you would like to ask me what has frustrated me more than anything else in this first year of government, it is how long it takes to get things done. Of course, we have to have proper scrutiny and all the rest—that is essential for good lawmaking—but it will be a year and a quarter or a year and a half before we get this flagship legislation, which we have a mandate to do, because it is in our manifesto to get it through. I urge people in this place to be sympathetic towards this legislation. I know amendments can often be useful, but every day, week and month that passes is another day, week and month that keeps the costs of infrastructure investment too high—much higher than they are in comparable countries around the world. The

reason HS2 is not coming to my city of Leeds any time soon is because, I am afraid, as a country, we have cared more about the bats than we have about the commuter times for people in Leeds and West Yorkshire. We have to change that. I care more about a young family getting on the housing ladder than I do about protecting some snails, and I care more about my energy bills and my constituents than I do about people's views from their windows. Again, we can have a debate about that, but that is where I stand, and that is why we are making these changes.

Baroness Wolf of Dulwich: How will you know if they are adequate?

Rachel Reeves: If we get stuff built and if it is cheaper to do so.

Baroness Wolf of Dulwich: But do you have any sort of specific criteria for going, "This should be that much shorter"? With all due respect, if you do not, it is very easy to—

Rachel Reeves: This is an MHCLG policy, but absolutely. This is about reducing the time it takes. You will have already seen that we have this target of signing off 150 major infrastructure projects in this Parliament; I think we are something like half way to achieving that. We have that target. Every week, I get an inch-thick tracker document of growth projects that we want to get on with, and, every week, it is updated with what change has been made. One that I am looking forward to getting before the Summer Recess is the plan from Heathrow Airport for a third runway. We need these investments. There will always be people who object to that. I do not say that they are wrong from their personal perspective, but, as a country, we have to get on and build this stuff. Otherwise, we are going to find that our children and grandchildren have poorer living standards than we do, and that would be unforgivable.

Beth Russell: Could I just add one thing? This is also about the creation of the National Infrastructure and Service Transformation Authority, which is now situated within the Treasury. Part of its role will be working with departments and others throughout the supply chain, and through the delivery chain, to identify where the blockers are and to then help us unblock them.

Q13 **Baroness Liddell of Coatdyke:** Can we afford the triple lock on pensions? The OBR has said that it will cost £15.5 billion annually by 2029-30. That is an awful lot of money. Are there any scenarios in which you would envisage modifying the triple lock formula?

Rachel Reeves: Thank you very much, Baroness Liddell. In the manifesto, as you know, we made the commitment to maintain the triple lock and it remains our policy. We have, though, just launched, as I said in the answer to a previous question, the Pensions Commission to ensure that the state pension remains affordable and that people have adequate pensions in retirement.

Suzy Morrissey is doing a regular review of the state pension age for us because as we live longer, especially if that is healthy life expectancy, we should work a bit longer as well. There is also this review around pension

adequacy because the decline of DB pension schemes and the returns that have not been as high as they should be on DC pensions mean that, despite automatic enrolment, people still do not have the pensions that they deserve. We are looking at that long-term sustainability.

Despite making some changes a couple of months ago to the winter fuel payment, it is now the case that if you earn more than £35,000 a year you will not get it, which saves around £400 million a year. That is the right thing to do, because in a fiscally constrained world it is not right that working people on ordinary incomes pay the fuel bills of wealthier pensioners. We have made that change to make the pension system more affordable.

- Q14 **Lord Liddle:** One of the exciting things we talked about a lot in opposition was radical devolution in England. Are you prepared to devolve any tax powers to mayoral and combined authorities—for example, discussion of a hotel tax which might raise money for local cultural investment, which is very strong on job creation? Are we prepared to see a serious devolution of budgets as a result of devolution, particularly, in my view, on skills, where people at local level are much more likely to be able to identify the real skill shortages in their area?

Rachel Reeves: I will say a bit and then pass on to Beth Russell. Beth, as well as being Second Permanent Secretary at the Treasury, also heads up the Darlington campus, which has eight different government departments. It is a really different way of working for the Civil Service. You might sit next to somebody who is not in the same department as you. I think it is a great innovation and Beth, as I say, has really spearheaded that.

At the spending review last month, we announced the rolling out of integrated settlements to five new combined authorities from 2026-27. That is in addition to what we have already done in Greater Manchester and for the West Midlands Combined Authority. One of the things I think will be most transformational in the spending review is the £15.6 billion settlement for eight mayoral combined authorities for transport investment.

