

Treasury Committee

Oral evidence: Spring Statement 2026, HC 1756

Wednesday 11 March 2026

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

Questions 75-183

Witnesses

I: Rt Hon. Rachel Reeves MP, Chancellor of the Exchequer, HM Treasury; and Dharmesh Nayee, Director of Strategy, Planning and Budget, HM Treasury.

Examination of witnesses

Witnesses: Rachel Reeves MP and Dharmesh Nayee.

Chair: Welcome to the Treasury Committee on Wednesday 11 March 2026. We are delighted to welcome the Chancellor of the Exchequer, the right hon. Rachel Reeves MP. She is joined by Dharmesh Nayee, who is the director of strategy, planning and budget at His Majesty's Treasury. We are covering the issues raised by the Chancellor in the spring statement, and indeed, in the EFO—the "Economic and fiscal outlook" document produced by the Office for Budget Responsibility.

Since this session was planned, we have seen major international events in the world, so we want to kick off with the situation in Iran.

Q75 **John Grady:** Chancellor, what does the Iran war mean for inflation, interest rates and growth?

Rachel Reeves: First of all, thank you very much, Dame Meg, for inviting me back after the spring forecast to give evidence.

Yes, even when I delivered my spring forecast last Tuesday, it was obvious that there were disruptions to markets and prices. But I would say, as I think the Office for Budget Responsibility said to your Committee yesterday, it is too soon to be able to tell what the impact of this is.

As a Government, and in my role as Chancellor, we are working hard to de-escalate the conflict, because the best chance of having a minimal economic impact is to de-escalate the conflict and to see vessels moving again through the strait of Hormuz. At this stage, I think it would be unwise to speculate on what the impact on inflation, growth or interest rates would be but, of course, we are looking at a number of scenarios and monitoring the situation very carefully. The quicker we can de-escalate, the better it will be for all those different economic variables.

Q76 **John Grady:** The panellists we had yesterday were all clear that this was bad news for the British economy—there were no bright spots in it. Would you concur with those panellists?

Rachel Reeves: It's certainly not good for the British economy to have trade disrupted, especially when so much oil and gas comes from that part of the world. The best thing we can do as a Government is seek to de-escalate this conflict.

Q77 **John Grady:** How are you helping or working to de-escalate the conflict?

Rachel Reeves: As you know, G7 Finance Ministers met on Monday, G7 Energy Ministers met yesterday, and today leaders will meet. We had the head of the International Energy Agency at the meeting that I attended on Monday. They are consulting with members right now on the release of strategic oil reserves. I have been very clear that the UK is willing to play its part in using those reserves to put downward pressure on oil prices and

ensure that supply remains strong. That is one of the ways in which we are responding. We are also working, for example, with Lloyd's of London; I met the chair, Charles Roxburgh, on Monday.

We are also working with the US Administration and other key allies in trying to reopen the strait of Hormuz and making sure that vessels feel confident to travel through it and that insurance products are available at the right prices. At the moment, the issue is not so much insurance products, but the safety of captains and crews of those vessels. We are working closely with our allies in both the Gulf and the G7, and with the insurance industry, to ensure that we can get those movements going again as quickly as possible.

Q78 John Grady: Are you clear about what would make traffic up the strait of Hormuz insurable again? Yesterday, there was quite a bit of confusion about whether tankers had or had not been escorted up the strait of Hormuz by the US army.

Rachel Reeves: Well, what will make it possible is de-escalation of the conflict and security for vessels passing through. We are very clear about that and working closely with Gulf allies and G7 allies to try to facilitate that.

Q79 John Grady: On de-escalation, obviously you are having discussions with G7 Finance Ministers. Do I have it right that there is a limited amount that Finance Ministers can do to de-escalate, and that sits with the Foreign Office and the Prime Minister? I am just picking away at what the Treasury can actually do to help de-escalate this conflict.

Rachel Reeves: My primary role in all of this is to monitor and respond to the economic impacts—of course working closely with my US counterpart Treasury Secretary Scott Bessent, and with my European counterparts. We also have a role to play in ensuring, for example, that our defensive actions in the middle east to defend our allies are properly funded. As I said in the Chamber on Monday, we have given the MOD access to the special reserve to be able to fund all additional deployments in the middle east. That is part of my role, of course: funding anything to ensure that vessels can flow more freely on the strait of Hormuz, as well as advising on the release of strategic oil reserves.

Q80 John Grady: Chancellor, there are two, or three, protagonists in this conflict. One is the US; one is Iran. In the meetings with Scott Bessent that the Finance Ministers have held, has it been made clear that the UK's position is that the US should return to the negotiating table and seek to de-escalate this conflict?

Rachel Reeves: Yes, absolutely.

Q81 John Grady: Moving on to the state of the public finances, we have a very high ratio of debt to GDP. There is already a discussion about schemes to assist businesses and consumers with bills but, given our high debt-to-GDP ratio, do we have the fiscal room to carry out something akin to what happened after Ukraine, which cost between £50 billion and £80 billion?



Rachel Reeves: We will always make sure that we do everything we can to protect consumers and to ensure our national security, as an economy. We are in a stronger position to respond to shocks like these than when I became Chancellor. We are in a stronger position, in many ways, than when Russia illegally invaded Ukraine. Inflation is on a downward path at the moment and is at a lower level than when Russia invaded Ukraine. In the spring forecast, just over a week ago, the Office for Budget Responsibility confirmed that debt will be lower in every year of the forecast compared with the November forecasts and that we were meeting the fiscal rules both a year early and with additional headroom compared with the November forecasts. In addition, interest rates have come down six times over the last year, and with them the costs of Government borrowing.

Chair: We are aware of that. We are talking in particular about Iran.

Q82 **John Grady:** I suppose, Chancellor, what we have heard from witnesses recently is a sense that since the OBR was introduced people have always promised tightening tomorrow but that whenever a crisis comes along we spend money, and then the tightening never occurs. What is your response to that criticism?

Rachel Reeves: If you look at the deficit for this year, it is going to come in at 4.2% of GDP compared with 5.3% of GDP last year. That fiscal consolidation is taking place now; it is not just projected to do so in the future. The Office for Budget Responsibility also forecast that that deficit will fall in every year of the forecast period, ending I think at about 1.6% of GDP in the final year. That is the first time since, I think, 2019 that the deficit has been lower than 5%. That is because of the actions that we took in my first two Budgets. It also reflects, in this forecast, the lower costs of servicing that debt than in the autumn. That reflects the stability that I have returned to the economy. It means that we are in a stronger position than we otherwise would have been to respond to a crisis like this.

When the Office for Budget Responsibility gave evidence to this Committee yesterday, they were clear that fiscal rules are medium-term rules. Our stability rule is that you pay for day-to-day spending through tax receipts and get debt down as a share of GDP, moving to the third year of the forecast. Of course, as the OBR said yesterday, that gives scope for interventions in the short term.

I would also just say this. We are also in a stronger position in terms of the energy market than we were in 2022. In 2021, 90% of the time, energy prices depended on the marginal gas price. That has fallen by about a third since then. The electricity that we buy using contracts for difference has also increased—I think by 17%—so the movements in global oil and gas prices have less of an effect, although still a big effect, on the prices that consumers pay for energy today, compared with five years ago. That shows the importance of moving away from volatile fossil fuel prices through investing in clean, home-grown energy so that we are



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less reliant on those very volatile international markets and the vagaries of international events around the world.

- Q83 **John Grady:** You mentioned on Monday that you are in regular contact with the Bank of England. People coming to this Committee express concern about private markets and so on. Do you have any concerns about firm-level or system-level financial stability, given all the volatility that we are seeing in the different markets?

Rachel Reeves: We monitor that closely. Markets are functioning in an orderly way at the moment, but obviously I am in close contact with the Governor of the Bank of England and other MPC members and officials there.

- Q84 **Luke Murphy:** Chancellor, everyone wants de-escalation, but we have to accept that this may be prolonged. In those circumstances, what preparation is under way in the Treasury for planning to support consumers and businesses with their energy bills?

Rachel Reeves: Thank you very much for your question. First of all, I would like to think that everybody is in favour of de-escalation, but that has not been entirely clear during the short duration of this conflict to date. When the conflict began just under two weeks ago, both the Conservatives and Reform were suggesting that the UK should be engaged in offensive action against Iran in the middle east. We made the decision that that would be the wrong choice—

- Q85 **Chair:** The question was about preparation.

Rachel Reeves: Well, the question was also about de-escalation. One of the reasons why it was not in our national interest to be involved in that conflict is the impact here in the UK. That is why we made the decision that we did. Of course, the Treasury is always planning for different eventualities. We saw the impact of higher oil and gas prices just a few years ago, after Russia's illegal invasion of Ukraine. As a former Chancellor of the Exchequer, Jeremy Hunt, said in the Chamber on Monday, it is too soon to know the impact of this crisis and take a policy response.

I also just want to say that the energy price cap protects consumers. In April, the cut in energy bills will go ahead, despite what is happening in the middle east at the moment. So on average, despite what is happening in the world, domestic energy bills will go down by £117 on 1 April, and that will last until the end of June.

- Q86 **Luke Murphy:** Thank you for the answer. So it is too soon to take decisions, but not too soon to prepare. I wonder whether you have any views on whether the Government is better prepared, or in a better place, to offer more targeted energy bill support. The previous Government had to offer quite broad-based support, costing £78 billion. What developments in policy have happened under this Government to allow more targeted support, should it be necessary?

Rachel Reeves: We are obviously looking at a whole range of different scenarios. One reason why any future package, if it was necessary, will be



more affordable is that we are now less reliant on international energy price movements than we were when Russia invaded Ukraine. That is because we have invested more in home-grown renewable energy, which is not subject to this price volatility because it is purchased through contracts for difference. Over the next few years, we will be even more insulated as more of that renewable energy comes online and as we build the infrastructure to better connect it to the grid. That will be facilitated by the Planning and Infrastructure Act, which was passed at the end of last year, but even in the last five years, we have become less reliant on those international energy markets. That is not to downplay the significance of movements in global oil and gas prices, but the context is slightly different from when Russia invaded Ukraine.

