

Treasury Committee

Oral evidence: Budget 2025, HC 1349

Wednesday 10 December 2025

Ordered by the House of Commons to be published on 10 December 2025.

[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; Jim Dickson; John Glen; John Grady; Dame Siobhain McDonagh; Luke Murphy; Yuan Yang.

Questions 563-679

Witnesses

I: Rt Hon Rachel Reeves MP, Chancellor of the Exchequer; James Bowler CB, Permanent Secretary to the Treasury, HM Treasury; Dharmesh Nayee, Director of Strategy, Planning and Budget, HM Treasury.

Examination of witnesses

Witnesses: Rachel Reeves MP, James Bowler and Dharmesh Nayee.

Q563 Chair: Welcome to the Treasury Committee on Wednesday 10 December 2025. We are delighted to have in front of us the Chancellor of the Exchequer to talk about the Budget that she unveiled on 26 November; welcome to the right hon. Rachel Reeves MP. She is joined by James Bowler, the permanent secretary to the Treasury, and Dharmesh Nayee, director of strategy, planning and budget at the Treasury. Welcome to your first ever Select Committee, Mr Nayee.

Before we get into the details of the Budget, we need to cover some important issues that arose. The OBR released the forecast early; we have now seen Richard Hughes resign, and he has taken responsibility for that inadvertent leak of information. Chancellor, does the resignation of Mr Hughes show that, when organisations—advertently or inadvertently—leak market-sensitive information, the honourable course of action is for leaders of those organisations to resign?

Rachel Reeves: Thank you very much, Dame Meg. It is wonderful to be here giving evidence to your Select Committee again. First, I thank Richard Hughes for his service. You will have seen his letter of resignation and my response to it; I thank Richard for his leadership of the OBR, as well as his distinguished public service both at the Treasury and in other organisations over many years.

However, I am also grateful for the opportunity to make a statement and reiterate in the strongest terms that leaks are unacceptable. The Budget had too much speculation and there were too many leaks. Much of that leaking and speculation was inaccurate and very damaging. You have already mentioned the IT security issues, where the entire Budget was inadvertently published an hour before I stood up to present it to the House.

The OBR's report noted that the spring statement had been accessed early as well. I want to state on the record how frustrated I am and have been by these incidents and the volume of speculation and leaks. That is why I am doing something about it—because we cannot allow this to happen again. A leak inquiry is under way, with my full support, led by the permanent secretary at the Treasury. We are also conducting a review of the Treasury security processes to inform future fiscal events.

We also clearly need to look explicitly at physical IT security. The Treasury has asked the National Cyber Security Centre to undertake a forensic examination of recent economic and financial outlooks. The outcome of that review will be public and we will write to you with the outcomes of the review.

Q564 Chair: Can I turn to you, permanent secretary, on the subject of the OBR? Do you know yet who in Government and which Department accessed the forecast early in March?



HOUSE OF COMMONS

James Bowler: You will have seen the report given to the Chancellor and yourselves. We have asked the National Cyber Security Centre to do a forensic examination of that.

Q565 **Chair:** You do not know the answer to that right now?

James Bowler: I would note that a media organisation has stated publicly that it accessed the March statement.

Q566 **Chair:** But the report suggested that there was access from within the Government circle. You do not know who the March report was?

James Bowler: No, but we have got a process under way with the top level in Government of National Cyber Security Centre to ascertain a forensic examination of what happened, including in March. We will report back publicly on that.

Q567 **Chair:** Are you waiting for the full access issues, or will you be looking particularly at that March one, because it sounds as though it was leaked from within Government or accessed from within Government?

James Bowler: I don't know what happened on that. We will see. I am waiting; my intention is that the review I do into Budget security will be informed by the National Cyber Security Centre's forensic examination of what happened on IT security, the leak inquiry under way and, of course, lessons learnt from this Budget.

Q568 **Chair:** It seems to me that it could be quite quick and easy to find out which bit of Government could access the forecast early in March, because that is quite a serious issue, isn't it?

James Bowler: To the detail, the review to you and the Chancellor suggested that there was a single access in March, and it suggested that it might have been benign. Since then, a media organisation has stated that they accessed it, so I think that is the latest on where we are. I do not know whether that is less benign than we think, and it was them, or there is more access to it, but we will get to the bottom of that via this review.

Q569 **Chair:** So we are waiting for the whole review to get the answer to that particular point.

James Bowler: Yes.

Q570 **Chair:** What is the timescale for that review?

James Bowler: I hope to conclude everything ahead of the spring statement, so early in the new year.

Q571 **Chair:** We will keep in touch with you on that. Chancellor, what is the recruitment timetable for Richard Hughes's successor as chair of the OBR?

Rachel Reeves: I met Tom Josephs and David Miles earlier this week, along with the permanent secretary, to thank them for their service and for continuing in their roles. It is unlikely that we will have a new chair for the spring forecast, because we obviously need to go through a rigorous process, but they are happy and confident that they can lead us through

that. We will go through a rigorous process and advertise the role as soon as possible.

Q572 **Chair:** As soon as possible—before Christmas or early in the new year?

Rachel Reeves: I think it is most likely to be early in the new year, as it is only a week or so until the Christmas recess, but we will put it out as soon as we can.

Q573 **Chair:** Thank you very much. Chancellor, you have made a statement about leaks, but we need to put some questions to you. You obviously answered very clearly to the shadow Chancellor yesterday in the House but, just to be clear, we need to go through a few points. Are you in control of all media briefings that emanate from the Treasury and political operations inside No. 11?

Rachel Reeves: Yes, and I and my team of officials are very clear about the Macpherson principles. Of course, as I said yesterday in Parliament, I did not disclose confidential information. As I have also been clear, there have been leaks, and that is why we have set up a leak inquiry, and why we are doing this work. That investigation is happening at the moment to ensure future Budget security, as well as OBR security, as we have just discussed. For your information, we are working with the OBR on IT security, and it will publish via gov.uk in the spring, rather than using its own platform—that is a first step.

Q574 **Chair:** As the independent report by Ciaran Martin and others indicated. So you are in control of media briefings. Would you therefore say that you are responsible for media briefings that emanate from the Treasury and No. 11?

Rachel Reeves: As I have just said, Dame Meg, there were leaks that were clearly not authorised. That is very serious, which is why this review is going on. If you would like me to address specifically the issues on 13 November, I am very happy to do so.

Q575 **Chair:** Certainly, if we can get to that. In the lead-up to the Budget more generally, there is obviously a very tight circle of people who are aware of information. I imagine that the information about potential rate movements for income tax is probably one of the most protected bits of information in the system. Roughly how many people would be aware of that information?

Rachel Reeves: I do not want to give you a number without being able to check.

James Bowler: The leak inquiry will set out that, as well as the recommendations. The answer is that we have all sorts of security things in place for any Budget. Those have been repeatedly tightened, but we are clearly going to have to revisit and reset. It will be imperative to increase our security, and that is very much my intention.

Q576 **Chair:** Permanent secretary, when we were in Darlington in February, you discussed the leaks at that time with the Committee, and you said, "You



HOUSE OF COMMONS

really do not want to give a running commentary on that or publish things as it goes along, because that would be extremely market-sensitive and therefore deeply unwelcome.” I am assuming that you still agree with that approach.

James Bowler: Very much so.

Q577 **Chair:** Chancellor, let’s go to 13 November. The Financial Times reported, “The prime minister and chancellor have ‘ripped up’ earlier proposals to raise the basic and higher income tax rates, according to officials briefed on the move, amid fears it would anger voters and further antagonise mutinous Labour MPs.” Perhaps we would not all agree with the characterisation, but that is what was reported. I do not understand why you do not yet know who those officials are. Do you know who those officials are, Mr Bowler?

James Bowler: Shall we go through the timeline?

Rachel Reeves: On 4 November, I gave a speech where I set out my priorities for the Budget: to cut the cost of living, to cut NHS waiting lists and to cut the debt and the deficit. I was clear in that speech that I wanted to build more resilient public finances, with the headroom to withstand global turbulence. As you saw when I delivered my Budget, I was able to increase the fiscal headroom from £9.9 billion, which I delivered in the spring, to £21.7 billion—so, more than doubling it. I was clear that, in order to achieve those objectives, we would all have to contribute.

On Thursday 13 November, there was a leak to the *Financial Times* about one element of the Budget. The leak presented partial and inaccurate information, and an inaccurate picture of the Budget strategy. The implication that some could take from that story would have been that I had ditched core elements of the Budget strategy that I had set out just a few days before in the speech on 4 November and that I was not going to build up the headroom that I had previously said was necessary. That was not true, so both the Treasury and No. 10 issued statements on 14 November on the record to the press, to be clear that the Budget priorities stood, including building more resilience into the public finances, with headroom to withstand global turbulence.

It was very important, because the story in the *FT* was both partial and inaccurate, and it was important that we quickly ensured that people understood that the strategy that I had set out publicly on 4 November still stood.

Q578 **Chair:** Can I just say this is a story by George Parker, a very renowned political journalist at the *FT*? He did say, “according to officials briefed on the move”; that is quite direct for an off-the-record briefing. And he is not the sort of journalist who—

Rachel Reeves: It was not an “off-the-record briefing”; it was a leak.

Q579 **Chair:** You are really clear it was a leak?



HOUSE OF COMMONS

Rachel Reeves: I am absolutely categorical that that was not an authorised briefing. It was incredibly damaging and frustrating. That is why we have a leak inquiry. It was not “briefing” that was signed off by me or any of my Ministers or officials. It was unacceptable. That is why there is a leak inquiry going on.

Q580 **Chair:** Okay. Mr Bowler, this is cited as “according to officials briefed on the move”. Is your leak inquiry looking at officials?

James Bowler: Yes.

Q581 **Chair:** Is it looking at advisers?

James Bowler: Yes.

Q582 **Chair:** Is it looking at Ministers?

