

Treasury Committee

Oral evidence: [Budget 2021](#), HC 1196

Thursday 11 March 2021

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 198 - 280

Witnesses

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



Examination of witnesses

Witnesses: Rt Hon Rishi Sunak MP and Dan York-Smith.

Q198 **Chair:** Good afternoon and welcome to the Treasury Committee and our evidence session on the recent Budget. We are delighted to be joined by the Chancellor, Rishi Sunak, who is also supported by Dan York-Smith.

Chancellor, we do not require you to introduce yourself, but perhaps, Dan, you might very briefly introduce yourself to the Committee, please.

Dan York-Smith: I am Dan York-Smith. I am the director of strategy, planning and budget, with overall responsibility for the Budget.

Q199 **Chair:** Thank you very much to both of you for appearing this afternoon. Chancellor, we have you until 4.30, so we have a couple of hours to get through our questions.

Could I start, Chancellor, by asking you this? Let us assume that the epidemiological risks dissipate as we hope they will and we do not have a virulent return of the virus or some strain that evades the vaccines, etc. In the absence of that, what would be the top two key risks to the public finances and the recent forecast around the Budget over the forecast period?

Rishi Sunak: The forecasts already take the roadmap as their base-case assumption. They assume that you do get the virus receding, that it is controlled and that the restrictions taper off during the course of the year. The OBR explained how they did that and were aided by the roadmap being published in good time beforehand. That is already in there.

Even though the restrictions tail off, the impact of coronavirus on the economy and the public finances will last for well beyond that period. You will have seen the OBR's analysis and its assumption of the scarring impact of 3% over the medium term. That number is uncertain. There are people who think it could be lower and people who think it could be higher. That is probably the one number that has the biggest impact on the medium-term outlook for the economy and the public finances.

Q200 **Chair:** Let me rephrase my question. If it does not go to plan and the forecast comes in looking rather uglier than is hoped, what are the parts of that forecast that you think will have been found wanting?

Rishi Sunak: I would probably just stick to the base case. There are downside risks and there are upside risks. Mainly those will come in the short term from the epidemiological outlook and the impact that has on the medium-term productive capacity of the economy. It is fair to say that economists are uncertain about exactly what that impact will be. That remains the single biggest driver over time of whether things are better or worse than expected. The exact pace of the recovery, whether it is plus or minus three months, is hard to know. That is a more fundamental impact in the medium term.



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Q201 **Chair:** What I am trying to get at is what causes you to lose a bit of sleep at night over the economy. I am sure you do; we all do. You mentioned downside risks. What are the downside risks that you particularly worry about?

Rishi Sunak: There is the economic impact. Are you asking me what the downside risks are even if the base-case epidemiological assumptions hold true or about the downside risks if that turns out not to be the case?

Chair: No, if the base case as currently cast around the roadmap comes to pass.

Rishi Sunak: You mean beyond that.

Chair: Beyond that, yes, exactly.

Rishi Sunak: Even if we think about the 3% assumption in the base case, there are respected economic commentators who think it could be worse, the IMF being a notable one. Even if the roadmap comes to pass but it turns out that the medium-term scarring impacts are worse than feared, that would be of concern because that has a very significant impact on the economy.

The exact path of the labour market is one I am constantly kept up at night by. Sadly, 750,000 people have already lost their jobs and more are forecast to do so. That is a lot better than was forecast a year ago in the summer of last year, so in one sense that is positive news. Again, this forecast talked about that and the improvements in the labour market forecast as a result of the interventions and other things. Fundamentally, there are a large number of people who are going to lose their jobs over the course of this pandemic. Minimising the number of those unemployed and finding them new opportunities as quickly as possible is the thing that keeps me up at night.

As I have spoken about and as the OBR report highlighted, from a fiscal perspective the public finances are much more sensitive to changes in interest rates and inflation than they were previously, especially given that interest rates are or have been exceptionally low. They could rise to what would be still historically very low levels and that would have a significant impact, as the OBR shows, on the public finances over the next few years.

Q202 **Chair:** Chancellor, you have touched there on interest rates, which is an absolutely correct thing to think about. We even know that since the closing of the OBR's forecast a 30 basis point increase in interest rates has already led to an additional—

Rishi Sunak: £6 billion, yes.

Q203 **Chair:** In fact, in terms of the forecast, that reduces all the headroom there is in the forecast for debt to be coming down in the latter part of the forecast as a percentage of GDP, so that sensitivity is very strong. What are the risks around that? What are the things that might drive



rates up other than, for example, stonking levels of growth, in which case we are rather less worried about it? If we are stuck in the forecast territory on growth and interest rates are beginning to spark up, what is causing that? What is the plan around that, if any?