Q87 Luke Murphy: To return to the question on targeting, is there work, or should the Treasury be beginning work, with the Department for Energy Security to look at more targeted schemes to support consumers—even if it is planning and those decisions do not need to be made?

Rachel Reeves: Of course we are working on different ways to protect people, including more targeted support. In the spending review last year, we expanded the warm home discount to an additional 3 million lower-income families, so in addition to the £150 on average that we took off people's bills, from April this year, an additional 3 million households will get £150 off on top of that, taking their total discount to £300. That was targeted at the people who struggle most with their energy bills—those on the lowest incomes, both families and pensioners.

Q88 Luke Murphy: Finally, the electricity generator levy is, I believe, set at £75 per megawatt-hour. I asked this question in the House, but do you believe that it is set at the right level for it to be activated, or should the Treasury be looking at that? Should the Treasury potentially be considering whether that should be extended beyond 2027?

Rachel Reeves: Both the energy profits levy and the electricity generator levy play an important role in stabilising the cost of any intervention. Both of those were set to only be activated when prices are at an elevated level. They were brought in by the previous Conservative Government to ensure that those packages of support were perhaps a bit more affordable than they otherwise would have been by taxing those windfall profits. At the moment, we are not looking at any changes to the electricity generator levy, but of course it will be activated in circumstances where prices remain elevated.

Q89 John Grady: Just a quick question from me on the electricity generator levy. Of course, a lot more electricity is now fixed price under CfDs and the like, so presumably, all other things being equal, it would raise less than it did before when there was more merchant capacity. At the same time, we arguably want to see more investment in the North sea, and there are a lot of complaints about the windfall taxes on oil and gas companies. They were critical to offsetting some of the costs of the preceding relief, so does this make any wider scheme of relief more difficult, because those two offsets are maybe less strong than they were



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four years ago?

Rachel Reeves: On the electricity generator levy, that goes to the point I made earlier that less of the price of our energy bill is determined by the marginal gas price than it was when Russia invaded Ukraine. That means that those prices will not go up in the same way that they would have previously, because we are paying a set price for them. That is welcome and means that an increase in oil and gas prices would not have the same impact on domestic energy bills as it would have just a few years ago, because of that investment in home-grown renewables and the infrastructure to get that energy to people's homes.

Both of those levies are set at a level that taxes only windfall profits. In the Office for Budget Responsibility forecast last week, they envisaged revenues from the energy profits levy going to zero in Q3 of next year because it expected the oil and gas prices to fall below the floor. That shows the energy profits levy working, because as prices fall revenue would not be collected through that levy. If prices remain at an elevated level revenue would come in, but of course that revenue would be needed to help with people's bills.

Q90 **Chair:** Chancellor, you have talked about planning for all sorts of scenarios. Can you tell us precisely what planning is under way for businesses and consumers?

Rachel Reeves: Already, given the unique situation with heating oil, we are working with the Competition and Markets Authority on any price gouging in that sector.

Q91 **Chair:** Is price gouging the main concern you have there?

Rachel Reeves: No, the main concern and the main response is to try to de-escalate the crisis, because that is the main reason that prices are at elevated levels. I made the point on how important that is, and how important it is to get vessels flowing, but we have already started work with the Competition and Markets Authority.

Q92 **Chair:** That is for home heating oil; what about other consumers?

Rachel Reeves: Another route into the cost of living is through petrol and diesel prices at the pumps. We have started to use the cheaper fuel finder that the Government have been working on for the last few months. As I said in the House yesterday, at the beginning of this week there was a range in prices between just under 130p per litre to 180p per litre.

Chair: Yes, we were all there in the Chamber.

Rachel Reeves: Tomorrow, I will meet with the Competition and Markets Authority and petrol retailers.

Chair: So you are talking to the CMA.

Rachel Reeves: And also directly with petrol retailers. I and the Secretary of State for Energy Security and Net Zero will meet them tomorrow.



Q93 Chair: What about planning for longer-term reliefs? The summer, when the cap lifts, will be an easier period but, for towards the winter, precisely what options are you looking for both businesses and consumers, in terms of their day-to-day use of energy?

Rachel Reeves: On businesses, it is also worth noting that the supercharger extension comes in at the beginning of April. That increases the discount for the most energy-intensive industries from 60% to 90%. That was planned anyway, and it will come in. We are also working with the Department for Business and Trade on the British industrial competitiveness scheme, which comes in next April, to ensure that that helps, in the right way, the industries that most need that support. There is other work going on, in terms of business support, in my Department, in DESNZ and in DBT. Nothing is off the table at this stage. As Mr Murphy suggested, we are looking at targeted support as well as broader measures, but it is just too early to say what is needed.

Q94 Chair: On the targeted support, one of the issues that was picked up yesterday—and that we know from previous schemes—is having the data available to target properly. Often the blanket approaches were easier, even though there was dead weight. What progress has been made on data sharing across Government, with HMRC and others? The Treasury has huge power here; how are you wielding that power?

Rachel Reeves: Mr Glen was in the Department when Russia invaded Ukraine and a lot of this work started then. But as you rightly suggest, Dame Meg, it did not progress and it was not far enough in advance to be able to have more targeted support, but I know that was something that was looked at by the previous Government. To be honest, the fact that that work took place then means that we are more advanced on this occasion, so I thank previous Ministers and officials for starting that piece of work, which makes it more likely that we will be able to use targeted support this time. We are looking at all those things, but it is too early to give you different scenarios and different options for different scenarios.

Q95 Dame Harriett Baldwin: Many of my rural constituents, who are often pensioners, rely on heating oil. They are looking at £1,000 extra to fill up their tank this week. Some of that may be price gouging, but it is mainly the price. Is your advice to them to just wait until things have de-escalated to fill up their tank, if they are very low?

Rachel Reeves: I know that is not an option for some people, if they are out of heating oil. That is why we are working very rapidly with the Competition and Markets Authority on a range of issues. My colleague the Financial Secretary to the Treasury has already had a number of meetings in the last couple of days, and is meeting MPs. I would encourage people whose constituents use heating oil to attend that meeting today. But we know that there are bad practices—

Q96 Dame Harriett Baldwin: It is not just bad practice, though: it is an increase in price, isn't it?



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Rachel Reeves: Let me give you a couple of examples. Some companies are saying that you can only buy a larger quantity; they won't sell in small quantities, whereas at the moment many people want to top up a little bit at the higher price, but not to fill up their whole tank. So we are looking at some of those market practices, which are not necessarily about price but are also about quantity. We have also been using the last few days to properly understand what is happening in that market, and after the meeting today we will make decisions on what further action is needed. But I would encourage you to feed in your examples, because that is so helpful in designing policy.

Q97 **Dame Harriett Baldwin:** I definitely will do that, but what I am hearing is that your advice is, if you really need to, top up a little bit; otherwise just try and hang on.

Rachel Reeves: And I would say to businesses providing heating oil that it is not right to say that you will only sell in large quantities at the moment. That is not fair on customers, and I would encourage consumers to push back and to shop around in circumstances where they are being told they can only buy a large quantity at a very high price.

Q98 **Chair:** Chancellor, thank you for that. If you could give a sentence summary, you have to plan for the very worst because the Government have got to be there to manage these risks, so what is your message to the British public if de-escalation doesn't work and we are still in this situation in the autumn coming into the winter, when this will really hit households hard?

Rachel Reeves: What I would say is that we are much too early, less than two weeks into the conflict, to have any certainty about what things would look like when the next energy price cap is determined at the end of May, for July, and we will work flat out to try and de-escalate this conflict and crucially, from an economic perspective, to get vessels moving again in the strait of Hormuz. But I and the Prime Minister have been very clear and I would encourage people to judge us on our actions around tackling the cost of living challenges that people face, whether it is the £150 off bills from April, the freeze in prescription charges or the freeze in rail fares. We recognise that for too many people the cost of living is still a real day-to-day challenge, and we will do everything we can to support—

Q99 **Chair:** Are you able to say, "We are making plans if there are—"?

Rachel Reeves: As I have already confirmed, we are looking at all eventualities, but the root cause of this is the challenge in getting oil and gas out of the middle east, so the best way to deal with this is to address that at the root.

Q100 **John Glen:** Chancellor, could we turn to growth? You are 20 months into a five-year term—a third of the way through. You have talked about the National Wealth Fund, planning reform and a new industrial strategy as some of the things that you have done to drive growth, but if we look at some of the OBR's assessments, obviously there has been an upgrade—a very modest one—for the next two years and a downgrade for this year.



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One of the issues is around the cost of employment and the cost of energy, which is having a real impact on unemployment. How would you now, a third of the way into this Parliament, characterise your progress on the growth mission, and what do you think are the main policies that will deal with those pressures on employment?

Rachel Reeves: Last year we were the fastest growing European country in the G7, and that is also forecast to be the case this year; but the truth is that growth, both here and around the world, especially in the advanced economies, is not as strong as we would like it to be, which is why I have always said that growth is the No. 1 mission of this Government. Obviously, growth and the cost of living are closely intertwined because the cost of living is always higher if your wages are not keeping up with higher prices.

The Office for Budget Responsibility forecast that the average person would be £1,000 better off by the end of this Parliament than they were at the start. That is a huge improvement compared with the last Parliament, where people were worse off on average at the end than they were at the start. But I am under absolutely no illusions that there is more to do, both to grow the economy and to ensure that people in all parts of the country feel the benefits of that growth.

A number of things are coming in this year that I am confident will have a positive impact. For example, the Planning and Infrastructure Act, which I mentioned earlier, got Royal Assent only at the end of last year. That has now come into effect and will make it cheaper and quicker to build vital infrastructure, including energy infrastructure and particularly the infrastructure that will get the energy from the projects—offshore wind, onshore wind or solar—to people's homes. The Planning and Infrastructure Act is now in force and is making it easier to get those things built, as well as things such as digital infrastructure and data centres, house building, which is obviously crucial, and transport infrastructure.

A number of other things will also come in this year. The Pension Schemes Bill is currently working its way through Parliament. If that gets Royal Assent in the second quarter of this year, it will free up more money for investment in private assets—both venture capital and infrastructure.