James Bowler: Yes. It is being carried out by the Cabinet Office, as a leak inquiry; it is a look at the Treasury and wider Departments that were—

Rachel Reeves: And of course it is right that it looks at all those people. That is not suggesting that we think any of those people are responsible, but everybody who had access to this information should rightly be part of that leak inquiry.

Q583 **Chair:** Absolutely. I think we would not expect anything different from you. Mr Bowler, where did you get with the leak inquiry about the story to Bloomberg in March?

James Bowler: I wrote to you on that in March. The conclusion was that the inquiry was not clear whether it was a leak or speculation.

Q584 **Chair:** Okay. How do you rate the chances, from one to 10, of getting an answer through this leak inquiry?

James Bowler: I would say a couple of things. First, it is not the case that leak inquiries do not get anywhere. It is the case that, even in the last year across Government, civil servants—I will just speak to them—have been found to have accidentally or deliberately leaked information. That has led to action, including dismissal.

Secondly, we will see the recommendations of this leak inquiry and we will take action on them. I am sure that the inquiry will give us a recommendation about how many people knew things and the extent to which that was greater than the number of people we had intended to know things. That would be a useful piece of information, which will lead to us being even more careful still about who knows what when, and I am pretty determined to deliver on that.

Q585 **Chair:** I think that everyone will want that to work. Last Thursday, the Chief Secretary to the Treasury told the House that there would be this inquiry into the leak—we welcomed that at the time, but which leaks? I ask that because, Chancellor, you have spoken about the one to the *Financial Times* on 13 November. Will the inquiry, permanent secretary,



HOUSE OF COMMONS

cover all of the other—?

James Bowler: That is the main focus, because that was clearly the very damaging leak. That is where the focus of things is going. But obviously, it is for the inquiry to take it where they will.

Q586 **Chair:** Shall we move on to the OBR's misgivings about the communications? That is what led the OBR to write a letter. It would be helpful for the record, permanent secretary, if you could be clear that the information that the OBR provided in that letter was not unusual—a lot of it is in the EFO anyway, and it was only round 1 and round 2 that were additional information provided in that letter to the Committee.

James Bowler: Yes, that is right. I would also point out—I think there has been some confusion about this, so it is worth saying—that the Treasury, as in the Chancellor, took the extraordinary step to agree to release that information to deliver maximum transparency about all of this, including to this Committee. Our endeavour—both the OBR's and ours—is now to return those discussions to private, which is the best bet for policymaking here, so that in future events we can exchange forecast information in private to take right policy decisions—

Q587 **Chair:** We asked the OBR the question last week about whether they would be willing to make this a regular thing, and they had no particular objection. Are you saying that the Treasury would not want to provide the Treasury Committee with that information post the Budget?

James Bowler: There is a debate to be had. Some countries do things differently, and we can look at that, but it would be my prior that for good policymaking you reserve the right for privacy between those things.

Chair: The Chancellor is nodding. Do you agree with the permanent secretary?

Rachel Reeves: Yes, I agree with the permanent secretary.

James Bowler: I would also point out that a feature since, I think, 2022 is that the OBR has published the timetable of when they send their forecasts to the Treasury. The Lords' Economic Affairs Committee had evidence from Andy King and others. The fact that the OBR published that timetable leads to quite a lot of speculation about what each forecast says, so maybe we should go back to—

Q588 **Chair:** When did you first know about the letter? When did the OBR start talking to you about writing the letter? Did you agree on it?

James Bowler: The OBR said it was minded to write a letter. We said we would agree with its writing that letter. The original intention was that it would be published on Budget day, but the OBR took the decision to delay that for obvious reasons.

Chair: So they approached you, but you agreed it. Can you remember what timeframe that was in?

James Bowler: In the immediate run-up to the Budget.

Chair: During November?

James Bowler: Yes, late November.

Q589 **Chair:** Chancellor, on 10 November you said to the BBC, “It would, of course, be possible to stick with the manifesto commitments. But that would require things like deep cuts in capital spending”, so you clearly set out, as you mentioned earlier, a strategy for your Budget. You set out the two options—breach the manifesto or cut capital spending. Can you be clear for the record which one you chose?

Rachel Reeves: I said in my speech on 4 November that everyone would have to contribute. We were able to keep that contribution as low as we did by using a range of more progressive taxes such as the high value council tax, the gambling tax and tax on dividends on property.

Chair: We will get into those in a second. You set out very clearly on 10 November that those were your two options, so what you are saying is that, really, you did not seem to go for either of them. Is that a fair characterisation?

Rachel Reeves: Of course there are always other options available. There are a number of policies leading up to the Budget that we cost. As the Prime Minister has been clear—

Chair: You put it very starkly on 10 November: breach the manifesto or cut capital spending.

Rachel Reeves: Those were the two options that were available. As the Prime Minister has subsequently said, we did look at whether we needed to increase the rates of income tax, given our concerns around the forecast and particularly the productivity downgrade, which took £16 billion off in terms of revenues in the final year of the forecast. In the end, that was not necessary, but we did, as I set out in my speech on 4 November, ask everyone to contribute by freezing the threshold that the previous Government had frozen for seven years by an additional three years from 2028.

Q590 **Chair:** We can get into the figures, but the £16 billion was offset by other measures, so it was about a £6 billion gap, wasn't it?

Rachel Reeves: That is not entirely correct. The £16 billion is the result of a productivity downgrade. Because of higher wage inflation and price inflation, there were also higher tax revenues, but higher inflation is not a good thing, because, of course, that erodes the spending power of Government. I would not characterise it as, “We had good news on inflation”—it was far from it. In fact, I was very clear in my speech on 4 November that one of the objectives of the Budget was to reduce that inflation, which was of course resulting in higher tax revenues, but not for a good reason. You could say the revenue available was welcome in fiscal terms, but it is not really welcome because we want lower inflation. It is really important that we do not see the revenues from higher inflation as somehow being good news during the forecast process—

Q591 **Chair:** No one was suggesting it was good news, but it offset the £16 billion to a degree.

Rachel Reeves: Of course, we wanted to reduce that inflation, which is exactly what we did, as the deputy governor of the Bank said to you yesterday, with 0.4 to 0.5 percentage points off inflation next year.

Q592 **Chair:** The Bank was clear to us yesterday that it is still on its trajectory towards 2%.

Rachel Reeves: I think the deputy governor was a bit clearer than that. I think she gave evidence to the Committee yesterday saying that next year there will be 0.4 to 0.5 percentage points off inflation because of the measures in the Budget.

Q593 **Chair:** She was very clear about that; it is on the record.

Mr Bowler, a final question from me about the leak inquiry: will you be publishing it?

James Bowler: Yes.

Q594 **Chair:** To the world or to the Committee?

James Bowler: Well, I will be publishing my review, which will include the actions we are taking from the recommendations of the leak inquiry.

Q595 **Chair:** Would it be possible for this Committee to see the full inquiry in a confidential manner?

James Bowler: I would have to engage with the people doing the inquiry about their views on that. I would not like to keep it from—

Q596 **Chair:** I think I can say with confidence as Chair that this Committee does not leak. We would obviously be very careful about any sensitive information—we have done that—and, as you know, in my previous role I handled a lot of sensitive information.

James Bowler: Yes.

Chair: We can take that offline.

Q597 John Glen: Can I turn to the sequence of events? The last piece of meaningful data from the OBR was the £4.2 billion figure on 31 October. At the scene-setter No. 11 press conference on Tuesday 4 November, the impression was left by everything that was covered that income tax was going up. Chancellor, in your interview with Pippa Crerar of The Guardian, you said that you did not know the size of the downgrade of productivity, and after that press conference the raising of income tax remained on the table. What I do not understand is what further data points came from the OBR after 31 October. As far as I can see, there was not any meaningful data.

Rachel Reeves: As you will know from your time at the Treasury, pre-measures is not the final word from the Office for Budget Responsibility; you have post-measures forecasts as well. The post-measures forecasts take into account the policy decisions that we take as a Government on



HOUSE OF COMMONS

tax and spend, and the OBR rightly do their own analysis of the revenue that different measures raise. So there was plenty of additional information being shared between the OBR and the Treasury between 30 October and major measures 1—and indeed major measures 2. I think it is not right to say, and you will know this from your time at the Treasury, that the—

John Glen: I was never Chancellor.

Chair: Just the longest-serving Economic Secretary since the second world war.

John Glen: I just want to try and clarify that there were more meaningful data points between 4 November and 13 and 14 November.

Rachel Reeves: Yes, and—

Q598 **John Glen:** What led to those being meaningfully different?

Rachel Reeves: Yes, there was, and the reason for that is that the OBR do costings of all the changes that we are making, as well as there being interactions between the tax measures and other economic variables, whether those be GDP, consumption or inflation, so all of this was changing. It was a big Budget—I think we can all agree on that—and every measure has both its own impact and a cumulative impact. So there was a lot more information between those dates.

The other thing I would add is that the £4.2 billion was not the number that we were using at the Treasury. There were also the policy decisions between spring statement and autumn Budget that meant that the £4.2 billion headroom was actually, from our reckonings, around a £3 billion deficit against our fiscal rules. So not only was £4.2 billion not the last word from the OBR, but it was not the number we were using internally at the Treasury.

Q599 **John Glen:** The clear impression left by the scene-setter press conference on the 4th was that income tax was going up. That was what every newspaper was saying—income tax was going up—and then 10 days later it was not. What can you tell us about your decision-making process during those 10 days?

Rachel Reeves: A couple of things. First of all, in the speech on 4 November, I was very clear that everyone would have to make a contribution, and you saw that in the Budget on 26 November: we froze, for an additional three years, the tax thresholds—national insurance and income tax—that the previous Government had frozen for seven years. We extended that for a further three years. That is not a breach of the manifesto, but it is asking everybody to contribute more. I was very up front about that.

Q600 **John Glen:** It does raise taxes for working people.