I have been an MP for 15 years in Leeds West and long before that they were talking about a mass transit scheme. We are the first Government to have actually committed some money to it. In the north-east, the tram will go to Sunderland and in Greater Manchester the tram will go to Bury and somewhere else.⁴ In Sheffield, I think it is going to be extended to

⁴ “[Whilst not an extension to the metro line, the Bury Interchange project will deliver a new metro interchange at Bury. In addition, in its draft Rapid Transit Strategy, Greater Manchester outlined a proposed tram-train pathfinder route to connect Bury, Heywood, Rochdale, and Oldham, covering approximately 25 km. Both the redevelopment of Bury Interchange and development for the tram-train pathfinder project is currently being funded through Greater Manchester’s £1bn City Region Sustainable Transport Settlement from 2022/23 – 2026/27. At the Spending Review, Government also announced a £2.5bn Transport for City

Rotherham. Beyond mass transit, this is also about better bus services, new bus stations, et cetera. In the West Midlands it is going to go to east Birmingham and then on to Solihull. Again, a lot of this work has been led by Beth.

There is a review of the Green Book. For a long time, mayors, MPs from the country and across party have complained that the Green Book makes it harder to get investment signed off for places outside London and the south-east. So we have made significant reforms to the Green Book to make it easier to get that investment to the places that can benefit most from it. Beth, do you want to say a bit more?

Beth Russell: You talked about existing tax powers. The devolution White Paper is extending some of the existing tax powers that mayors have to all mayors. As the Chancellor said, one of the things that we are doing differently in government is working differently with regional government, particularly in the Treasury but across departments. Local growth plans are playing an important part in that. One of the complaints from regional government has been needing to have individual conversations bilaterally with individual departments. These growth plans enable us to come together in a single place with them to talk about their priorities and how we can work together to achieve them. So that is quite different as well.

The Chair: One last follow-up from Lord Burns. As a former Permanent Secretary at the Treasury, I would be remiss in not allowing him a final question.

Q15 **Lord Burns:** I am sorry, Chancellor, that I was late arriving. Quite rightly, you put a lot of emphasis on the issue of sticking to fiscal rules. In the past, Chancellors have found, of course, they had to make quite a lot of changes to those rules as time has gone on. Over the past year, there has been a suspicion that the headroom left for uncertainties was possibly not quite as much as was necessary, given the uncertainties that we faced. I wondered whether you had any views about how much headroom needs to be built into those figures to make sure that we can actually stick to these rules and do not get derailed by changes that we cannot foresee at this moment, which has often happened to Chancellors in the past 10 or 15 years.

Rachel Reeves: If the question is, "Would you like to have more headroom?", yes, of course we would like to have more headroom. But there is a cost to more headroom and that is either less spending in a world where there are huge pressures on our public services, or more taxes in an environment where Lord Blackwell and others have already pointed out that taxes are at an historic high. We increased the headroom—it had gone down to £6.5 billion in the Budget before last in the previous Parliament—and it is now at £10 billion. We kept it at around £10 billion in the Spring Statement. We have also made a

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commitment to move to just one major fiscal event a year, to give greater certainty to people around tax levels. We stuck to that in the Spring Statement, where we made adjustments without changing tax rates.

It would be wonderful to be in a world where we had less taxes, better public services, less deficits and more headroom. But I come back to Lord Wood's first question: in this age of uncertainty in which we live, how are you conducting your growth policy and economic strategy? We are trying to build a more stable and resilient economy with clearly understood fiscal rules that will be stuck to, and then using, as much as possible, non-fiscal levers to grow the economy. Of course, fiscal levers include the investment rule to unlock public investment but also all the things that are necessary to free up that private investment, because we know there is money available to invest, but it is not going to come to Britain unless we do what is needed to get better trade relations, better planning systems, better regulation and a better financial sector, including on pensions. That is what we are trying to achieve as a Government. If in time it means that we can build in more headroom, even better. But we are dealing with the world and the inheritance we have, not the one perhaps we might like to have had.

Stephen Farrington: Could I just say one thing briefly on this question, as I have a close professional interest in it? The focus on the size of the headroom underplays what could be a more important issue. What really matters is the quality and the credibility of the plan that sits underneath the size of that headroom. You can have more or less credible plans for different sizes of headroom. For example, in the Spring Statement, I will show you that we were meeting those fiscal rules two years early at the three-year horizon. We are in a position in which the fiscal rules are being met on the basis of legislated tax increases and spending plans that are underpinned by detailed three-year spending plans at a departmental level. That is a strong underpinning to the consolidation path and is at least as important as the size of headroom, given the range of uncertainty that you mentioned.

The Chair: You urged us earlier to proceed in a timely manner on the planning Bill, and we can assure you that we proceeded in a timely manner today because we have hit 3.30 pm exactly on the mark. Thank you to you and your team for coming today. We really appreciate it. I am sure you will be setting an example, working hard and raising productivity over the summer, but we wish you at least some time when you are letting your productivity slip at some point over the next couple of months. Thank you very much for your time. With that, I end the public meeting.