Q101 **John Glen:** Can I just interject there briefly? I do not think anyone would dispute the potential for those things to make a meaningful difference, but we have to address the immediate context that the country faces, which includes the cost of employing people and the behaviours that we see on the ground. The OBR has talked about the higher labour costs, and energy costs for small businesses, even if there is a plan to reduce them over time, are materially impacting growth in this year. I acknowledge that you have been straight and fair on these matters, but the growth trajectory for this year is significantly down. Do you not think that interventions to deal with that problem in the labour market, with unemployment rising—particularly for young people—need to be more urgent than some of those medium-term measures you have alighted on?



Rachel Reeves: I wouldn't say that they are medium-term measures, because they are things that are coming in this year. Let me address employment, and then energy. The youth guarantee scheme that I announced in the Budget last year comes in in the next couple of months, and that includes the job guarantee for young people who have been out of education, employment or training for 18 months. We are also tilting the apprenticeship scheme so that there are more apprenticeship opportunities for young people, because many apprenticeships—and there has been a fall in apprenticeships—were increasingly offered to older workers. Of course, we want people to be able to reskill, but we want the apprenticeships to particularly benefit younger people. I recognise some of those challenges, which is why we are doing something about it.

We made the decision to increase national insurance in my first Budget. That was because we needed to properly fund public services including the national health service, which got a £29 billion a year uplift. It is a valid argument to say that that should not have happened, but, if that didn't happen, we would not have been able to put that money into the NHS and reduce waiting lists. Reducing waiting lists in the NHS is also good for business, because it means that more people are available for work and the workforce is healthier. But I recognise that there are particular issues around youth unemployment. With respect, we inherited a lot of that, including a big increase in young people not in education, employment or training, but we are facing into that with actions coming onstream from next month.

Let me also say something about energy costs. The supercharger was introduced by the previous Government. We are increasing the generosity of that. At the moment, it provides a discount of 60% for about 500 businesses, and we are extending that to 90%. That happens from April this year. We recognise that many other businesses outside of those 500 also face high bills and are energy intensive. So what we are introducing from next April is this new scheme, which benefits around 7,000 businesses, focusing on the foundational sectors of the economy and the industrial strategy sectors.

If you say, "Would you like to bring that in sooner?", then I would say, "Yes, absolutely, I would." But we have to design the scheme—

Q102 **John Glen:** I was not going to say that.

Rachel Reeves: I will say it then. *[Laughter.]* We have to design the scheme and make sure it functions properly.

Q103 **John Glen:** Chancellor, what I am trying to get at is this. We have about 5.5 million small businesses that say the combination of the national insurance increases, the doubling—broadly—of the rate of inflation, the increases in the national living wage, and the uncertainty over the effect of the Employment Rights Act, given that the OBR said to us yesterday that they cannot score the effect of that Act because there are consultations outstanding, all of that gives a completely different context for all of those small businesses around whether they will employ somebody. And if you



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look at youth unemployment, which is at over 16%—I think that is higher than the average in the EU—it feels like what you are talking about theoretically has a macroeconomic effect over time, but in the short term the OBR and most surveys say that confidence in employing people is just not there. Do you think your measures are the right ones to move the dial in the immediate term?

Rachel Reeves: If you look at the OBR forecast and the things the OBR have taken into account, they have taken into account, for example, our increase in capital spending. As I say, that will have a positive impact on the size of the economy. The OBR have also taken into account some of our planning reforms and are saying that they have had a positive impact on the size of the economy. They have not scored negatively the Employment Rights Act.

Q104 **John Glen:** It's hardly likely to be positive, is it?

Rachel Reeves: Apart from it gives people greater security. If you know that you will get sick pay from day one, that means you have a bit more confidence to spend the money—

Q105 **John Glen:** What does it do for an employer who is anxious?

Rachel Reeves: I think you have to look at these things in the round, because if you are a worker on a zero-hours contract and you do not know next week how many hours you are going to get, it is very difficult to be able to plan anything for the future, and it is very difficult to spend money because you have to build up precautionary savings, as you are not sure if you are going to be working the next day.

Q106 **John Glen:** What I am asking about is this: if the propensity to employ somebody is less, that is a theoretical construct, because the person will not be in a job in the first place. Are you saying that you are committed to a higher-cost labour and higher capital investment growth strategy? Is that a fair summary of where your measures are taking us?

Rachel Reeves: I think you have to take into account the impact that it will have on employees as consumers. If you have got more money in your pocket, that is more money to spend on your local high street and in your local business.

This argument played out when the last Labour Government introduced the national minimum wage in the first place. There were representations from business and other political parties that said the national minimum wage would cost jobs. It didn't. Employment was—

Q107 **John Glen:** That was nearly 30 years ago. We have seen youth unemployment at record levels now, in these first 20 months of your Government.

Rachel Reeves: With respect, Mr Glen, we saw the number of people not in education, employment or training under the last Conservative Government increase by more than 100,000. That was not because of greater protections at work and increases in people's wages; in fact, living



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standards went backwards in the last Parliament. I just do not accept the premise of your question.

However, is the argument: "Do I think that working people should have more money in their pockets, to spend in the way that they choose and have security from going out to work?" Absolutely, I do. And do I think that would be good for the economy? I do.

Q108 John Glen: I am just not clear what you think is going to get those people into employment in the first place, and what is going to persuade employers, given the context that now exists for them, to make the decision to employ people.

Rachel Reeves: There are more people in employment now than there were when Labour came into office. Partly, that reflects a reduction in the inactivity rate. I think there have only been three years in the last 50 years where the employment rate has been higher than it is today. It is, of course, welcome that people are putting themselves forward for work. That will reflect a number of things, such as better childcare, for example, or greater security at work, which also encourages more people to take a job.

So you have a situation where, yes, unemployment has increased a little bit, but inactivity has reduced. And as a result, the number of people actually in work today is higher than when we came into office.

Q109 Luke Murphy: On the point about employment rights, is there an argument that this will lead to more productive employees? There is a lot of evidence that shows that greater security will lead to more productive employees, which is actually better for business. Is that part of the theory of growth as well?

Rachel Reeves: I don't believe in a trickle-down economic theory of growth, where you make better-off people a bit better off and eventually that affects the ordinary person in your Basingstoke constituency or my Leeds West and Pudsey constituency. I believe that growth comes from the bottom up, and the middle out, and that if working people, who are the vast majority, have a bit more security and a bit more money in their pockets, then the economy would be stronger.

The reason the economy has been weak for the last few years is that living standards have gone backwards, which meant that people, after paying their rent or mortgage, their bills and their weekly food shop, had very little money left to spend on other things. That is not good for businesses, particularly high street businesses and small businesses. That is what we are trying to turn around: not just growth for growth's sake, but growth that is actually felt in the pockets of working people, and that makes working people better off. Also, we want growth in all parts of the country. It has been the case for too long that Government have relied on too small a part of the country and too few industries, and that has not delivered the balanced growth that benefits people in all parts of the country. That is why you have got such high levels of both regional inequality and absolute inequality.

Q110 Chair: Thank you, Chancellor. In fact, when I asked a question in the House on this issue during the statement, you were quite passionate about growth across every part of the UK. You obviously talk about growth all the time. You are challenged, especially in the current climate. Can you espouse your vision for delivering that growth in every area of the UK? What will that feel like?

I remember back in 2011 being on the doorstep in Pudsey, speaking to a woman in a lovely semi-detached house with a car in the driveway; her husband had gone down to a four-day week but she was pleased that he still had the job. She was in a part-time job so she could spend time with the children; she just wanted them to get a good education. She had a parent with health problems—the classic family. I often think of the woman who I had that conversation with. How is she going to benefit? How are you going to deliver that growth in this term of Parliament? What will be delivered by the end of this Parliament? Give us your passionate vision for this, because we want to see where your passion is.

Rachel Reeves: Thank you very much for that story. I think all of us will have in our mind somebody we have met. I remember meeting a woman a long way from my constituency, down on the south coast in Worthing. Between her and her husband they had five or six jobs; they had a young child and lived in private rented accommodation. The woman said to me, “I just wonder whether we are doing something wrong.” That stuck with me for a long time, because her and her husband were doing everything right, but the economy was not working for her and her family. The idea that every generation does better than the last, for her, just did not feel like the case. She was worried that it would not be the case for her young child either.

Q111 Chair: What do you say to her now about what your plans will deliver?

Rachel Reeves: We have got to grow the economy, and that is the No. 1 mission of this Government, but it has got to be felt in the pockets of ordinary people in Worthing, in Hackney, in Leeds West and Pudsey—in all parts of the country. That means more good jobs, paying decent wages, that you can afford to raise a family on. That is the vision—that is what I want to see.

How are we going to go about it? My economic strategy is based on stability, investment and reform. Stability brings down interest rates and gets inflation low and stable, and Government borrowing costs down, so that we have more money to spend on the things that actually matter, like a good education and good hospitals, rather than paying £100 billion a year on debt interest costs. Stability is the first plank, and then investment. That is a combination of public and private. I believe in a strategic and active state that gets involved—it does not just step back but steps up and works with businesses to unlock opportunities.

There are massive opportunities at the moment in areas where the UK is really good—in life sciences, new technologies and defence industries. But that requires a Government that do not just say, “Oh, we will leave energy costs to the market,” or that say, “It doesn’t really matter where things

are made or who makes them, just that we can use these technologies.” Well, I think it does profoundly matter where things are made and who makes them, and I want the jobs and the opportunities here in Britain.

So it is a combination of the higher capital spending that I was able to unlock because of my fiscal rules; the creation and better funding of the public finance institutions, whether that is UK Export Finance, the British Business Bank or the National Wealth Fund; and then leveraging in that private sector investment. One of the success stories over the last 18 months is that investment in the UK—public and private—has been higher than all but one G7 economy. It is the first time in a long time that we can say that, because our investment performance has been particularly weak, which contributes to the weaker productivity growth that we have seen.