Rachel Reeves: I was very up-front in my speech in Parliament, when I delivered the Budget, that that would mean everyone was having to contribute, in exactly the way that I set out in my speech on 4 November.



HOUSE OF COMMONS

So I very much stand by the speech I made. I said in that speech that we were going to cut the cost of living, and we did: 0.4% or 0.5% off inflation next year, as Clare Lombardelli said to you yesterday. We are cutting NHS waiting lists—we have already reduced them by 250,000—and we protected NHS spending in the Budget. We also cut the debt and the deficit, as you can see in the OBR and Treasury documents. I was also very clear in that speech both that, given global turbulence, we would need to build more fiscal resilience—which we did by taking the headroom to £21.7 billion—and that we would have to ask everyone to contribute.

Q601 John Glen: Why did you decide to change the decision on raising the rate of income tax in those 10 days?

Rachel Reeves: The Prime Minister has been clear that that was one of the things that we looked at, but we were also looking at the tax thresholds. In the end, because of the decisions we made on higher value council tax, property, dividends and a number of other measures, we were able to keep the contribution from working people as low as we possibly could.

Q602 John Glen: Did you make that decision or did the Prime Minister?

Rachel Reeves: The Prime Minister and I met two or three times a week during the Budget process. That is not always the case between Chancellors and Prime Ministers—I recognise that—but there is a very close partnership between myself and the Prime Minister. We took him through all the numbers and options, and we decided it together, as a team, because the Prime Minister and I are a team.

John Glen: Thank you, Chancellor.

Q603 Dame Harriett Baldwin: Chancellor, in the run-up to the general election, you said that you had no plans for tax rises beyond what was in your manifesto, that you would focus on growth and that growth was the way in which you were going to get more tax revenue coming in. You have now put together two of the biggest tax-raising Budgets in UK history. The Office for Budget Responsibility told us that overall there is not a single measure that has a positive growth impact. In fact, it thinks that tax hikes are harming growth. Can you tell us what your growth plan is? It is not one of the priorities of this Budget. Are you still chairing the growth mission board?

Rachel Reeves: First of all—we have been through this a number of times—there was new information after the general election: first, the £22 billion black hole in the public finances left by the previous Government.

Q604 Dame Harriett Baldwin: Which has been discredited by the Office for Budget Responsibility.

Rachel Reeves: Not at all. The £22 billion black hole left by the previous Government, which we had to fill, was set out to me by Treasury officials on the weekend that I became Chancellor of the Exchequer. Then there was the £16 billion downgrade to productivity and the impact that that had on fiscal revenue. The Office for Budget Responsibility was very clear that



HOUSE OF COMMONS

that reflects the weak productivity in the previous Parliament. The OBR made the decision to do that revision this summer, but it was very clear that it does not reflect any policies of this Government.

Those are the two key things that have changed since the general election. Of course, I did go into the general election with targeted tax increases on non-doms, private equity, private schools and the energy profits levy that we were elected to deliver. We have delivered those; we have had to do additional tax-raising because of the mess left by the previous Government—

Dame Harriett Baldwin: It was not caused—

Rachel Reeves: Shall I finish answering your question, Dame Harriett? You have asked about economic growth. You will know that in the spring, the OBR upgraded their growth forecast. It was the biggest upgrade to growth from a non-fiscal measure that the OBR, in its 15-year history now, has ever made. That reflected the changes we made to planning, and they also upgraded the growth forecast because of the capital investment that this Government is prioritising. Of course, under the previous Government's plans, capital investment was due to fall in this Parliament. I have protected capital investment and have continued to do so, even in this challenging Budget with the productivity downgrade.

The OBR have been very clear that the planning reforms—voted against, I believe, by the Conservative party—and the capital expenditure, which I believe the Conservatives were going to cut, have resulted in an upgrade of productivity. If you look at Budget week, we made further progress on a third runway at Heathrow; we signed off the film studio in Marlow that had been opposed by Buckinghamshire council and that we called I; since the Budget, JP Morgan have announced a huge investment in Canary Wharf; Goldman Sachs have announced they are doubling their headcount of jobs in Birmingham and, in addition, the Co-op have announced they are freezing or cutting 2,700 prices in store.

Those are all pro-growth measures, but probably the most pro-growth of all are the five interest rate cuts we have had from the Bank of England since the general election. That is only possible because of the stability we provided after the chaos we had in previous years.

Dame Harriett Baldwin: So you chose not to put any new growth measures in this Budget, or are you still—

Rachel Reeves: That is exactly—no, no, no. That is not what I said. Sorry, Dame Harriett—

Dame Harriett Baldwin: Could you just answer the specific question I had was, which was: are you still—

Chair: Perhaps, Dame Harriett, if you could ask the question, the Chancellor could answer.

Rachel Reeves: Yes—but don't contradict what I have just said.



HOUSE OF COMMONS

Q605 **Dame Harriett Baldwin:** Are you still chairing the growth mission board?

Rachel Reeves: Yes, we have regular meetings with the growth mission board. I did not say in my answer to your question, as you suggested, that there were no growth measures in this Budget. Far from it. In the week of the Budget, we made further progress on the runway at Heathrow; we signed off the film studio in Marlow. Jamie Dimon, the chief executive at JP Morgan—who could invest in any country in the world—chose, the day after the Budget, referencing the actions that I had taken in the Budget, to say that as a result of that he would be making the investment in Canary Wharf. Similarly, Goldman Sachs, a company that could invest in any country in the world, announced the following day that, because of the measures in my Budget, it was investing in Britain.

Q606 **Dame Harriett Baldwin:** Do you accept, Chancellor, that your revealed preference now, in terms of the two Budgets you have brought in, is that you hike taxes a lot, and that the speculation—and the impact of the speculation—in the run-up to this Budget had a real-world impact on people's decisions in mortgages, pensions, and a range of different things that changed behaviours within businesses? A lot of businesses said they put decisions on hold. This impression that you are ready to go for tax rises is going to hang over this country's economy for the rest of this Parliament.

Rachel Reeves: Of course, the previous Government took taxes to a record high and saw interest rates go through the roof.

Dame Harriett Baldwin: I do not want to hear about the previous Government.

Rachel Reeves: I am not surprised you do not want to hear about the previous Government. Nor do voters. There we are: a rare moment of agreement.

Dame Harriett Baldwin: This is about your Budget measures, Chancellor.

Chair: Questions and answers would be good, please.

Rachel Reeves: Which is what I am trying to do.

We have returned stability to the economy, which has enabled the Bank of England to cut interest rates five times, and, as you will have seen, since the Budget a number of mortgage lenders have cut interest rates on mortgages. I think interest rates on mortgages are now lower than they were since Prime Minister—maybe one you might not want to remember as well—Liz Truss took interest rates through the roof. I very much welcome that. Those reductions in interest rates would not have been possible without the stability I have returned to the economy.

Q607 **Dame Harriett Baldwin:** We will get into measures in a moment, but last year I asked you about the way in which you are implementing all the article IV recommendations from the IMF. You are basically going through



HOUSE OF COMMONS

the whole list of recommendations and ticking them off one by one.

Last year, I asked you if you were planning any overhaul of council tax. You said, "No, we're not looking at that." I asked you if you were looking at road pricing. You said, "No, we're not looking at road pricing." I would argue that you have started the process on both of those in this Budget.

There are a couple more measures that I think the public would be very interested in hearing you rule out. Capital gains on primary residences—are you planning to do that in this Parliament? Are you planning to change the state pension to a single lock in this Parliament? Can you rule those out, please?

Rachel Reeves: Yes.

Chair: Thank you very much, Chancellor.

Q608 **Luke Murphy:** Chancellor, you have pointed to the productivity downgrade as a result of the record of the previous Government. Would you have made different choices in this Budget if not for that downgrade? If so, which ones?

Rachel Reeves: The productivity downgrade by 0.3 percentage points took £16 billion off headroom in the final year. Obviously, it has bigger impacts than that, because the impacts are not just on fiscal revenue. The impacts are also felt in people's wage packets, or certainly the forecast for those future wage packets, because productivity is the biggest driver of growth, and therefore the biggest driver of the money available in the economy, including for wages. It is very disappointing that the conclusion is that the last 14 years, including the botched Brexit deal, the impact of the pandemic and the impact of the policy decisions of previous Governments, have resulted in our productivity being so much lower than the Office for Budget Responsibility previously forecast.

I am Chancellor in the world as it is rather than the world as I might want it to be, but of course, if the circumstances were different, I would have made a different decision. It goes back to the point from Dame Harriett—the reasons why we have had to raise taxes in the last two Budgets were, last year, because of the £22 billion black hole in the public finances, and this year, because of the £16 billion downgrade to productivity forecasts. I am determined to beat those forecasts. We have beaten them this year. The OBR forecast in the spring that our economy would grow by just 1% this year. It has now upgraded that forecast to 1.5%, and I am determined to beat them in future years, because the Conservative legacy does not have to be our destiny, which is why we are pursuing a whole range of growth policies.

Q609 **Chris Coghlan:** Chancellor, you know that I am a fan of the Government's language on public R&D. The OBR has published that a 10% increase in UK R&D capital would equate to a 1.9% long-term increase in productivity. Those are stunning numbers, given the 0.3% productivity downgrade creating a £16 billion fiscal black hole. I am struggling to understand why you are only increasing public R&D by 0.7% a year—13% in total to 2030.



HOUSE OF COMMONS

As a result, the OBR has concluded that that will have no impact on growth, because in fact it is a lower rate than in the decade after the financial crisis.

Rachel Reeves: If there is one thing we know about you, Mr Coghlan, it is that you care very much about R&D, and rightly so. I was very pleased, in the spending review, to be able to increase R&D spending in real terms during the course of this Parliament. I said earlier that the OBR took into account our CDEL spending, which includes R&D, in its forecasts. The higher CDEL budgets contribute to its higher growth forecasts, so R&D is one of the things contributing to that. You are right to mention the importance of it. Obviously, public R&D is really important, and that is what we can influence, but so is private R&D. I am pleased that one of the reasons why growth for this year has been revised up is because investment has been higher. That is very important.