Rishi Sunak: My own investing career tells me not to have that high a level of confidence in macroeconomic forecasting with regard to what global bond investors will price credit at, but the point one would make is that they are exceptionally low. Even though there are arguments for structurally lower interest rates as articulated by people like Larry Summers, Jason Furman and Olivier Blanchard and others, that was the case a while ago and they could return to those still very low levels off this low base. That would just be a return to the new normal as opposed to fundamental change.

If people's inflation expectations change, that is also a driver of interest-rate expectations. Thankfully, because of our robust independent framework, inflation expectations here remain well anchored, which is good. In terms of how we address that, what we try to do is manage our financing in a way that is most supportive of insulating us against that risk. Historically—I cannot take any credit for this, because it came before my time—previous Chancellors have succeeded in pushing out the maturity of our debt so that, on average, it is in the double digits, over 12, 13 or 14 years. The G7 average is about half that.

That helps, but that is partially offset, as the OBR had a box explaining, by the impact of quantitative easing and the asset purchase facility, but we also have more inflation-linked debt than most of our peers. We published a new remit for the Debt Management Office alongside the Budget, which shows a desire to do as much financing as we can at the long end of the curve, and more than we have done historically.

Dan York-Smith: On that point, we included some analysis in the Red Book, on pages 26 and 27, about the potential implications of a shift in interest rates or inflation expectations and the debt interest burden.

Q204 **Chair:** Sticking with inflation just for a moment, we do not know how the supply side is going to respond exactly as we come out of this. There are various uncertainties around that. Equally, there is uncertainty around the demand side, not least around how people are going to engage with the economy now and what is going to happen to all the enforced savings people have undertaken in the interim and so on.

If a scenario emerges where inflationary pressures start to build—in other words, if demand is getting a little too much or perhaps stimulus is a little too low—what kind of tools and things do you have? What is your thinking around that? Do you have at your disposal the kinds of tools and levers you might be able to pull in a fairly nimble way to try to get the emergence of the economy right in terms of trying to avoid inflationary pressures?



Rishi Sunak: It would probably not be right for me to speculate on hypothetical future policy. With regard to inflation, we have an independent Bank of England, which has a remit to manage price stability. In contrast to how some other regimes were constructed, it also has flexibility around how it interprets that to balance the various priorities it has, but that is first and foremost a job for our independent Bank of England.

Q205 **Chair:** I was probably trying to draw you more into fiscal policy, but I take the point as to what you may or may not be able to say on that. Can I just touch on one final thing? If I were where you are sitting now, the answer to my initial question would have been that I am very worried about how realistic the spending figures in the forecast are.

I would be worrying that there is no explicit provision for coronavirus spending on annual vaccinations beyond the current programme and test and trace. I would be worried about the backlog in hospitals for operations and procedures. I would be worried about the nurses' pay round and the issues around that. I would be worried about the education budget and all the children who presumably need more resource if they are to catch up on their lost learning. I would be worried about the railways, which are substantially state-owned and may well need significant bailouts in the future. I would be worried about pressures for a further extension of the UC uplift in due course. That is even before I got on to worrying about the social care issue and the demographic pressures that are building up there as we go through time.

Is it not the case that the kind of numbers you have in there on spending are unrealistic? Are they not just going to come under unbearable pressure over the coming spending round and the years ahead?

Rishi Sunak: On public spending, what you have seen since the start of this Parliament and this Government is a significant uplift in public spending. Over the two first years, this current year and next year, there is about a £70 billion increase in public spending across RDEL and CDEL, across all discretionary expenditure for Departments. That is a historically very strong uplift. It is about 6% nominal over those two years, from memory.

Dan York-Smith: It is 8% nominal and 5% in real terms.

Rishi Sunak: You are starting from a base that is significantly increased from where it was. The forecast of future spending growth that it contained, which are mechanically the same assumptions as we have held previously, was for 2.1% in real terms in aggregate for the rest of the Parliament. What that would tell you is that there will be spending growth of around 3.5% in real terms over the course of the Parliament.

That is very healthy spending overall by any historic sense. It is significantly ahead of economic growth over that period, and it leaves the size of the state at the end of the Parliament at a level we have not seen in quite a while. The state will be spending historically very large



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amounts of money both in terms of growth rates and as a percentage of GDP by the end of the Parliament. How that is allocated is a function of spending reviews.