The final plank of my strategy is around reform, which is taking out those barriers that are prohibiting businesses from investing. That is why the planning reform, the regulatory reform, the pensions and capital markets reform and the trade deals we are doing are all so important to unlocking that growth and potential and encouraging businesses to increase what they invest in the UK—whether that is a scale-up business that is deciding whether to stay here, a multinational deciding whether to invest in Britain or a different country around the world, or a small high street business that is thinking about taking on another worker or opening a new shop. The vision is working people in all parts of the country being better off, and the way to get there is stability, investment and reform of how the economy works.

Q112 Chair: From what you said, you do not mind having an interventionist approach at times—for example, on energy prices. That is part of your strategy.

Rachel Reeves: It is absolutely part of the strategy. It is a partnership approach between Government and business. There are some things that business cannot do. Businesses do not fund the basic R&D. They do not fund the universities, the skills or the health service, which makes sure we have a healthy workforce.

Q113 Chair: Where business won’t go, you are saying Government will, to pump-prime.

Rachel Reeves: It is not just pump-priming; it is providing some of those basic services, but also things like Northern Powerhouse Rail or the Ox-Cam corridor. There is a role for Government in making sure the infrastructure is in place to connect people and jobs, to build the housing and to make sure you have the reservoirs and the energy infrastructure going to the right places. But there are things that Government cannot do. We are not going to innovate in life sciences or defence. We have brilliant industry—brilliant businesses—to do those things and great new businesses emerging as well. It is up to Government to partner with those businesses to unlock the potential.

Q114 Bobby Dean: Chancellor, you just mentioned the potential for the private and public sectors to work together. I recently guested on a Public



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Accounts Committee session looking at public-private partnerships in delivering social infrastructure in the past and the lessons that can be learned from that. Will the Government learn the lessons of past public-private partnership investments in social infrastructure—in schools and hospitals—and look at that model again?

Rachel Reeves: It is easier to do those sorts of models where there is an income stream than in areas where there is not. I think there is some role. In the NHS, in primary care, the Health Secretary is looking at some options. But other areas—for example, the lower Thames crossing—will be primarily privately funded. Similarly, the investment in Sizewell C is as a consortium, including the Government but also Centrica, one of the Canadian pension funds and EDF, the French energy company.

Bobby Dean: But those are the more obvious places to do it.

Rachel Reeves: Yes, they are more obvious places.

Q115 **Bobby Dean:** Take the hospitals programme, for example, with lots of people in a long queue and the NHS Confederation saying, “Actually, maybe we need to look at PPP again.” Obviously, there is some political scarring from how it went in the past, but are you open-minded to that?

Rachel Reeves: I am open-minded, but we have absolutely got to learn the lessons from the past. The Department of Health and Social Care has come up with some proposals around primary care. We are interested in working with it on those, but we are primarily pursuing that approach in areas where there is a clear income stream and where private expertise is particularly valuable.

Q116 **Yuan Yang:** Chancellor, at the last Budget you made a significant investment in special educational needs of £4 billion per year. You face many different competing pressures from various Departments. Could you outline why you chose SEND as a particular focus for investment and why that was a particular priority for you? Has the impact of that spending on other Departments become clearer since the autumn Budget?

Rachel Reeves: The Department for Education has been working for a while on reform through the schools White Paper, including for children with special educational needs. We hear about that every week in Parliament, whether at Prime Minister’s questions or something else. Every week in all our surgeries, parents come to see us about—or whenever we visit a school, teachers talk to us about—the serious problems in special educational needs. When I was little, my mum was a special needs teacher, so I know through family experience how important this is, and I also know as a mum how important it is that children with special needs have the right provision, ideally in mainstream schools, and that schools are better equipped for supporting children with a whole range of needs in a way that is just not happening today.

The system today has become incredibly adversarial as well. You have to fight and fight—that is the language that people use—to get an EHCP, rather than just relying on the school to support your child with whatever



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needs that they have. So I welcome the work that the Education Secretary and the Schools Minister have done to consult parents, young people and schools to come up with these plans.

Without action, what would happen is what we have done this year, which is to help fund councils that have got into debt because of special educational needs. What we are doing is creating a more resilient system where we actually fund those needs, rather than having to step in at the end of the year to top up the funding of local authorities. In the spring forecast, we fully funded what was set out in the schools White Paper. I was pleased that we were able to do that. This is something that, I think, unites people across all political parties and all parents—that something needs to be done in this area. The approach set out is the right one.

Yuan Yang: Thank you. We have seen those pressures from parents in our own constituencies as well—definitely.

Rachel Reeves: Yes.

Q117 **Yuan Yang:** How will the impact of that spending be spread among other departmental budgets? Will it be general or equally spread? How will it be distributed?

Rachel Reeves: We have now funded it in the spring forecast. That is in addition to funding previously allocated.

Q118 **Jim Dickson:** I think most people would absolutely regard the additional funding for the proposals in the White Paper as a big step forward, as you say, for providing for the needs of special educational needs pupils in the school, with well-resourced teaching and facilities in the school. However, have you thought about whether that £4 billion of additional investment is enough? There is some indication that, for instance, it could be the case that people bring forward their requirement for an EHCP for a child who requires support ahead of the 2028 and 2030 deadlines for EHCPs to be allocated differently. That will create extra demand in the system, which the extra £4 billion will not be able to cope with.

Rachel Reeves: It was not my job to work out the funding need; the policy is for the Department for Education to work through. But we made a decision as a Government to fund that fully, based on the money that the Department for Education felt was needed to fully fund it.

What I would say to parents is that this has been widely consulted on and that we want to build a better system, not a worse system. What most parents, most young people and most schools want is for people not to have to fight to get the support that they need, but to get the support that they need and for mainstream schools to be properly funded, with teachers properly trained, to address needs in the classroom, rather than through specialist provision which is often a long way away.

Part of what we have been doing, including the higher capital budgets that I have been able to set out, is funding for mainstream schools and local communities to have better provision, rather than young people having to

travel long distances to access the education that they need and deserve. This reform is about moving to a better system, not making it harder for parents, children or schools to get the support they need.

Q119 Jim Dickson: I have a quick follow-up. In '29-30, there is a requirement for the Departments to fund something like £5.6 billion-worth of SEND requirement, and that, in turn, is giving you £5.6 billion extra headroom in the overall Budget. Is that just accounting sleight of hand to increase your headroom?

Rachel Reeves: No, but maybe I will let Dharmesh come in.

Dharmesh Nayee: No. The funding that we provided for SEND was additional funding over and above what was set out at the spending review, the impacts of which are in the spring forecast. As the Chancellor has set out, the change that happened in the autumn addressed the fact that the burden of this has been on local authorities, which have been accumulating debts over time, and much of that we have now written off. The funding for the Department for Education is funding to the Department for Education, which we have accounted for in the spring forecast.

Q120 Yuan Yang: Turning to the other side of spending—taxation—you have taken measures to narrow the gap between the ways in which wealth is taxed and work is taxed, such as at the last Budget. Looking over the remainder of this Parliament, do you think there is more to be done on narrowing that gap?

Rachel Reeves: We took a number of measures, particularly in the first Budget, but also in the second Budget, to ensure that those with the broadest shoulders pay their fair share of tax. We have got rid of the non-dom tax status entirely. We increased the rate of capital gains tax. We got rid of the loophole whereby private equity bonuses were being treated as capital gains rather than income. We introduced changes to VAT and business rates on private school fees, and we are increasing the taxes on private jets. In the Budget last year, we additionally introduced the high-value council tax surcharge, which will be come in in a couple of years' time, for properties worth more than—

Chair: Two million pounds.

Rachel Reeves: Two million pounds. Those are all highly progressive measures, and you can see that in all the distributional analysis that the Treasury and others have done. We have done the things that we want to do as a Government, but obviously we will always keep these under review.

The other thing I should say we have done, which has been very successful and very welcome, is that we are now collecting more of the tax that is due. That is because of the sterling work of my Chief Secretary to the Treasury, when he was the Exchequer Secretary, and the new Exchequer Secretary to the Treasury, working with the excellent team at HMRC to crack down on tax avoidance and tax evasion. We are now



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putting a lot more resource into that, which has so far had very positive effects.

Q121 Yuan Yang: Speaking of tax evasion, there was a manifesto commitment to end the loopholes in the treatment of offshore trusts. Can you speak to the progress on that particular commitment?

Rachel Reeves: A lot of that is also with regard to the treatment of non-dom taxation. There was a worry that people would find loopholes to avoid the changes in the non-dom tax regime, but trusts have been incorporated into that—that is one example.

Q122 John Glen: Can I ask a question about the overall tax burden? You have a £10 billion further increase in the last year of the Parliament, and people are seeing that the level of tax overall is heading up to 50% of GDP. Do you have a view on what effect that has on the motivation of people to work and invest? Is there any upper limit that you would have on tax?

Rachel Reeves: A Chancellor's job is to get the balance right between public spending, taxation and borrowing. I have been really clear that, to return stability to the economy, we cannot continue to borrow at the levels that I inherited. The result of the actions I have taken—whether that is spending restraint or indeed the tax increases—has taken the budget deficit from 5.3% to 4.2% of GDP. Borrowing was masking a problem that we had in the previous Parliament, where the deficit was never lower than 5% of GDP, which is just not sustainable. If you are borrowing now, you are basically taxing more in the future. That is what has now caught up with us, which is why we made those decisions to increase taxes to stabilise the public finances and properly fund public spending.

Q123 John Glen: What assessment do you and your officials make regarding the effect of taxation on economic activity? You arguably made quite a delicate judgment on capital gains tax—

Rachel Reeves: Yes.

John Glen And stuff to do with the City, but the overall tax burden has an impact when people look at the UK. Do you recognise that? What would you say to that?

Rachel Reeves: Absolutely, and when we looked at capital gains tax, we looked at the rate that would maximise revenue. If you go beyond a certain rate on taxes, it has an impact on people's marginal propensity to work. I do not think we are at those levels, but of course when we score any policies and look at the impact of any policies, we look at those policies in the round, including any negative effects. We also have the Office for Budget Responsibility to help us with that, who will in the end make their judgments about the impact of policy.