Q610 **Chris Coghlan:** Of course, but given your belief in public R&D, do you think it is okay that we are only in the middle of the G7 in terms of our rate of public R&D, and that the UK has had the worst productivity crisis since the financial crisis?

Rachel Reeves: The OBR is clear about some of the reasons for the productivity downgrade, as I said to Mr Murphy—the Brexit deal, the pandemic and the decisions of the previous Government. The plans I inherited from the previous Government would have seen capital spending as a share of GDP fall from, I think, 2.5% to 1.9%. We have managed to protect that and to grow it in real terms during the course of this Parliament. That is one of the reasons why I believe that we can beat the productivity forecasts that the OBR has set out in its most recent documents.

Q611 **John Grady:** Last week, Dr Beck-Friis from PIMCO told us that UK fiscal finances are in a fairly fragile state. Bond investors are focused on actual deficit reduction over the next two years, as opposed to what is forecast or promised for 2029-30. Chancellor, is that where you think the bond markets are too?

Rachel Reeves: I think it is best if Chancellors do not get into commenting on the bond markets. I will say that we were very focused on those issues when we put together the Budget package, both on increasing the fiscal headroom—which goes from £9.9 billion to £21.7 billion—and on fiscal consolidation. I recognise that that fiscal consolidation needs to be consistent through the Parliament.

For the past few years, public sector net borrowing as a share of GDP has hovered around 5%. This year, '25-26, it is due to fall to 4.5%. That will be the first time in almost five years, I think, that PSNB has been less than 5%. It is then forecast to fall to 3.5%, 3% and 2.6%, and to 1.9% in the final two years of the forecast. The IMF has said that that is the fastest rate of fiscal consolidation of any country in the G7.

That is the right approach, because it is still the case that we have elevated borrowing costs. The borrowing costs that the UK Government

face went up substantially in September and October 2022, for reasons that we all know and understand, but I want to bring those borrowing costs down. Fiscal consolidation is an important part of that.

Q612 John Grady: On the tightening, Chancellor, a lot of commentators point out that much of the savings are back-ended to '29-30, that much of the tax rises are also back-ended, and that we have real pressures at the back end of the forecasts, with £6 billion of SEND provision moved across, defence spending going up—but with a real risk of having to be increased further—and a general election in August 2029. Last week, our expert economists appeared less than confident, I would say, that this tightening was politically achievable. Do you believe those economists to be wrong?

Rachel Reeves: I believe in the numbers that I set out in my Budget. A lot of people had views of what I was going to do in my Budget and whether I would be able to live within the means set in my Budgets, but we have consistently done that, and we have increased the headroom. We also set out, just before the summer recess, our spending review. I was very clear that public services now need to live within that envelope. We are also legislating for the tax increases that were in the Budget. That is very important, too, to give confidence that the tax increases will indeed happen, and that public services will live within the Budgets that I have set.

Q613 John Grady: Would it have created more confidence if we had brought some of the tightening forward, given that lenders take the view that the UK has for many, many years lacked fiscal credibility?

Rachel Reeves: We want to make sure that we get things right. For the high value council tax, for example, we are revaluing properties in bands G and H. That cannot be done for next spring or the spring after. Similarly, with things like electric vehicle excise duty, eVED, those changes cannot come in overnight. I think that everyone recognises that and that we need to take the legislation through to achieve those things, but we will legislate so that markets and everyone else can have confidence that the plans will go ahead.

Q614 John Glen: Let's look at defence spending, with the Government's stated goal to get to 3.5% of GDP; health spending maintaining its long-run average growth rate, and education spending being held flat in per-pupil terms. The Resolution Foundation has said that the announcements in the Budget mean there will be £6.4 billion of real-terms increase between 2028-29 and 2029-30, which is equivalent to 88% of the 2010 to 2015 measures commonly known by the Labour party as austerity. Your manifesto said there would be £7 billion of tax increases. Your first Budget had £40 billion of tax increases, and this one has £26 billion. Is there not a real risk that you will still have very tough settlements outside those three Departments?

Rachel Reeves: We have now made those settlements. When I became Chancellor, there had not been a spending review for a number of years. We had negotiations. We came to the settlement in the spending review, and Departments are now living within those settlements. That should give



HOUSE OF COMMONS

the confidence that is needed to show that we will be able to do that through this period. Even in the last years of the forecast, real-terms spending on public services continues to increase by nearly 1%. That is very different from the 2% cuts to public spending in the five years of the coalition Government.

Q615 John Glen: So you do not recognise the pressure on other Departments in the period 2028-29 to 2029-30.

Rachel Reeves: Departments are always under pressure. There are always more things to spend on than you can afford to, and that is why prioritisation is so important. But those settlements are not imposed; they are negotiated and agreed with Departments.

Q616 John Glen: Chancellor, I totally recognise the integrity of the spending review process. I am just saying that if you align the reasonable expectations of health spending, education spending and your aspirations on defence, all the other Departments have a pressure that pretty much resonates with what happened between 2010 and 2015. That is the fact.

Rachel Reeves: Ah, but one of the differences is that in the early years, we had an immediate uplift in spending to end the fiscal fiction, frankly, that previously existed in the forecasts. Similarly, we have protected the CDEL budget, so if you look at TDEL, it is a slightly different picture. The reason we have done that is—

Chair: Just to be clear for people watching, you are talking about the capital budget.

Rachel Reeves: We have protected the capital budget, which is really important for improving the productivity of public services. We have also agreed with Departments £14 billion-worth of efficiency savings. We are tracking those closely, and we are delivering against those targets. We have set out further efficiency targets in the Budget this year, which, again, all Departments have signed up to.

Q617 John Glen: What you are saying is that there will be no more money for those other Departments beyond what you have set out already in 2028-29 to 2029-30.

Rachel Reeves: I have always been really clear that in the end, we have to grow our economy to deliver the money that we need to keep increasing living standards and deliver our public services, which is why growth is the No. 1 priority of this Government. As we saw, if you just had 0.3% higher productivity growth, which would translate to 0.3% higher GDP growth, you would have £16 billion more a year to either reduce taxes or spend on public services. That is why growth is so important.

Q618 John Glen: I recognise the change that you have quoted, but in all future years, the OBR says that growth is downgraded consequential of this Budget.

Rachel Reeves: Not consequential of this Budget, Mr Glen, and I want to be really clear about that. The OBR says explicitly that the productivity downgrade is not because of any of the decisions this Government have made. In fact, it has scored positively both the CDEL—the capital

spending—and the planning reforms.

Q619 **John Glen:** But it is lower in every subsequent year.

Rachel Reeves: But not because of Government policy. It is because of the productivity downgrade based on the previous 14 years before we took office.

Q620 **Yuan Yang:** At Budget day, the OBR announced that it was going to use a new higher threshold for scoring the impacts of policy on economic capacity. This higher threshold would have ruled out the majority of policy changes scored under your Conservative predecessor. Did the Treasury discuss this change of policy with the OBR, and were there policies that you wish had been scored that were close to that threshold but were not scored as a result of this change in criteria?

Rachel Reeves: In the end, what really matters is not whether something is scored or not, but whether you actually get the growth or not. When we are deciding on policies at the Treasury, we do not say, "What will the OBR score?". We say, "What will actually deliver the growth?"

I have been really clear from opposition into government that our growth mission is built on the pillars of stability, investment and reform. The stability comes from strong fiscal rules that are stuck to and not just changed on a whim because the numbers do not turn out the way you want them to. We have stuck to those fiscal rules in two Budgets, a spending review and a spring forecast, and we are delivering greater headroom—the highest headroom for a number of years. In terms of investment, we are protecting capital investment and crowding in private investment, including through the National Wealth Fund and the British Business Bank. And we are reforming, particularly planning but also regulatory reforms, cutting the administrative burden of regulation, and pensions reform, to unlock private capital.

One of the biggest reforms is the trade reforms we are making, whether that is the reset of our relationship with the EU, the trade deal we have signed with India, or, indeed, the trade deal that we have signed with the United States. The Planning and Infrastructure Bill should have Royal Assent before Christmas. All of those things are pro-growth, and whether the OBR score them or not, we are confident as a team that they will build a stronger, more resilient economy with higher growth. The good thing about the growth that we are generating is that it is growth that will be felt in all parts of the country.

Q621 **Yuan Yang:** I presume the Treasury collects its own scorings of those measures that do not meet the OBR's new thresholds?

Rachel Reeves: Of course we look at what we think the growth impacts of different policies will be but, as I said, we do not prioritise things based on whether we think the OBR will take them into account; we prioritise them based on the impact that we think they will have on growth. Certainly, those three trade deals—with more to come, hopefully—will have a significant impact.

Q622 **Bobby Dean:** Chancellor, you spoke about your decision in this Budget to



HOUSE OF COMMONS

increase your headroom to around £22 billion. We had a discussion about headroom in the spring statement, where you said to me that, “everyone would like more headroom, but no one wants more taxes and no one wants lower spending. I think we have the balance about right”. You gave me variations of that answer three times. Do you now accept that you got that balance wrong in the spring?

Rachel Reeves: I increased taxes by £40 billion in the Budget last year, and I do not remember any party clamouring for more tax increases. In fact, I think the Liberal Democrats opposed most of the ones that we are trying to take forward. I think we got the balance about right last year, but I was really clear that one of the objectives of this Budget was to build in further resilience, and we were able to do that with £21.7 billion of headroom.

Q623 **Bobby Dean:** I know it seems esoteric, but we have had reports coming out saying that the inflated debt costs to the UK are worth about £7 billion a year. We have all reflected on the speculation that has gone on around this Budget for the last six months in terms of tax measures and policy uncertainty perhaps putting off investment. You obviously felt the need to correct the level of headroom this time, so why was it not a mistake previously to maintain a low amount of headroom in the spring?