Q206 **Chair:** What happens to departmental resource spending from 2022-23 onwards?

Rishi Sunak: Let me see whether I have the backend assumption. Over the course of the Parliament, it will be 3.4%. It is 2.1% in real terms. That is what is in the Budget book, from memory.

Q207 **Chair:** It is a cut of £15 billion, is it not?

Rishi Sunak: You were asking what the spending growth rate is.

Q208 **Chair:** I am asking what the cut in spending is. I think it is £15 billion.

Rishi Sunak: No, spending grows over the Parliament, and it grows in every year. What you are referring to are changes in forecasts from previous fiscal events. That is not a cut in spending. Spending is growing over this Parliament very strongly. It was about £414 billion or £412 billion at the beginning, and it will end up about £100 billion greater than that by the end. The real growth rate that this implies for the Parliament is about 3.4%.

Again, that is a historically high real rate of growth in public spending. It is greater than economic growth and it leaves the size of the state as a percentage of GDP at levels that we have not seen for quite a while. Any which way you look at it, it is a significant amount of public spending.

Q209 **Chair:** The way I am looking at it is that it seems there is a £15 billion cut relative to previous plans for 2022-23 in the face of all the additional spending pressures you are likely to face, which I went through earlier. In terms of the sleepless-night analogy, I would have thought that would have been one of the areas that you would have been worrying quite a bit about.

Rishi Sunak: I felt that your question was more about exogenous factors that might happen to us. Spending is something that is within the Government's control, in that sense. I am comfortable that the spending assumptions contained would represent historically high growth rates in spending in excess of economic growth. Fundamentally, it is a good measure of what we can afford to spend. If you look at the size of the state, it is quite chunky by historic standards.

Spending reviews are always times when Governments have to make choices and we have to have priorities. It was ever thus and it will be the case going forward. That is the nature of it. All Governments have to prioritise within a pie. The good news is that the pie is growing at a rapid rate over the course of this Parliament and, relative to the size of our economy, it is a large pie.

Chair: I will wager with you now that those spending numbers are going



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to come under inordinate pressure over the coming years. Perhaps we will have a pint of beer on it one way or the other, Chancellor.

Q210 **Felicity Buchan:** It is great to see you both. My questions are on the state of the economy and public finances. Let me go back to the OBR forecast of 3% scarring. Can you set out what the Budget does to address that scarring? Does the Budget do enough?

As a supplementary question, you alluded to the fact that there are some estimates that are worse than 3%. If we do find ourselves in that situation, what tools does the Treasury have? I am not asking you to predict future fiscal policy, but what tools do you have to address more scarring?

Rishi Sunak: To the first part of your question about what the Budget does, the OBR made a decision not to change its medium-term view of scarring. They explained that in the narrative and they probably talked to you about it. That was just a choice they made at this point given the timetable. It is something they will come back to. They have retained the assumption they had at the beginning.

Some things have changed in one direction; some things have changed in another direction since then. It is a really uncertain number. For example, the Bank of England thinks it could be less than that. The last assumption they had was 1.75%. The IMF has a range that is potentially up to 5% or 6%. There are different components of the scarring impact. That is the other challenge. We hear the OBR talk about 3%, but there is an impact on labour markets and there is an impact on capital. Those are the two that I would probably think about. There is a general total VAT productivity impact as well.

What we do not know is the exact mix of those and how it is going to be impacted. This is quite unlike a typical recession. In the 1980s, for example, there was an enormous amount of capital scrapping and very specialised higher-skill and higher-wage work that was displaced as a result of some of the changes in the economy. That had quite a significant medium-term impact. The nature of this shock is very different to that. The industries that are most affected are not capital-intensive, if we think about hospitality being an example. The labour is of a different type, where it is probably much easier for people to adjust and move professions. Those are arguments for why the scarring might be lower.

What can we do? We can try to hold as much of the economy's productive capacity together as we can through the crisis. That is the best way to limit the long-term damage. Let us try to keep that unemployment number as low as possible and limit the amount of business insolvencies. That is what creates the scarring: if we lose that productive capacity and the attachment of workers to firms. If those disappear, that is what takes time to rebuild and sometimes it does not happen. That is what leads to the scarring impact.



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All our interventions, furlough being an obvious example but also the business support measures, attempt to do that. They help businesses get through a period of disruption and still be there at the other end with their labour force attached to those workplaces. That is the economic rationale for the policy. If we can do that and when they reopen they bounce back to life as they were, we have minimised the scarring in the long term. That has been the thesis of our policies and the analysis underpinning them. Given the nature of this shock, it is fair to say that no one has high precision on the exact degree of scarring there will be.