Q124 John Glen: Yesterday, the OBR confirmed that, when you have taken account of the commitments you have made—3% on defence, the SEND investment and the average spending on health—if you look at the unprotected Departments in the last year of the Parliament, there will be a £13 billion gap and a 4.4% cut in spending across those. Obviously, future



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spending reviews will look at that, but it implies that unless you find extraordinary levels of efficiency that we have not seen before, you will have to raise more taxes, other than those already planned, or you will have to have cuts in spending in those unprotected Departments. That is a fact; the OBR has said that. Those unprotected Departments will see a 4.4% cut. How do you respond to that?

Rachel Reeves: I will say a couple of things in response to that. First of all, we set out ambitious targets for efficiencies in public services. We are also improving the efficiency of public services through higher capital investment. Often these numbers about unprotected Departments just look at RDEL rather than TDEL, and obviously capital spending is an important element of spending that can also reduce some of the day-to-day costs if you have better infrastructure and, particularly, better technologies.

We are spending £50 billion a year extra on day-to-day spending by the end of this Parliament, and £120 billion more on capital spending over the course of the Parliament. Although growth is lower in the final years, that is after uplifts in earlier years, so overall there is a lot more spending than we inherited. In the end, the best way to be able to afford the public services we want, without having to increase taxes, is through growing the economy and reducing the costs of debt servicing. You know, Mr Glen, that we spend £100 billion—

Q125 **John Glen:** £106 billion.

Rachel Reeves: Yes, just on debt interest. In the spring forecast, the OBR said that the cost of servicing debt this year would be £3 billion lower than they forecast just in November because the cost of interest on Government borrowing had fallen. The prize, if we can get our borrowing costs back to the G7 average, is £15 billion every year less in debt interest costs. That is why returning stability to the economy is so important to me, and it is one of the reasons why economic growth is so important as well, because if you can grow the economy, you have more money for public services or to reduce taxes.

Q126 **John Glen:** Of course. Can I ask one last question on fuel duty? You have postponed the removal of the freeze until September. We have had 15 years of freezes. You will talk about, as you did yesterday, what you inherited and that deferred choice, but it was not in any Finance Bill. In the context—obviously, Governments respond to events—given the uncertainty that is obviously live at the moment and given that people are looking for reassurance over those cost of living pressures, is there any prospect at all that you will look at whether the fuel duty, and its effect on people in rural areas particularly, needs to be looked at again?

Rachel Reeves: It is too early to know where petrol prices are going to be in September. On Monday, oil and gas prices rose sharply, and yesterday, they fell sharply, so things are moving on a daily basis at the moment. One of the things I am absolutely convinced of is that when oil and gas prices fall, they are not always passed on to consumers. That is

why we have just started using the cheaper fuel finder that the Government have been working on—

Q127 John Glen: We have listened carefully to the measures and activities that you set out yesterday and again this morning. My question is simple: do you rule out addressing the fuel duty at all?

Rachel Reeves: Governments always keep all taxes under review, as you know—

John Glen: So it is possible that you could address it.

Rachel Reeves: We always keep all taxes under review, but it is much too early, when those changes are not due to come into effect until September, to guess where petrol prices will be then.

I am very loath to spend Government money on something that the market should be doing itself. That is why greater competition and greater transparency about pricing is so important. I would rather we had a properly functioning market where customers have decent information about prices at different petrol forecourts, rather than subsidising the money, which often just goes to the retailer.

John Glen: I do not dispute that. Having worked, as you know, under four Chancellors, I recognise the difference between the theory of where we would like to be and the political reality of where we are. I would put it to you that what we are seeing at the moment might necessitate an action that might not be desirable—as it was not in 2020 to spend £363 billion over the next two years, but circumstances meant that we had to.

Chair: As you have said, all things are on the table.

Rachel Reeves: That is what we have said: we keep all taxes under review.

Q128 Dame Harriett Baldwin: Specifically on the timing, my understanding is that you want to do only one fiscal event a year, and the increase in petrol prices starts in September. Are you telling us this morning that if petrol prices are a lot higher in September, you will make an announcement then? Or are you committed to going ahead and increasing the cost of living for drivers on 1 September as planned?

Rachel Reeves: As former Chancellor Jeremy Hunt said in the Chamber on Monday, it is much too soon to be speculating about what action is going to be needed.

Dame Harriett Baldwin: So you would not rule out coming in September and—

Rachel Reeves: It is much too soon to start speculating.

Chair: I think Parliament comes back on 1 September, so there are some technical issues that will have to be resolved here.



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Q129 Dame Harriett Baldwin: On the windfall tax on North sea oil and gas, I think you had a meeting with the industry the day after the war started. Can you update us on what you told them about the potential for that windfall tax to be relaxed? I think that is what you are aiming to do. What might the timing be?

Rachel Reeves: The Office for Budget Responsibility in their current forecast do expect it to not apply from Q3 next year. As David Miles and Tom Josephs said to the Committee yesterday, if this de-escalates, there is no reason why the forecast might not be correct for next year, in which case the energy profits levy falls away. That is always the way that the previous Government and this Government wanted the energy profits levy to work—to be in operation only when prices were high.

I spoke to the energy companies about a range of things last week. Obviously, some UK-based energy companies also have operations around the world, including in the middle east, so we wanted to hear directly from them about what we could do to unlock travel in the strait of Hormuz. We also wanted to talk about opportunities to expand production under different scenarios in the North sea to bring more oil and gas onstream. We discussed a range of things last week.

I am very clear, and so are this Government, that oil and gas, including North sea oil and gas, will continue to play a really important role in our energy mix for many decades to come, and we want to work with the industry.

Q130 Dame Harriett Baldwin: Finally, on pensioners, the Office for Budget Responsibility says that about a million more pensioners are going to be drawn into paying income tax over the forecast period. Many of those pensioners will rely exclusively on the state pension. I think you have said publicly that you are going to find a way for them not to pay income tax. Can you tell us how that is going to work operationally?

Rachel Reeves: From the beginning of April, the new state pension is going to go up by £575 a year, and over the course of this Parliament, it is forecast that the new state pension will be £2,000 a year higher by the end of the forecast, because of this Government's commitment to the triple lock. The previous Government froze the income tax thresholds. It is in those years—for those freezes—that the new state pension will come into income tax if nothing is done, but I have committed to do something. We are working on how that will work at the moment, but we have been clear that, if your only income is from the new state pension, you will not be subject to income tax during the course of this Parliament. We will set out details later this year on how that will happen.

Q131 Chair: But if you earned bank interest above the £5,000 threshold, or you had a small dividend, you would be subject to income tax.

Rachel Reeves: It is already the case that most pensioners with any form of private income are taxed. We want, of course, to make that as simple as possible but, over the course of this Parliament—when we are in



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office—we will not be taxing people whose only income is from the new state pension.

Chair: Okay. We will obviously have more to delve into there.

Rachel Reeves: We have to make sure that we have a system that works, but we are committed to do that.

Chair: And one that is fair to pensioners who are at the margin, because there is a potential cliff edge, isn't there?

Q132 **Chris Coghlan:** Chancellor, first, thank you for what you have done for special educational needs.

Moving on to defence, if we send ground troops to Ukraine in the event of a ceasefire, like all reservist soldiers, I will be at risk of serving. British soldiers were killed in Afghanistan, in part because previous Governments failed to properly fund defence. One of them was one of my best friends, Captain David Hicks MC. What are you doing to ensure that this Government do not make the same mistake?

Rachel Reeves: First of all, I remember you previously talking about your constituent and special educational needs in this Select Committee, and I thank you for sharing that story. It is the sort of story that we hear from our constituents—because, as well as being Chancellor of the Exchequer, I am also a constituency MP and somebody who uses public services. We see the impacts that failing services have on all of our constituents and also on our own families, so thank you for raising your experience. And also—

Chair: And on defence?

Rachel Reeves: And also your experience about your friend in Afghanistan. It is important that we learn the lessons from the past. One of the reasons why we chose not to be involved in the US action a week and a half ago was because of some of those lessons from the past. I think it is important to be cognisant of those lessons when we are asked to take military action.

In terms of Ukraine, we would only be part of peacekeeping; it would only be after a ceasefire was agreed. Obviously we are working with allies, as part of a coalition of the willing, on what that would look like in reality. We have committed £3 billion a year for as long as it takes to support the people of Ukraine. If there is a ceasefire, which we all hope there is, we will divert those resources in the appropriate way.

Q133 **Chris Coghlan:** Thank you. You have mentioned the former Chancellor Jeremy Hunt quite a lot today. He, of course, called in the Chamber on Monday for defence spending to increase to 3% of GDP—

Dame Siobhain McDonagh: He didn't do that himself, though.

Chris Coghlan: He didn't do it himself.

John Glen: It was different then.

Chris Coghlan: We heard yesterday from economists that, in fact, if you strip out the risk-free rate, UK gilt yields are actually in line with the G7 average, and the UK actually has the second lowest debt-to-GDP ratio in the G7 right now. So what is holding you back from increasing defence to 3% of GDP now, given that it fits entirely with your economic vision?

Dame Siobhain McDonagh: Can I just add, isn't hindsight a wonderful thing?

Rachel Reeves: I agree with Dame Siobhain, as ever.

Chair: That is always wise.

Rachel Reeves: Exactly. Obviously, I want to paint a rosy picture of the public finances, but I am not sanguine about them. If you were to take out inflation, it may be the case that we have a lower real rate of interest, but you can't take out inflation, because you have to pay for inflation as well.

Inflation in Britain has been too high: it rose to more than 11% in the previous Parliament. It is down to 3% now and it is forecast to come down quite sharply, including because of the measures we took in the Budget, which take 0.4 percentage points off inflation. But we all recognise that if there is a protracted conflict in the middle east, that is unlikely to be realised, as Tom and David set out to the Committee yesterday.

Chair: That is Tom and David, the members of the Budget Responsibility Committee.

Rachel Reeves: Yes—they set this out to your Committee yesterday. We have to be mindful of not only the public finances but family finances because, everything else being equal, if the Government spend more, there will be more demand pressure in the economy that pushes up inflation higher.

I am really proud to be the Chancellor that has given the biggest uplift to defence spending since the end of the cold war: it will be at 2.6% of GDP by April next year. In their manifesto at the last election, the Conservatives said that they would take it to 2.5% by the end of the Parliament. We are getting there in 2027.