Rachel Reeves: Headroom went as low as £6.5 billion in the last Parliament. I built it up to £9.9 billion in my Budget last year and in the spring statement. I felt that that was the right approach, but obviously since then we have had a number of global shocks, whether shocks to trade, ongoing conflicts or disruptions to supply chains. As a result, I believed it was the right thing to increase that headroom further, to £21.7 billion, given the world in which we live today.

Q624 **Bobby Dean:** I think that was clear last spring, but to move on to—

Rachel Reeves: That is not the case.

Bobby Dean: Can I ask my next question, and then you can come back on that?

Rachel Reeves: When people come back and say, “Well, that was the case in the spring”—

Q625 **Bobby Dean:** I asked these exact questions in the spring, because you had to do a fiscal repair job in the spring, obviously. Trump’s election had already taken place at that time. You had already lost the headroom between autumn and the spring, so I think it is fair to say that many people thought that the headroom was already low in the spring. You decided to correct it this time, but you are telling me that it was not a mistake not to correct it in the spring.

Rachel Reeves: In the spring, the headroom would have been eroded without the actions that I took. I took the actions to keep the headroom at around £10 billion. But since then, you will remember, the tariffs were introduced by Donald Trump, which had not happened and had not been



HOUSE OF COMMONS

factored into the OBR forecasts in the spring. I think things have changed since then, with respect, Mr Dean.

Q626 Bobby Dean: I would like to move on to the decision to move towards one formal assessment by the OBR. Again, back in the spring you said, "Some people were saying, 'Don't worry about the headroom. You can address it in the autumn.' I felt that that would be the wrong decision, because we have been very clear in our manifesto and our election campaign, and since we came into office, that fiscal stability is so important." It is my understanding now that you are not going to make any adaptations based on what happened to headroom in the spring, so does that mean that fiscal stability is no longer important, or was it an incorrect statement to make in the spring?

Rachel Reeves: It does link to your previous question, Mr Dean, because in the previous question, you asked about the level of the headroom. We have now taken that to £21.7 billion, which, as you know, is more than the average movement in headroom between forecasts. I now believe that we have the buffer in place—

Q627 Bobby Dean: So the buffer enables you to make that decision. Could I just push you on the next question: what circumstances do you feel you would need to make adjustments in a spring statement? The £22 billion definitely gives you more buffer room, but is an erosion of £5 billion, £10 billion or £15 billion too much? At what point would you act in the spring instead of the autumn to address the headroom, which everybody will still be able to see, whether or not a formal assessment is taking place?

Rachel Reeves: Very few countries have two fiscal events a year. We want to move towards, as the IMF has recommended, having one major fiscal event a year. We have worked with the OBR—

Q628 Chair: So in answer to Mr Dean's question, where would you make a judgment?

Bobby Dean: You have given yourself more headroom—I understand that. Then you said that you are not going to take any action to—

Chair: The Chancellor has had the question. Could you answer the question, Chancellor?

Rachel Reeves: If you give me the opportunity, I would be delighted to. I reserve the right to be able to take action at any point. I believe the headroom that we have and the changes that we have made mean that I will not need to do that in the spring, but I reserve the right at any time to take action.

Q629 Yuan Yang: I want to move on to special educational needs and disabilities funding. At the Budget, you announced that this would no longer be borne by local authorities, but from central departmental spending. The OBR says that that will cost around £5.6 billion. Do you and the Treasury accept that number? Will this be put on one particular Department, or will it be spread among a number of Departments? If so, how will it be spread among Departments?



HOUSE OF COMMONS

Rachel Reeves: In the spending review, we continued the statutory override for an additional two years, during which time local governments, if they overspend compared with their forecasts on this, can put the costs on central Government. We have extended that for a further couple of years, but then, as we were clear in the spending review, we will fund SEND through the overall Government DEL envelope. That statutory override ends in 2027-28.

Where I would disagree with the OBR—well, not necessarily disagree, but the OBR looked at absorbing that SEND pressure from just one budget line. That is not what we said in the spending review; it just gave that as an illustrative example, so I do not recognise those impacts on school spending. As you know, at the moment the Education Secretary, with the relevant Minister, is doing a review of SEND. The focus of that review is getting the system right, because no parent or constituency MP believes the system works well today.

Q630 **Yuan Yang:** Are you saying that the £5.6 billion from the OBR is based on the current policy, and that that policy is going to change, so therefore the number itself may not be that number?

Rachel Reeves: No. I was saying that the OBR's illustrative example is that SEND pressure is absorbed on one budget line. That is not what we set out. The purpose of the SEND review is to deliver a system that works for families, children and schools, and it is right that the Education Secretary, and not the Chancellor, leads on that.

Q631 **Chris Coghlan:** In October 2021, my 17-year-old constituent Jennifer Chalkley, who was autistic, died by avoidable suicide. I fully acknowledge the role that perhaps the Liberal Democrats and the Conservatives had in scrapping Sure Start, contributing to this crisis. Can I have your assurance, please, that you will properly fund both the Department for Education and children's mental health services to end the SEND crisis in this country? If you do, not only would that be a fantastic legacy for our Labour Government, but it would enable me to go back to Jen's mum and tell her that her daughter's death was not in vain.

Rachel Reeves: Thank you very much for bringing up that example. Please give best wishes from me, and I think all the Committee, to Jen's family for what they went through. Too many parents and children are let down by the SEND system—any parent knows that, as does any constituency MP. You have been a constituency MP for only a year and a half, but you will know through your postbag, your surgeries and your visits to your schools, and by talking to families in your constituency, that the system just does not work. We have to reform it.

My mum was a special needs teacher when I was little, and she then became a classroom teacher because there were cuts to special needs teaching, and it meant that kids were not getting the support they needed. This is something that matters to me, including as a parent, but it should not be me leading the work on SEND—I am the Chancellor. It is right that Bridget Phillipson and the Department for Education lead on this.



HOUSE OF COMMONS

Speaking directly to Jen's parents and family, we want this system to work for them. We want it to work for families, and we want it to work for young people. We know that it has let them down. This is about devising an inclusive system that enables all children, whatever their abilities, and whatever challenges they face, to fulfil their potential and to live fulfilling lives. That is the commitment I would give to Jen's parents and to you.

Chair: We obviously all look forward to the SEND review coming out in the new year.

Q632 Yuan Yang: Yesterday we spoke to the Monetary Policy Committee of the Bank of England. As you may have seen, there was disagreement on the committee—and there has been since its last meeting—on the impact of the quantitative tightening of the active sales of gilts on the interest rates that the Government face for borrowing. The Bank's staffs' estimate of this cost to the taxpayer has gone up over the last year. Does the Treasury have its own estimates of the cost of quantitative tightening to the taxpayer?

Rachel Reeves: If it is okay, I am going to pass this question to the permanent secretary.

James Bowler: It falls to the lot of being Treasury permanent secretary to have to answer questions about quantitative tightening. It is a monetary policy matter, as you know, and as such, it is one for the Bank of England. In terms of understanding what is happening, because it is a particularly complex thing, it is worth saying that there are three areas where you set it out: the OBR, in its recent forecast, set out detailed projections, including of the losses that it expects and the impact on all its fiscal metrics; the Treasury's annual report and accounts sets out the impact on departmental spending budgets; and the Bank provides quarterly reports with its projections of cash transfers.

To the nub of your question, each September the Monetary Policy Committee decides on what it wants to do with sales for the coming year, and it announces that—it is not our decision. It did that last September, when it actually reduced some of the active sales that it was doing and did some things on skew.

Q633 Yuan Yang: It is increasing its active sales.

Rachel Reeves: No, they have reduced.

Yuan Yang: It is reducing the overall pace.

James Bowler: I think more things are maturing, so there is less need for active sales. It is all set out there, and it is all in our accounts and the rest of it. Of course, as everyone knows, there were cash transfers to the Treasury up until the end of 2022, and now each quarter there are transfers back to the APF.

Q634 Yuan Yang: Chancellor, from the MPC's perspective, as it has stated very clearly, value for money for the taxpayer is not in its remit in monetary



HOUSE OF COMMONS

policy. Of course, as the Chancellor, value for money is certainly something that concerns the Treasury, as well as all of us constituency MPs. Do you have conversations with the governor about the value-for-money impact on the taxpayer from the pace of QT?

Rachel Reeves: I do not think it is accurate to say that value for money does not need to be taken into account.

Yuan Yang: The MPC states that it does not take that into account in its principles.

Rachel Reeves: Yes, but the Bank of England does—the MPC and the Bank of England are a little bit different.

James Bowler: It is the MPC's decision and not ours, but I think it is unfair to say that it does not take value for money into account. It takes that into account, as well as the impact on its monetary policy, and it has written on that to the Committee a whole set of times. I think you did a report last year that explored those very issues.

Chair: Thank you very much. The predecessor Committee did good work on that.

Q635 **Luke Murphy:** Chancellor, for the vast majority of my constituents, the top priority is the cost of living. Both you and the Prime Minister have made it clear that it is a top priority for the Government as well. Evidence to the Committee from both the OBR and the Resolution Foundation shows that there has been relatively strong growth in real household disposable income in this Parliament thus far, but the outcome for the remainder of this Parliament is quite bleak. Do you recognise those forecasts? Do you expect to beat them, and if so, how?