That is fully funded by a commensurate reduction in the overseas development assistance budget. That was the right thing to do, although it was a difficult decision, given the threats and challenges that we face. We have also made the commitment to get to 3%, but we will set that out in future.

Q134 **Chris Coghlan:** Has the UK accepted the invitation from Prime Minister Carney to participate in the charter negotiations for the Defence, Security and Resilience Bank? If not, what is holding you back?

Rachel Reeves: There are a number of options on the table that are being discussed by allies, including Canada, about a multilateral approach to doing a number of things around defence lending and procurement. We are very active in those conversations.



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Q135 **Chris Coghlan:** The UK is, of course, the third highest defence spender in NATO, but our defence capability and output would suggest the opposite. Where has the MOD got this wrong?

Rachel Reeves: The MOD and the people who work in the MOD and in our armed forces do an absolutely amazing job and work hard every single day to keep our country safe. There have obviously been problems with big contracts, overruns, cost overruns and time delays, but every country in the world is updating how they spend money on defence, in part because of the lessons from how Ukraine has used its money on much greater innovation with new technologies. Defence spending needs to adjust to the new reality and modern methods of warfare, in which technology will obviously play an increasing part.

Q136 **Chris Coghlan:** Is the defence investment plan on your desk?

Rachel Reeves: The defence investment plan is on the MOD's desk. As I said, we have given defence the biggest uplift in spending since the end of the cold war, but things are changing rapidly in defence, as I said in my previous answer. It is incredibly important to make sure that we spend that money wisely and learn lessons from how Ukraine has conducted its operations, so we need to constantly look at how we spend our money to best possible use.

Q137 **Chair:** To be clear, the defence investment plan, which was going to be out last autumn, is still with the Ministry of Defence, and has not come to you for approval as of this point.

Rachel Reeves: There are obviously discussions going on in Government, but we have provided the allocation of funding agreed with the MOD and the Secretary of State in the spending review last year.

Q138 **Chair:** There will always be a tension between the Treasury and the MOD on one level, but there is some speculation that the plan is being blocked by the Treasury. Can you either say that that is true or put that rumour to bed?

Rachel Reeves: We have provided allocations for every Government Department. Obviously, every Department would like to have a bigger budget, but that would require higher taxes, which we—

Q139 **Chair:** So you are not blocking the defence investment—

Rachel Reeves: I have provided the allocation of money—

Chair: As requested by the MOD.

Rachel Reeves: As agreed with the MOD in the spending review last year, which was the biggest uplift in defence spending since the end of the cold war.

Q140 **Chair:** Okay, so you are not blocking it. Do you trust that the MOD will spend money well? You have been very careful in your language about it being important that it spends it well, but do you trust that the MOD will spend that money well? We have had NAO reports ad infinitum: a £14



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billion gap in the defence equipment plan, which is rolling repeatedly; Ajax still failing—

Rachel Reeves: There have clearly been failures to get value for money with defence spending over a number of years, and that needs to improve, but I am absolutely confident that the Secretary of State for Defence is doing exactly that.

I am also very keen that the increased capital spending that we put in at my first Budget and at the spending review is spent in Britain. I want us to do much more to ensure that, through Government procurement, we are supporting jobs, apprenticeships and investment in Britain. Defence, with the big increase in budget that it has had, obviously needs to play an important part in ensuring that.

Q141 **Luke Murphy:** I want to follow up on Mr Coghlan's point on the Defence, Security and Resilience Bank. I know that the Government are considering multilateral propositions around procurement, but the bank is specifically about mobilising capital. Are the Government considering that proposition directly, or other multilateral propositions, particularly around capital, rather than just procurement? They are trying to solve two different issues.

Rachel Reeves: Yes. We are absolutely looking at a whole range of issues, where allies can work—

Q142 **Chair:** Specifically on the bank, is that something that you are really examining?

Rachel Reeves: Something that lends to sovereigns and companies—yes.

Q143 **Bobby Dean:** One of the things updated in the EFO was the immigration figures, and I think that was driven partly by the ONS revising its own figures because of a change in methodology. It shows that more people have been leaving Britain than we first thought, and that that is driving the overall lower net migration figures. Is that a concern to you?

Rachel Reeves: The Office for Budget Responsibility has used the most recent ONS numbers and projections. We made a commitment in our manifesto that we wanted net migration to fall and also to have greater control over who comes into this country, which is why the Home Secretary has changed the rules, particularly around low-skilled migration, while at the same time providing more high-talent visas for academics, researchers and entrepreneurs to come to Britain, to create jobs and bring investment here. I think that is the right approach.

What the OBR says about GDP and GDP per capita is quite interesting. As Mr Glen said earlier, for this coming year, GDP has been revised down slightly—although then revised up in subsequent years—but over the course of this Parliament, GDP per capita has been revised up in the spring forecast, and that reflects the lower migration assumptions.

In the end, as I said in my answer to Dame Meg's question, the reason that we want to grow the economy is to make working people better off,



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and GDP divided by the number of people in the country is the best measure of understanding that. Those net migration numbers, while there has been very little change overall across the forecast period in terms of GDP itself, mean that GDP per capita has been revised up.

Q144 **Bobby Dean:** I am going to probe inward migration a bit more, but that initial question was about the people who are leaving. We now understand that more people are leaving Britain than we previously thought. Is it a concern to you that more people—we do not necessarily know the entire make-up of them—are leaving than we thought?

Rachel Reeves: We need to better understand the mix, but some of those will be people who came to this country from abroad and are now going back to that country. Dharmesh, did you want to add something?

Dharmesh Nayee: The ONS revision from 18 November looked at 2021 to 2024, so it was a backwards-looking assessment of British emigration, which concluded that, over that period, British emigration could be higher. The OBR then takes that ONS data as a starting point. It is not that something new is happening now; it is that the ONS, having looked at what happened over 2021 to 2024, has revised what it—

Q145 **Bobby Dean:** I understand that it was a methodological change, but it still means that people were leaving at a higher rate than before.

Rachel Reeves: It means that they had in the past left at a higher rate than thought, and then it has used those projections to extrapolate going forward.

Q146 **Bobby Dean:** Moving on to inward migration, the data that I have been looking at in the report suggests that immigrants tend to have a similar skill distribution to the UK population and tend to be more likely to be of working age. That seems to me to be a fiscal plus. Do you agree with that?

Rachel Reeves: It depends what you are looking for. If you want to double the size of GDP, you could, I guess, double the number of people in the country, but that would not actually make anyone better off. What we want is growth that makes people better off. Just adding to the number of people does not necessarily make anybody better off. That is why the GDP per capita numbers have always been seen as a better measure of what impact growth is having on ordinary people.

Linking back to the point that Mr Glen was making earlier around employment in Britain, there are too many young people who are not in education, employment or training at all. I would prefer that job vacancies are filled by people who are here and seeking work. That requires things like the youth job guarantee and tilting the apprenticeship system, but it relates to the immigration issue, because I just do not buy this idea that the only way for businesses to fill vacancies is to bring people in from overseas.

Q147 **Bobby Dean:** I agree with your overall assessment that just adding people is not particularly useful in relation to GDP, but my question was



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about how they tend to be more likely to be of working age and to have a similar skill profile to the British population. With the ageing population, even if you train up all the available young people tomorrow, there will still be gaps in the workforce. Is that not a fiscal plus?

Rachel Reeves: Where there are genuine gaps in the workforce, the immigration system and the rules are exactly there to make sure that we plug them. But we have too many young people, particularly, who are not working at the moment, and we need to do more to make sure that they have the skills to match the job opportunities that exist in the economy. There are still a number of vacancies. Vacancies are at a pretty stable rate at the moment. I want to do more, as we are doing through the jobs guarantee and tilting the apprenticeship programme, to make sure that people who are already here get those opportunities.

Q148 **Bobby Dean:** The reason I ask the question is that the overall rhetoric coming from the Government, and particularly the Home Office, is that we just want to drive the immigration figures down, and there is a built-in assumption that immigration is causing problems for our economy. I just wonder whether you and the Treasury have any tensions with the Home Office and that rhetoric, because there is some value to the economy from migration.

Rachel Reeves: There absolutely is when we lack specific skills in the UK, but that should also be a wake-up call that we should be training people up in those areas. If there is a part of the economy where we do not have the skills we need, we should be training up more people who are already here to do those jobs and benefit from them.

There is definitely not a tension here between the Treasury and the Home Office. I want to make sure that we have an immigration system that plugs skills gaps but also welcomes to Britain some of the best talent from around the world, whether university researchers or entrepreneurs who are looking for a place to do their work and grow their businesses. But I want to make sure that people who are already in this country are getting opportunities. That is why I have put so much extra investment, for example, into further education colleges and apprenticeships. I desperately desire that our young people should be able to take the opportunities that exist in our economy.

Q149 **Yuan Yang:** Chancellor, you mentioned the proposed changes to settlement criteria and settlement periods. What modelling has the Treasury done of these proposed changes? Do you think they will impact the fiscal stance significantly?

Dharmesh Nayee: All the impacts we have seen on migration so far—the fall from the highs in 2023 down to the OBR’s assessment for this year, which I think is 200,000, and next year, which is also about 200,000—are accounted for in both the economy forecast and the fiscal forecast. To the extent that that changed going forward, it would be accounted for by the OBR in the next forecast.

Q150 **Yuan Yang:** But have you made independent assessments of the

proposed changes to settlement policy?

Dharmesh Nayee: Some of the detail is still being consulted on. There are impact assessments in the normal way. The way we would account for it formally in the forecast is after the policy has been firmly decided.

Q151 **Yuan Yang:** The reason I ask is that the Home Office has set out its policy based on arguments about the fiscal impact of the net migration during the Boris Johnson era. I was wondering where that fiscal impact was being calculated, if not the Treasury. Do you have oversight of that?

Dharmesh Nayee: We work closely with the Home Office as it does its regular impact assessments. It publishes those around the time that it consults on policies. The final arbiter and judge will be the OBR when it accounts for it in the forecasts.

Q152 **Yuan Yang:** You have not made your own assessment within the Treasury of that fiscal impact.

Dharmesh Nayee: We are in ongoing conversations with the Home Office as part of publishing impact assessments, which we have done to some extent, and will do further.

Q153 **Chair:** Perhaps you could write to us with detail about who is doing what assessment.

Rachel Reeves: Just in general, I do not want the Treasury to be a Department that second-guesses other Departments. It relates to the earlier question about SEND. The Treasury is there not to mark the homework of Government Departments, but to work with them to properly understand the assessments. I do not want a Home Office impact assessment and a Treasury impact assessment.

Chair: That is why I am asking if you could write.

Rachel Reeves: We work on these things together.

Chair: But it is pretty critical to the mission of the Treasury.

Rachel Reeves: It is, but we work together rather than having two different impact assessments.

Chair: Absolutely. Parliamentarians and the public just want to know what the thinking is and what assessment has been made.

Q154 **Dame Harriett Baldwin:** Chancellor, we have heard from the Office for Budget Responsibility that more Brits are leaving the UK. Anecdotally, you hear people use phrases like, "There's a millionaire leaving the UK every 45 minutes." We have also heard that there is very little data on the tax paid by those leaving and the tax paid by those coming in. Have you or any of your Ministers commissioned any work from HMRC to find out the tax implications of this change in the UK population?

Rachel Reeves: As Dharmesh Nayee said a minute ago, the numbers around people leaving are based on past data from the previous

Parliament that is extrapolated going forward, rather than on information about what has happened in the last year. Dharmesh, do you want to elaborate?

Dharmesh Nayee: The ONS looked at 2021 to 2024. There was a blip in the trend immediately after the pandemic, in terms of the number of Brits leaving the country. Having looked again at that period, they have revised that up, although it is back, essentially, to historical norms.

Q155 Dame Harriett Baldwin: We can see what they say; I just wondered whether the Chancellor is worried about the potential for there to be more people who pay more tax leaving the country, compared with people coming in and the tax that they pay. I just wondered if you had actually asked the question, Chancellor.

Rachel Reeves: Are you referring particularly to non-doms?

Dame Harriett Baldwin: No, it could be young people on a high income who decide to go somewhere else where they might pay less tax. I just wondered whether you had asked the question.

Rachel Reeves: We are always looking at the impacts of policies. For example, when we made our changes to the non-dom policy, the OBR assumed that 25% of non-doms would move, but that it would result in something like £9 billion of tax revenue because people who remained in this country would now be paying the same tax as people who were always domiciled for tax purposes in this country.

Q156 Dame Harriett Baldwin: Has that forecast proved accurate?

Rachel Reeves: It is too early to say exactly, but we have no evidence from HMRC to suggest that it is either higher or lower than that amount. We are monitoring closely. The OBR has done two more forecasts since then and has not changed its assessment either.

Chair: It would be helpful if you could write to us about what analysis is done. Will care workers coming pay less tax than people leaving? I have constituents who are professionals and higher-rate taxpayers who are wondering what to do about the proposed changes. It would be helpful if the Department could share any thinking with us.

Q157 Catherine West: Further to that point, the Migration Advisory Committee is set up to provide quite reliable data, so what work is happening to assess the impact on, let's say, the aircraft engineer, the chemicals scientist or—really importantly for our NHS goals—the experienced cancer nurse? They are writing to MPs—we have a lobby today, I think—saying that these leave to remain provisions are way too draconian and will end up in a net loss to the economy. It is not just the tax that they pay, but the churn, which means that employers have to stop, put out a job ad and get somebody else, or train somebody up. What is the impact over this financial year, if that many people feel, on balance, that the leave to remain provisions are so draconian that they—

Chair: Thank you. Chancellor.



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Rachel Reeves: There is still consultation going on, but if the Committee would like, we can write to you with ours and the Home Office's assessments. Obviously, the Migration Advisory Committee sits in the Home Office rather than the Treasury, but we are happy to do that.

Q158 **Catherine West:** It is independent, but it is meant to give data so that decisions are based on data.

Rachel Reeves: Yes, but it sits in the Home Office. We are happy to work with them and provide that information.

Chair: The Home Office has a slightly different take on migration from the economic impacts of it, so that would be very helpful. We might want to take that discussion forward in another session.

Q159 **Jim Dickson:** I have a couple of questions about student finance, which is very topical at the moment. We all know that graduates on plan 5 repayment plans are struggling and that, potentially, they are going to have those debts deep into their middle age and beyond, into retirement. That has been exacerbated, potentially, by the decision in the Budget to freeze the threshold at which graduates make repayments. Are you worried about graduates' ability to take on a mortgage, start a family and do all those things that it is great for them to do and important for the economy that people are able to do?

Rachel Reeves: It is the plan 2 student loans where we are freezing the threshold.

Chair: Plan 5 kicks in in the autumn, doesn't it? That is when people start paying back on plan 5.

Rachel Reeves: Yes, but the only changes we have made are around plan 2, and that is not this year; it is next year. The previous Government froze the threshold on plan 2 student loans for 10 years, so this is not something new; it is something that has happened in the past. Of course, we are also freezing tax and national insurance thresholds. But I do recognise that we inherited a broken system when it comes to student finance, as we inherited a broken NHS, prison system and much more. As a Government, we have to deal with all of these things, but in a hierarchy of priorities. You can see from my first two Budgets and my spending review that the priorities have been the NHS and defence; we have put the most additional money into those two Departments, given the particular needs and challenges facing us as a country.

Also on student loans, for all the different plans, repayments are linked to inflation, and one of the challenges over the last two years is that inflation has been at too high a level. It reached just over 11% under the previous Government. It is now coming down, but every time we get inflation down, we are reducing the interest charged on student loans. One of the best ways we can help the finances of graduates is to continue our drive to bring down inflation and bring down interest rates, because that is what will reduce their monthly repayments.



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Q160 Jim Dickson: Thank you for that answer. The Education Secretary is clearly concerned, as are others in the Government, that there might need to be reforms to the financing system. I think she said that she wants a fairer system and her Department is in talks with the Treasury. What options are you considering, to make the student loan system fairer? Are you likely to be setting out any details of reforms in due course?

Rachel Reeves: One of the reforms that we have already made is to reintroduce the maintenance grants for students coming from low-income families, which we know can be a deterrent to young people going to university. We are also uprating maintenance loans, which had previously been, I think, frozen. So we are making reforms to the system for people going to university today, while bringing down inflation and interest rates to help graduates who are currently repaying. Obviously the student loan system is a policy area for the Department for Education, in the same way that SEND is for the Department for Education, and I am sure that the Secretary of State for Education will continue to look at the system.

I will just go back to the challenge that all Governments—but particularly this Government, given the inheritance that it has had—have to fund all our public services, whether that is about SEND, lifting children out of poverty, reducing NHS waiting lists or increasing the defence budget. The truth is that we cannot do everything straightaway. I do believe that the priorities of investing in the NHS and in defence but also, in the most recent spring forecast, of putting aside that much-needed money for SEND are the right policies and the right approach.

Q161 Jim Dickson: So it is possible that the Secretary of State will come forward with some changes to the student loan system, because of the unfairnesses that we are seeing and that are being highlighted.

Rachel Reeves: We have already made some changes around maintenance loans and maintenance grants. Any change that we made would have to be fully costed and fully funded. This year, the thresholds for repayments are going up and inflation is coming down, which will reduce the monthly repayments.

Q162 Chair: Presumably, from what you are saying, it would be a matter for a future spending review—for the next spending review round.

Rachel Reeves: Yes, and it would be weighed up against other priorities, whether that is—

Q163 Chair: Yes, but it would be a bid by the Department for Education, if there were any change—

Rachel Reeves: Yes, and to be looked at against other demands, whether that is in terms of SEND—

Q164 Chair: Absolutely, but if there is not money now, it has to be paid for in future.

Rachel Reeves: We have moved to having just one Budget a year to provide stability—

Q165 Chair: But it is a spending review matter, because it would have to come out of the Department for Education. There would have to be a spending review decision.

Rachel Reeves: Well, obviously it was a Budget decision to do the threshold changes, wasn't it, so—

Q166 Chair: Yes, that is a Budget decision, but any other major change would be a spending review matter.

Rachel Reeves: It could be either a Budget or a—

Chair: It could be the Budget. That is helpful to know. Thank you very much indeed.

Q167 Yuan Yang: To zoom out a bit on the issue of student loans, for the first time in modern British history young people are expected to be poorer than their parents. I appreciate the mentions that you have made of the changes to maintenance loans, for renters through the Renters' Rights Act, for example, and to minimum wages for young people, which will all help young people. But on the greater picture, how concerned are you that declining intergenerational living standards will continue to the end of this Parliament? More broadly, do you think the state has got the balance right between spending on older people and on younger people?

Rachel Reeves: One of the things that I did in the Budget last year was to get rid of the two-child limit in the universal credit system, which lifts almost half a million children out of poverty. It was the biggest thing we could have done to change the trajectories, the lives, of some of the poorest children in the country. Obviously that came with a fiscal cost, but it was the right thing to do to invest in our young people and in their futures.

Similarly, bringing down interest rates is a policy that disproportionately benefits younger people, because younger people are less likely to be saving and more likely to be borrowing, whether that is—given the 40% or 45% of young people who go to university—to pay the student fees or to get your first mortgage. So our policy of returning stability to the economy and bringing down inflation and interest rates is pro young people at the start of their working lives as well. In addition, we are building 1.5 million homes, which is particularly good for young people and first-time buyers getting a start on the housing ladder.

There is an awful lot in our policies, and indeed there is the additional £4.1 billion that we are putting into SEND every single year, to give children in our schools a good start in life, so I just do not accept the premise, at any level at all, that this Government are not supporting young people.

Q168 John Glen: Chancellor, you have talked about your youth guarantee and apprenticeships to help deal with the record youth unemployment, but I want to turn to AI. How do you see AI? It could have a massive effect on the economy and employment. Could you tell us what assessment you have made and what the Treasury is doing to evaluate its effect on the labour market?

Rachel Reeves: AI is already having a big effect on the economy. Some of the real-time data show that productivity has actually been pretty strong in the last year or so. We are still working through the numbers, as are other economists, but part of that will reflect a greater use of technology and AI in the economy, whether that is in public services or the private sector. That gives real opportunities for us as a country, particularly as a country that tends to adopt technology faster than some other countries around the world.