Rachel Reeves: Thank you very much for that question. The growth rate of RHDl per capita is expected to be positive in every year of the forecast, but you are right to say—this reflects the answer that I gave to, I think, John Grady earlier—that the impact of the productivity downgrade is not just a fiscal impact. That is the one that all the concentration has been on, but of course the most immediate impact is on the size of the economy and therefore the money available for wages and everything else, which is why, as I said, I am determined to beat that forecast. But living standards are determined by the income you have coming in and how much you are paying out. As I said in my speech on 4 November, I was determined that one of the things that we achieved in this Budget was cutting the cost of living, and as the deputy governor said yesterday, next year there will be 0.4% or 0.5% off CPI. There are three primary things we are doing to achieve that: the £150 off energy bills by scrapping ECO entirely and taking other levies off bills; freezing prescription charges for the second year in a row; and freezing rail fares, which I know will be a big issue for constituents of yours in Basingstoke. It is the first time that has happened in 30 years.

Q636 **Luke Murphy:** Do you anticipate having to come back, in future Budgets, to take similar measures on the cost of living? Is that something that you



HOUSE OF COMMONS

would expect, given the outlook for living standards that the OBR and you just now have recognised?

Rachel Reeves: The OBR and the Bank expect inflation to peak this year and to fall to, I think, an average of 2.5% next year, before reaching target, at 2%, the following year and for the remainder of the forecast period. The reductions in energy bills, the freeze in other prices and, indeed, the freeze in fuel duty until September next year all contribute to inflation coming down quicker than we previously thought. We then need to continue trying to boost productivity and growth, to put more money in people's pockets. But the focus in this Budget was specifically on costs, which is why we introduced that package of measures.

Q637 **Jim Dickson:** Many people will welcome the redistribution in the Budget: you can see each decile, as you go lower down the income scale, doing better. Do you believe, however, there might be the "squeezed middle" problem that we have seen in this country for many years, in which people in the middle of the income distribution find it very difficult to maintain their living standards, particularly as they get further towards the tax thresholds at which their income is taxed at a higher rate?

Rachel Reeves: First of all, Mr Dickson, I am very disappointed you haven't mentioned the Lower Thames Crossing!

Jim Dickson: I strongly welcome the—

Rachel Reeves: I think it is the first time I have had a conversation with you when you have not, but I will address your actual question.

The distribution analysis that we published alongside the Budget shows that every income decile, except for the top, is better off through the measures that we have taken in the last two Budgets, but the biggest beneficiaries are in the bottom couple of income deciles, particularly as we lift children out of poverty, which we were very, very pleased to be able to do at this Budget.

I do recognise that we have asked everyone to contribute, by freezing the thresholds for an additional three years, on top of the seven years for which they have already been frozen, but we were able to keep those contributions to a minimum by asking those with the broadest shoulders to pay more on some of the specific taxes, whether that is on landlords or others, to rebalance the tax system, so that whatever form of income you have, we are narrowing the gap between the tax rates that you pay on it. And there are things like the higher value council tax, which will obviously be paid by some of the wealthier people in the country.

Q638 **Bobby Dean:** To follow on from that question about the squeezed middle, some analysis has been done since the Budget about the impact on the 1% or even the 0.1%, and people claim that if you look at those categories, it is not as distributive as the Treasury's graphs present. Mr Bowler, do you do any distributional analysis in regard to the 1% or 0.1% internally?



HOUSE OF COMMONS

James Bowler: No, our focus is on the distributional analysis we do, which is really rather good, I have to say. I am very proud of it, and it is deeply thorough. We have been complimented for how we do it, the level we get into and all the rest of it. We have done it for some time in that way. That is the focus—focusing on deciles. I don't know whether Dharmesh has any more to say on that.

Dharmesh Nayee: We focus on deciles, as the permanent secretary says. We do not have the data on a consistent basis to be able to do things like the top 0.1%. Obviously, that does not stop any individual policies being able to look at focuses—

Q639 **Bobby Dean:** Chancellor, do you recognise the analysis that is out there? There is obviously increasing scrutiny about the top 1% and the top 0.1%, particularly as those on middle to higher incomes are starting to feel the pinch. Do you think it would be a good idea for the Treasury to start modelling that as well, so you can get a true distributive effect?

Rachel Reeves: It is quite hard because of the numbers, but let me give you one example. Higher value council tax on properties more than £2 million affects less than 1%—just under 1%—of properties. The non-dom changes obviously affect a very small number of people, as does the change around treating carried interests as income rather than capital gains in private equity. All those are taxes paid by a very small number of the most wealthy people.

Q640 **Bobby Dean:** Would you give it a try and look into that in future?

Rachel Reeves: As I say, it is quite hard, just because of the numbers involved, to have an accurate picture.

Q641 **Chair:** We could have a dialogue in writing about this because it is an interesting point, although you rightly raise difficulties.

Rachel Reeves: We can, but I would just caution.

Q642 **Chair:** Absolutely—I recognise your caution. Maybe that is a conversation we can have through official routes. Thank you, Mr Dean.

Rachel Reeves: Yes.

Chair: Chancellor, we want to talk about some of the specific measures. We obviously know your broadbrush issues, which you have repeated a few times, so we do not need to go into those again. We will ask specific questions, if you could answer those. You can tell us all the detail of your Budget. Over to John Glen to kick off.

Q643 **John Glen:** Could I turn first to threshold freezes, Chancellor? At the '24 Budget, you said, "I am keeping every single promise on tax that I made in our manifesto. There will be no extension of the freeze in income tax and national insurance thresholds." You told us earlier that it is not a breach of the manifesto. How can we square those two statements?

Rachel Reeves: Our manifesto was clear; it referred to the rates of income tax, national insurance and VAT. But I have been very clear, and I



HOUSE OF COMMONS

am not trying to shy away from it in any way, that everyone makes a contribution through freezing those thresholds. I am not trying to sneak it out and pretend it does not exist. I was explicit in the speech I gave in the Chamber, and in every subsequent interview, that working people will pay, from 2028, a bit more in tax, but we have managed to keep that as low as possible because of the other changes we have introduced.

Q644 **John Glen:** Do you recognise that, if you look at the distributional analysis, increasing the headline rate of income tax is more progressive than threshold freezes?

Rachel Reeves: I do not recognise that. I think they are broadly similar, so I do not recognise that.

John Glen: Okay, very well.

Q645 **Chair:** Chancellor, you took a decision to change the way that salary sacrifice worked. Can you explain the reason? Obviously, you had to raise money. Was there a particular reason you focused on that area?

Rachel Reeves: The cost of salary sacrifice left unchecked will go up by three times in the next few years.

Q646 **Chair:** By a multiple of three?

Rachel Reeves: Yes. No one expected that when salary sacrifice schemes started getting up and running. We already spend £70 billion a year on pensions tax relief. We are not changing that at all, nor are we changing how much you can take out tax free as a lump sum. But salary sacrifice was only ever really expected to top up pensions, rather than being the main vehicle.

Q647 **Chair:** So it was pensions that was your particular focus? Because salary sacrifice is for other things, too. It was not because people were using it for other approaches.

Rachel Reeves: What do you mean by that?

Q648 **Chair:** Well, you can have salary sacrifice for things like gym membership, extra holiday or expensive bikes.

Rachel Reeves: No, the focus on this was around the tax treatment for pension savings, because—

Q649 **Chair:** Tom Josephs told us last week that it was likely to reduce pension savings, and obviously there is a big concern and a lot of evidence that young people especially are not saving enough for their pensions. How did you weigh up that impact with the decision to reduce salary sacrifice?

Rachel Reeves: In the last few years, pension savings have increased, primarily because of automatic enrolment into pensions—I think about 11 million people who were not previously saving for pensions are now doing so. I think that, over the last few years, the cost of living has put pressure on how much people can put in to save for retirement, but hopefully that is beginning to ease as a pressure. You can still put £2,000 in and have



HOUSE OF COMMONS

exactly the same tax benefits as you previously had, but any contribution over £2,000—which you are still able to make—will get the pension tax relief, but not the additional salary sacrifice relief. That is the tax relief that was always supposed to be applied to pensions—salary sacrifice was only ever expected to top up pensions—but it has been increasingly used as the main vehicle. Also, we saw a lot of people paying large bonuses through salary sacrifice, to take advantage of that tax treatment in a way that was just never envisaged. One of the things I did in this Budget was to ensure that some things that were introduced for very good reason, but that have ended up costing multiples more than was originally expected, were taken back to their original purpose, and it is the same for things such as employee ownership trusts, for example.

Q650 Chair: We do not have time to go into it all today—our sister Committee deals with pension policy, but we should perhaps have the Pensions Minister in—but on the one hand you have an encouragement to put into stocks and shares ISAs, which we will touch on in a moment. You are then decreasing the opportunity to top up pensions, and the 5% contribution, as Ruth Curtice told us last week, means that an individual earning £46,000 a year will have to pay more national insurance, so you have different incentives working in different ways. Are there any plans in the Treasury to do a root-and-branch review with DWP of how pensions policy works? As you say, auto-enrolment has been useful, but it is not enough to fund retirement.

Rachel Reeves: We have set up the Pensions Commission—the Minister for Pensions has done that—which will look at these issues. But I want to be very clear that people can still use salary sacrifice to save for a pension, and they will still get pensions tax relief—which is the usual way of saving for a pension—so pensions tax relief above £2,000 very much still exists. It would be ordinary pensions tax relief, though.

Q651 Dame Harriett Baldwin: Chancellor, in your Budget you say: “The high street will benefit from permanently lower business rates for retail, hospitality and leisure”. I think you will have heard that the reality is that a lot of high street businesses are looking at the detail and feel that they will struggle to survive with the higher rates bills that are coming, on top of the rising employment costs and their rising energy bills. To give a few examples—we will all have heard them in our constituency postbags—pubs are facing a 15% rise, and there are music venues in Newcastle with a 431% rise, while the British Beer and Pub Association says that the rate for community pubs is up 63%. Would you accept, Chancellor, that a lot of these businesses feel misled by that statement?

Rachel Reeves: Let me set out what is happening with business rates, because there are a couple of things happening at the same time. The last time that the valuation office looked at the rateable values of property was in 2021, and of course that was in the middle of the pandemic. Many rateable values fell sharply during the pandemic; they have now been revalued, and of course those rateable values are now higher, because we are no longer in lockdown during a pandemic. At the same time, during the pandemic, temporary support was given to a number of businesses to



HOUSE OF COMMONS

support them with business rates. The previous Government put in temporary support that finished in the last year of that Government—they did not allocate any money for the future. In my first Budget, I put in additional support for the first year, and in this Budget we have put in another £4.3 billion of additional support, as we transition to more normal valuations and rates.

In this Budget, we have also permanently lowered the business rates—the tax rates that are applied to properties—for eligible retail, hospitality and leisure businesses. That is paid for by a higher rate on the top 1% of properties, particularly distribution centres that are used by online companies. There will be permanently lower rates for those sectors.

As we transition, we are putting in £4.3 billion of support for the types of businesses that you refer to. I think the average pub will be getting a 4% increase in rates this year, and the rates are capped at 15% or £800 for smaller venues this year. That support continues at a phased-down rate for the next couple of years, but we are moving to a system where we have permanently lower rates on those venues.

Q652 Dame Harriett Baldwin: Can I urge you to look at this again, Chancellor? UKHospitality would dispute that. They think there will be a 15% hike on average for pubs. I will just leave that out there.

Rachel Reeves: Fifteen per cent is the cap. That is the highest it can be.

Dame Harriett Baldwin: Yes, and they are saying that the average pub will get that cap.

Rachel Reeves: No—

Dame Harriett Baldwin: That is what they are saying.

Rachel Reeves: No, the average is 4%, and there is a cap of 15%.

Chair: Thank you very much for that clarity, Chancellor.

Q653 Dame Siobhain McDonagh: Chancellor, we are aware of a perceived intergenerational unfairness, and I want to look at the measures on lifetime ISAs that you announced in your Budget. Everybody accepts that lifetime ISAs have design flaws, but launching a full consultation and creating a completely new product, which may not exist for some years, feels like a disproportionate response to problems that could potentially be fixed within the current system. Why not simply fix the existing lifetime ISA, rather than designing a completely new product that young first-time buyers may take some time to see?

Rachel Reeves: There is a lot of scepticism about the current product. A lot of lenders will not offer it, because of design flaws in the way it was set up and a lack of clarity about who the product is suitable for. Many banks and building societies do not want to offer it, because they do not want to be later accused of mis-selling a product. There are a number of flaws with the existing system. There have been a number of criticisms, including from people like Martin Lewis, about the withdrawal fees and about the



HOUSE OF COMMONS

value of property that you can buy. There is also confusion about whether it is a vehicle for saving for retirement or for paying for a first home. We are now doing a proper piece of work to design a better product that is much clearer to people. We certainly do not intend it to take a number of years.

Q654 Dame Siobhain McDonagh: Do you have any idea of the timescales?

Rachel Reeves: We want to crack on with it. We did not feel ready, at this Budget, to announce a new product that we would have confidence in, so we want to take a little longer to get that right. There are well-documented concerns about the lifetime ISA. We want to help people get on the housing ladder, and we are not convinced that the product we have is working well enough for people today.

Q655 Dame Siobhain McDonagh: Looking at the age differential for investing in a cash ISA, do you think it is fair that young people who want to save for a mortgage deposit are being forced into a more volatile stocks and shares ISA, while retirees are allowed greater freedom to save in cash? Why was 65 chosen, rather than the state pension age? Do you think that this creates a real perception of unfairness for young savers, who are anxious about not having too much risk and knowing that they can get that deposit?

Rachel Reeves: There are not many young people who can put aside £20,000 a year in savings—I think we all know that. The biggest challenge for young people today is getting a job that pays a decent wage, not whether they can access the full £20,000 of ISA savings.

The reason we put in that age limit is that as you get older, the time horizon within which you are investing is not as long, for obvious reasons, and we wanted to make sure that in later life you can be very confident that you have got that money there. But if you had invested £1,000 a year in a stocks and shares ISA since 1999, you would now have £50,000 more in your account than if you had put it in a cash ISA. I want more people to be able to benefit from a growing economy and growing stock markets. At the moment, the combination of the ISA limits and the advice and guidance rules means that very few people—not enough people—are benefiting from that.

We are changing advice and guidance. That comes in from the next tax year. The ISA changes come in the tax year after that. We have time to test out how this new advice and guidance is going to work, but it will enable banks, building societies and others to nudge people into putting their money into more productive assets. I would like to see more of a culture in the UK of retail investing and people of all ages being able to benefit from a growing economy.

Q656 Dame Siobhain McDonagh: Will that not require more financial education in schools?

Rachel Reeves: Yes, and as part of the financial inclusion strategy that my colleague Lucy Rigby, the Economic Secretary to the Treasury,



HOUSE OF COMMONS

introduced, we are introducing—including at primary schools—better education on budgeting and saving. That is an important part of it, but the advice and guidance reforms are things that people have been calling for for a long time and I am confident that, working with the regulators and the banks and building societies, they will result in better outcomes for savers.

Q657 Bobby Dean: Chancellor, you mentioned wanting to fix some of the tax reliefs so that they operate as intended. You will be aware that there are over 1,200 on the books and only around 300 of them have ever been properly evaluated for their cost and effectiveness. I presented the Tax Reliefs (Evaluation) Bill, which would commit the Government to look into all of them. Can you commit to look into all the tax reliefs to ensure that they are all working as intended?

Rachel Reeves: I hope that you see, in this Budget and last year's Budget, that, due primarily to the work of the former Exchequer Secretary to the Treasury—who is now the Chief Secretary to the Treasury—and the new Exchequer Secretary to the Treasury, we have done some really good work on cracking down on tax avoidance and closing loopholes. I think it is going to save something like £10 billion a year by the final year of the forecast, and that is just getting the tax that we are already due but are not collecting today. That is both debt and BAU.

Q658 Bobby Dean: I will just press you: will you commit to looking at them all? There are only 300 out of 1,200—

Rachel Reeves: And if you have any ideas, we are always in the market, Mr Dean. We have already done a lot of work in this area, but the job is not done; while there is a gap between the tax that is due and the tax that is paid, there is more work to do, so of course we will carry on looking at all of those.

Chair: You would have a lot of support from both this Committee and our sister Committee, the Public Accounts Committee, which have doggedly tried to get to the bottom of this. If you want to lean into that, I am sure you will get some help from Parliament.

Q659 Yuan Yang: Chancellor, in your Budget speech you said that "a fair society is one where the wealthiest pay their fair share" and you discussed "narrowing the gap between the tax on income from assets and income from work". Is there more of that gap left to be narrowed?

Rachel Reeves: What I did in the Budget was to increase by 2 percentage points the basic rates on dividend, savings and property income, and I made some changes to the additional and higher rates as well. I think that is the right thing to do. An increase of 2 percentage points is quite a big increase in the tax rate on any form of income, but I think we got the balance right in the Budget on that.

Q660 Yuan Yang: Is there space for more narrowing, or do you believe the gap has been fully closed now?



HOUSE OF COMMONS

Rachel Reeves: Obviously, if you go out to work, you pay national insurance, and you do not pay national insurance on other forms of income, but we have taken action in this Budget to narrow the gap between those different forms of income.

Q661 **Jim Dickson:** There is a big change in the Budget on electric vehicle excise duty. We have not had that tax before, and obviously it is designed to compensate for the loss of fuel duty over time. Isn't there a big problem that, by 2050, electric vehicle excise duty will bring in only about a quarter of what fuel duty brings in? Is it not inevitable that you will have to raise that amount very significantly?

Rachel Reeves: We have set the level of eVED at half the rate we get from fuel duty. I think that is the right balance, because we want to incentivise the roll-out of electric vehicles, for reasons that are well understood. We have no plans to increase it further, and we would not do so until the move to electric vehicles is well secured. We have set it at half the rate for a reason.

Q662 **Jim Dickson:** What is your commitment on what will happen on the fuel duty freeze in the future, given the plan to end the freeze in a year's time?

Rachel Reeves: We have frozen it until September next year. At the same time, from early in the new year, we are introducing something new, called the fuel finder. That work has been led by the Competition and Markets Authority, and it is something other countries already do. It means that real-time information will be available on fuel costs at different petrol stations, and we hope to be able to integrate that with the different apps that people use to map their journeys. People will be able to see the different prices at different petrol stations on their route, and evidence from other countries and the CMA suggests it could reduce how much people pay to fill up their tank by about £40 a year. I hope it will result in more competition and lower prices for consumers.

Q663 **John Glen:** Your consultation on gambling taxes began with a desire to simplify, and indeed this Committee looked at the matter as well. After your measures in the Budget, we are now in a position where online betting duty is higher than on the high street; where duty on betting on UK racing is lower than for betting on Irish racing; and where betting on a game of football on your phone will be taxed at 25%, while a machine in an adult gaming centre will be taxed at 20%.

You have given £26 million to the Gambling Commission, but there is a significant risk, and I think we are already seeing it online, of lots of activity going off to the black market. What is your overall assessment of the measures you have made? Could you address the fact that there are multiple dimensions to what you have ended up with here?

Rachel Reeves: We have been consulting on this for around a year, and I think that is a good way to make policy. We have spoken to all the different stakeholders, and there were lots of things going on. We decided not to do anything about in-person betting or horseracing, and we have entirely taken tax off bingo because there are lots of good social benefits.



HOUSE OF COMMONS

We also did not do anything about machine gambling because we were concerned about seaside towns and pub incomes, for example. There is plenty of evidence that online gaming, in particular, but also online betting result in more serious harms than in-person betting. That is why we chose the package that we chose, which had the biggest increases for online gaming, as well as increases for online betting.