All the evidence from history, from any other industrial revolution or technological change, is that countries that embrace the change and get at the front of it benefit the most from it, in two ways. First of all, you attract the businesses at the frontier that are creating the new technologies, and also countries that adopt in the wider economy and through the skills system the ability to use and work with the new technologies.

That is why, as a Government, we are embracing this moment. If you think about our skills mix, we have a highly skilled economy. If you think about our universities, they are some of the best in the world. Our R&D spending is going up. All of these are reasons to think that we are a country that can really benefit from and reap the rewards of these new technologies, and I am determined that we are. It links back, as you said at the beginning of your question, to opportunities around jobs and skills. It is absolutely imperative that we therefore tilt our education and skills system to ensure that people have the skills to use and work in these sectors.

Obviously there will be dislocations in the labour market, but what matters is how you respond to that and whether you are giving young people the skills that they need. We are working—again, this is about the active and strategic state—with the private sector to skill and train people up, whether they work in small businesses or larger businesses, to be able to embrace these new technologies.

Q169 **John Glen:** I do not really disagree with any of that, but my point is that there is rapid change. People are saying that in two years call centres will not exist. There could be significant segments, both geographically and across the age distribution, of jobs that do not exist. Can you give us any more information about what the Treasury thinks about the job losses as a consequence of AI? They are real and you will have to deal with them as Chancellor in real time, even if AI has a positive effect overall on productivity.

Rachel Reeves: Britain has already attracted many global tech companies to this country, and we are also growing our existing businesses. One of the points of the pensions reform, for example, is to enable innovative businesses that are starting in this country to scale in this country. Changes to the listings rules and the tax incentives for entrepreneurs and scale-ups are all about trying to keep those businesses in this country. We are having some success in that. Spin-outs from Google DeepMind are only staying in this country because we managed to keep DeepMind in this

country. Wayve, a great technology company based in Cambridge, is employing, I think, 1,500 people in the UK now.

There are jobs to be had in this sector, as long as we stay at the cutting edge of those technologies and are training people up to do these jobs. That is what some of our skills and educational reforms are about doing, while also working with the private sector, which is putting huge resources into training people up.

Q170 John Glen: I understand the emphasis you put on policies with respect to investment and growth capital, some of which were started during my tenure as Economic Secretary, and I agree with them, but I am suggesting to you that the impact of the jobs lost in the immediate term is real and significant. You can talk about training people for the future, but what assessment has the Treasury made of the jobs lost to AI in this Parliament?

Dharmesh Nayee: We are also working closely with the Department for Science, Innovation and Technology's Future of Work unit, which was established earlier this year. That unit's job is to provide analysis to Ministers across Government on the impacts of AI on the economy and labour markets. It is backed by a panel of businesses and trade unions, and its job is also to help advise on any new policies that should be implemented as a result. That is the primary mechanism in Government for analysis.

Q171 John Glen: What is it saying? What are its initial findings?

Chair: Yes, what is it saying? A lot of businesses are very worried about this.

Dharmesh Nayee: Well, they were established earlier this year, but we can probably write to you with where they have got to.

Q172 Chair: We have spoken to chief execs of banks and financial institutions who are worried about the cohort that they will not need because of AI, because then how will they grow the next middle managers? There is a very big question here, Chancellor, about how we make sure that those jobs of the future are provided in real time to fill those gaps.

Rachel Reeves: In the spending review last year, we invested in things like sovereign compute and the biggest supercomputer up at Edinburgh university. Things like this are about ensuring that when a scale-up business or a multinational business thinks about where to invest, it chooses the UK, because that is where we get the jobs from.

Q173 Chair: But if you are working in a bank now at a middle level, as a postgraduate or even graduate trainee, those are jobs that will no longer exist. We have heard that thousands of jobs will be going in that sector. First, they will worry about how they are going to grow the middle managers, but they will also worry about the people who will not be employed. That is thousands and thousands of people.

Rachel Reeves: But there are also thousands and thousands of jobs being created every single day.

Q174 **Chair:** So the plan will be to replicate or create the new jobs to counterbalance completely—

Rachel Reeves: As in every wave of technological change in the world, you have never been able to hold on to the past. What you have to do is embrace the future. The Government have a key role in making sure that we skill people up. Take my city of Leeds: it was built along the canals with the mills. The mills now host great start-up and scale-up businesses in technology.

Chair: Or apartments!

Rachel Reeves: No, actually. On the edge of my constituency is Castleton Mill, and in the centre of my constituency is Sunny Bank Mills, which employs as many people today as it did when it was a woollen mill, but now it is creatives and tech businesses.

Q175 **Chair:** I just want to check that you are alert to the challenge that as the disruptor businesses come in, some of the old jobs will go, and there will be a potential time lag between the old and new jobs.

Rachel Reeves: I am an optimist about these things, not a pessimist. There are more jobs in the economy today than when I became Chancellor of the Exchequer, despite the extraordinary growth of technology and AI. Every industrial revolution has resulted in changes in the jobs that people do and the way they do them, but more people are working today in the UK than in any year, apart from three, in the past 100. I remain positive, as long as you have a Government that is working with business to make sure that we are skilling and training people up—and that is exactly what we are doing.

Q176 **Bobby Dean:** You have talked about planning reforms and house building as key to the growth plan, which is welcome, but the OBR has said, for the second year running, the Government looks set to miss its targets. How important is the 1.5 million homes target to the public finances?

Rachel Reeves: The key reason that we want to build 1.5 million homes is that we want young people and first-time buyers to be able to realise the dream of home ownership. Also, we want more social and affordable housing, including council housing, so that people who are privately renting can have greater security. That is also why we did the Renters' Rights Act: to give young people and families in rented accommodation greater rights and security. But building 1.5 million homes is still very much the ambition and priority of this Government.

Q177 **Bobby Dean:** House building in London this year is said to have collapsed. There were only 5,000 private sector starts in 2025. The Government has put quite a lot of emphasis on its growth strategy via this route, but it is quite a cyclical industry. It is not just the planning reforms that will affect this. Is that a concern for the Government?



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Rachel Reeves: The Secretary of State for Housing, Communities and Local Government, along with the Mayor of London, has published some specific London reforms to boost house building in London. You are right that it has lagged behind the rest of the country over the last couple of years, but we are turning that around.

We are also stimulating the demand side through lower interest rates. The number of first-time buyers in the market is, I think, at its highest level since the financial crisis, except for the year after covid, when people returned to the market. Lower interest rates are obviously bringing more people into the housing market. Two Fridays ago, I was with the Building Societies Association and all the building societies that are key lenders into the first-time buyer segment. Changes that I announced in my Mansion House speech have made it easier to lend to first-time buyers and brought more of them into the market.

Q178 **Bobby Dean:** Can I put to you something that came up at a joint Committee session with MHCLG? We asked whether the Treasury did any analysis of value for money for the taxpayer where local authorities build council homes directly. We understand that there will probably be analysis of the rental income over a 30, 40 or 50-year period, but there is also the element of the DWP paying out housing benefit. Is that taken into consideration? Does the Treasury look at the money going out via housing benefits and the money that could come into local authorities when it makes decisions about how much capital local authorities are allowed to borrow to build?

Rachel Reeves: Yes, we do look at those things, and as far as possible we try to reflect them in our forecasts. Sometimes things require an up-front cost to realise benefits further down the line. That is the whole approach that we have taken with more investment in capital. It is also why, in my answer to Mr Glen's earlier question, I said that it was important to look at total departmental budgets, not just the day-to-day spending: because you can get costs down for DWP and MHCLG if you invest in housing today, for exactly the reasons that you said.

Q179 **Bobby Dean:** Because those returns happen over the very long term—they are usually decades away—do you think that the way you currently manage the public finances is able to realise those benefits?

Rachel Reeves: We have put £39 billion into building more social and affordable housing in this Parliament. There is no lack of ambition from this Government in realising the benefits of those investments.

Q180 **Catherine West:** If some of the £39 billion that is already profiled across the 10 years could be released at a pilot scheme level so that local authorities can start building on their own land, which provides a very quick planning application, and in fairly small bunches, for example for disabled housing, it would create a chain back into both registered social landlords and councils. I think that might be worth trying, to get that 5,000 figure.

Chair: Is that a prospect?



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Rachel Reeves: Those would be decisions for MHCLG and local government.

Catherine West: The money has already been profiled, so it is not more money.

Rachel Reeves: It is then up to the Department how to spend it. As I said in a previous answer, as a Government we do not want to micromanage Departments from the Treasury. As brilliant as my officials are, I do not believe that the Treasury always knows best.

Chair: That is a first for a Chancellor—a radical change of direction!

Rachel Reeves: This might be a radical change: trusting colleagues in other Departments. Mr Glen might have some questions about that.

John Glen: Never trust them!

Q181 **Chair:** There is dismay from the officials behind you, Chancellor. No, no—I joke, but other Departments will be interested to hear that. It is probably the most newsworthy answer of today's session.

Before we finish, let me ask you this: we had a bit of a delay in getting a recruitment going for the new chair of the OBR. Was there a reason for that?

Rachel Reeves: We wanted to make sure that we understood the skills and the qualities that we were looking for in a new chair.

Q182 **Chair:** Are they different? Do they materialise as different?

Rachel Reeves: Well, you have seen the job description.

Chair: I have seen the advert, but I did not notice a particular difference.

Rachel Reeves: One of the things that we have been working on with the other two members of the BRC is what the role is of the OBR and the BRC, and how they do their forecasts. We have done that work and have now advertised this role. We always knew that we would not have a new chair in for the spring forecast, but we will for the next Budget.

Q183 **Chair:** What is the current recruitment timetable?

Rachel Reeves: I think applications close at the end of this month.

Chair: Okay. Obviously the Committee will have to see them at a pre-commencement hearing.

Thank you very much for your time, Chancellor and Mr Nayee. A transcript of this session will be available, for the hordes of people out there who want to see it, uncorrected on the website in the next couple of days. Thank you to our colleagues at Hansard and to our colleagues at Bow Tie for the broadcasting.