There was a wider theme in the Budget about rebalancing the tax system away from taxing physical trading towards more tax online. That is true for business rates, it is true for applying customs to low-value imports, and it also applies to gambling. A theme running through the Budget was that high streets should not be undercut by online. There is a specific issue here about harms. You mentioned the black market, which is something that we factored into our deliberations when we designed this policy. Obviously, we could have taken those tax rates higher, but we chose not to, exactly because of the concerns you mentioned. At the Budget, we also put money into tackling the issues of the illegal market, with £26 million allocated to the Gambling Commission.

Q664 John Glen: I understand your logic, but some of the companies are configured with cross-subsidies in different parts of their business. In essence, do you expect to see a consequential restructuring in the industry? It seems likely that some will not find it viable, because of the nature of the subsidy from different parts of their businesses, and some of them are already getting into difficulties and going offshore.

Rachel Reeves: Obviously, these taxes apply whether the company is offshore or not, because it is a tax on the bet. Again, that was an important design of this policy—that you cannot just relocate overseas to get out of paying that tax. We are also making it relatively more attractive to do betting in real life, rather than online. That was a deliberate design of the policy.

I recognise that everything has consequences, but so too do the harms of gambling have consequences. That was also a consideration in this Budget. There has been huge growth in online betting and gaming, and I think it is right that we tax it more appropriately and have a level playing field between the high street and online businesses. Of course, all the money from this is being used to reduce child poverty.

Chair: Thank you. This Committee, cross-party, put out our report on that very point, so thank you for that answer and for that action.

Q665 Luke Murphy: Chancellor, can you set out how the capital allowance changes in the Budget will increase investment and growth, given that tax specialists like Dan Neidle have said that they believe the changes will do the opposite?

Rachel Reeves: We have kept the main rate of corporation tax at 25%, and we have stuck to all the commitments that we made in the business tax road map, which I published at the last Budget. We also have one of the most generous and competitive capital allowances regimes. What I did at the Budget was to decrease the main rate of write-down allowances—



HOUSE OF COMMONS

just the main rate—by four percentage points to 14% from April next year. That has allowed us to fund a new first-year allowance while also raising revenue to protect public finances.

That is also consistent with what we are trying to do in introducing more generous up-front relief for investments. We will do that as well for some of the leasing of equipment and machinery that is not eligible for the full expensing to now get a more generous first-year allowance. That is about trying to encourage investment, but within the context as well of needing to raise money in this Budget. I think that the net present value of investments remains the same.

Q666 Luke Murphy: The first-year discount does not apply to second-hand assets, but only to leasing, so—

Rachel Reeves: You can see the direction of travel, though. We have made permanent the full expensing and, this year, for things that are not covered by full expensing, we are introducing a more generous first-year allowance. If you are asking us, “Is there more to do on this?”, yes, I think there is in a range of areas, like the one you mentioned, but also with more around intangibles. What we are trying to do is incentivise investment, because investment is absolutely key to economic growth.

Q667 Bobby Dean: May I ask you about one small thing that happened after the Budget, which is the US-UK trade deal on drugs, which apparently will cost an extra £3 billion per year? There has been a lot of worry among NHS leaders about where that money is going to come from. Will it come from within the existing Department of Health and Social Care budget?

Rachel Reeves: That was part of the agreement in the spending review, that for this spending review period, that would be absorbed. The costs are actually quite low in the first couple of years, and that was part of the spending review settlement. But obviously, at future spending reviews—

Q668 Bobby Dean: The rest of it will be worked out at the next spending review.

Rachel Reeves: Obviously, everything in the next spending review will be set out in the next spending review.

Q669 Chris Coghlan: Chancellor, I have a quick follow-up question on R&D. In September, Draghi urged the EU to—

Chair: A dog with a bone, here.

Rachel Reeves: Nothing if not predictable.

Chris Coghlan: Exactly. In September, Draghi urged the EU to borrow for defence R&D, stating that that would decrease debt to GDP because GDP would grow faster than interest costs and that a 2% increase in total factor productivity would cut the public finance burden by a third over a decade. Do you think a similar approach could apply to the UK?

Rachel Reeves: We are already embarking on the biggest uplift in defence spending since the end of the cold war, taking it to 2.6% by April



HOUSE OF COMMONS

2027. Although every Department apart from the NHS and Defence has had to make some further efficiency savings towards the end of the Parliament, that is not the case—well, they have to make efficiency savings, but they can reinvest them, unlike other Departments. We have totally protected the capital budgets, and obviously, Defence is highly capital-intensive.

The changes that I made to the fiscal rules last year take capital spending outside the stability rule. It is still affected by the investment rule. That has also made it easier to protect capital spending, because it has been the case that previous Chancellors, when faced with challenging fiscal situations, would go first to the capital budget and delay projects, cancel projects or extend the life of projects. That is not the decision that I wanted to make.

It is also really important that we spend the money well. That is why, as part of the defence investment plan, we are allocating more money to start-up businesses and tech businesses to really get that innovation, building on quite a lot of what happens in the US.

Q670 **Chris Coghlan:** As you know, the National Bureau of Economic Research in the US has published an estimate of the Brexit cost of 6% to 8% of GDP—effectively a £90 billion Brexit black hole. Given this, do you support the Liberal Democrat proposals for an EU customs union, as several Labour MPs do?

Chair: We are not here to play party politics.

Rachel Reeves: Good try. I think the OBR are sticking to their number of around a 4% hit, but it is still very material. That is why we have this reset with the EU and why we are at the moment negotiating around a new food and farming agreement, energy trading, electricity trading, Erasmus and a new youth mobility scheme—because we recognise that making it hard to trade with your nearest neighbours and trading partners is not exactly good for businesses and not exactly very good for growth.

Q671 **Chair:** I think we can all agree on that. I just want to follow up on an answer you gave to Mr Glen about threshold freezes. The fact is that somebody earning a salary of around £70,000 a year—which I know is a lot in parts of the country, but in parts of London, for example, it is not as easy to live on as it may sound—will see roughly the same tax rise as a premier league footballer or other high earners. Do you see that as progressive?

Rachel Reeves: I think the question that Mr Glen was putting to me was whether increasing rates versus freezing would be much different. I would say that £70,000 is around twice the national average wage.

Q672 **Chair:** But is that somebody who should be paying roughly the same as a premier league footballer?

Rachel Reeves: Well, they are not paying the same, are they?

Chair: The same tax rise—the rise would be similar.



HOUSE OF COMMONS

Rachel Reeves: Our distributional analysis shows that they are pretty similar, but I would also say that £70,000 is going to put you in the top decile—

Q673 **Chair:** Just to be clear, when you say “pretty similar” you are referring to the threshold freeze versus any tax increase.

Rachel Reeves: Yes—the answer to John Glen’s question.

Q674 **Chair:** I am just making sure, for the record. Obviously, you will do modelling of the impact of policies on different households. Because you have lots of different tax changes, the challenge is how they interact with each other. Have you changed the way you do that evaluation of the impact on certain types of households, as a result of having taken that approach?

Rachel Reeves: The OBR look at the interaction of policies when they look at the indirect effects of the Budget package as a whole, so they are taken into account in the forecast. The distributional analysis obviously takes into account all the policies and how they interact with each other.

Q675 **Chair:** Often the problem is that there are unintended consequences. So there is nothing different the Treasury is doing on this; you are relying on the OBR. It is just a simple question.

Rachel Reeves: Of course, we look at these things ourselves, but the numbers that are published, including the indirect effects—

Q676 **Chair:** You do look at them yourselves as well, so you are taking that fully into account.

Rachel Reeves: Well, yes. We look at things like the sectoral impact of policies, so the impact of policies on families with children, on pensioner households—

Chair: I just wanted it clear for the record that you do that. That is fine. You talked about efficiencies for Departments and said you are tracking that closely. Permanent secretary, has anything changed in the way the Treasury is tracking those efficiencies compared with the past?

James Bowler: From the past, I guess the fact that we use the Office for Value for Money to come in and work with Departments to set out what the efficiencies would be that were announced at the spending review and how they will be measured, including the referencing in annual report and accounts. That is new from previous spending reviews.

Q677 **Chair:** Of course, there is no Office for Value for Money now, so that is back into the Treasury teams.

James Bowler: Yes, they have done exactly what we asked them really well, and that is now all set up.

Q678 **Chair:** So the public spending teams will be looking at that for each Department as usual.

James Bowler: Correct.

Chair: Okay, that is fine.



HOUSE OF COMMONS

Q679 Dame Harriett Baldwin: Mr Bowler, I have a technical point on the business rates questions I was asking the Chancellor earlier. The Treasury website gives some worked examples of how the transitional relief will be applied. That is a maximum cap versus the 40% discount that was in place. The letter that has gone out from the Ministry of Housing, Communities and Local Government to the councils that will implement this change does not have the 40% in it, so it is a much more significant increase. Could you take that away and make sure that the letter that goes out from MHCLG is exactly consistent with the guidance from the Treasury and the intention that the Chancellor clearly set out in her reply?

James Bowler: Certainly.

Rachel Reeves: Dame Harriett, I recognise that businesses are crunching through all the numbers now, and I would urge all businesses, and also parliamentarians when we are interacting, to make sure that businesses understand the transitional relief. I know there have been a number of businesses that have seen the headlines without understanding the transitional relief, and obviously, the two go together. Thank you for raising this.

Dame Harriett Baldwin: It sounds like the letter from MHCLG is incorrect, so perhaps that could be clarified, and that will help us all.

Rachel Reeves: We will definitely look at that.

Chair: It sounds like an urgent matter for the permanent secretary to get on with. I thank our witnesses very much indeed. Thank you to the Chancellor, the right hon. Rachel Reeves MP. I am not sure if the Budget ever ends—you are probably thinking about the next one already—but this is a full stop at the end of this Budget cycle. Thank you also to James Bowler, the permanent secretary, and to Dharmesh Nayee, a first-time attendant at this session. The transcript of the session will be available on the website uncorrected in the next couple of days, with thanks to our colleagues at Hansard, and thanks to Bow Tie for the broadcasting.