Q211 Felicity Buchan: Let me just pick up on the labour point. There has been talk that 600,000 people may have left London and that you may have seen a lot of immigrants return to their countries of origin. Is that the case? Are you concerned about that?

Rishi Sunak: I have just seen the articles that have been written by others. There is nothing in our data as such that would allow us to make that determination. There is further work that the ONS are interested in doing, and it might be that they would like to use some of the data we hold within Treasury, HMRC and others to help them do that. That is an active conversation that we are having.

Q212 Felicity Buchan: We have clearly had an extended period of relatively low growth and productivity. You are looking to address that, in particular with the super-deduction, but are you concerned that, if we accelerate the investment to now, especially with higher corporation taxes, in two years' time there may be a very difficult period if so much of the business investment has been accelerated?

Rishi Sunak: Felicity, you have a choice in all of these situations. You do actively want to bring forward investment; it is about minimising the scarring. The growth is slightly more valuable to us now when the economy really needs to close an output gap than it is in two years' time. Whether it is the stamp duty cut or the super-deduction, they are policies that are designed ideally both to bring forward economic activity and to increase the amount of economic activity above what would have otherwise happened. There is always going to be a mix of those two impacts in those two policies.

It is a deliberate policy aim to bring forward investment. We need to drive an investment-led recovery. As we saw over the last year, although we did not know at the time, it looks like consumption can and will spring back reasonably quickly once things are reopened. You have seen all the commentary around excess savings in aggregate across the economy. The OBR made an assumption about how much of that gets deployed, for example.

On the investment side, we have perennially had a difficult time raising capital investment. We know there is excess capital sitting in corporate bank balances as well, and we want to unlock some of that and use that



to help drive the recovery, which is why the super-deduction and others are so helpful.

Q213 Felicity Buchan: Is the two years before we go into the consolidation phase the right period of time? Does the economy potentially need more time for growth to bed in?

Rishi Sunak: With significant capital investment, you need to have enough time for people to do the planning that is required to make those large investments. Often people have done things like this for a year. We felt that two years struck the right balance. It needs to be long enough that people have the time they need to make the plans and do investments of that nature but not so long that it loses the impact you want, which is to bring forward activity and to create a sense of urgency around the attractive situation that is presented to companies. We think that two years strikes the right balance on that.

In terms of how that dovetails with what is going on in the economy, you will have seen from the OBR an expectation that pre-crisis GDP is going to happen in Q2 next year. That is a full year before the next phase of the fiscal plan. The Bank of England thinks that could happen in Q1 of next year, so there is a reasonable degree of cushion between that and when the super-deduction ends.

Dan York-Smith: It is also the point at which the OBR judges that the output gap is effectively closed. On this point, this is also part of the reason for the generosity. Compared to the last time we did a widely available first-year allowance, in 2009, the super-deduction is five times more generous at its peak and 10 times more generous in total. It is a very big intervention, also for that reason.

Q214 Felicity Buchan: Let me just go back to your comment on household savings. I know it is estimated that almost as much as £180 billion could have been accumulated. The OBR is forecasting that to be spent at a rate of 5% per year. Could you look to bring that spending forward to incentivise that?

Rishi Sunak: It is not something we actively looked at for this Budget. You make an interesting point. You are right about that being the OBR's assumption. We will have a sense of that once things have reopened, because we will be able to measure what is happening with consumption. Last time around, it was unclear. There was an enormous worry that when things reopened last year people would not have the confidence to spend even though they had the income to do so. We saw consumer confidence numbers back then that were very bad. There was more of an argument to be worried about that then. This time around, both in the UK and internationally, we have seen that you do tend to get quite a strong consumption recovery automatically.

Dan York-Smith: In terms of other forecasts, the Bank of England is forecasting a quicker spending of the savings that people have accrued. It



is one of the things the OBR has described as an upside risk for its forecast. If people are more confident as the vaccine continues successfully and if things open up and they spend at a quicker rate, there could be an even greater boost to growth later in this year.

In total, they have already increased significantly the level of GDP for this year as a result of the roadmap and the Government's policies, so they are expecting it to be 0.75% bigger over the spring and summer of this year after the policy measures than before. The combination of Government policy is quite supportive of consumption, because it is about the confidence on the labour market side as well as the reopening.

Q215 Felicity Buchan: I have time for one more question, so let me make it about the public finances. The OBR forecast has debt to GDP coming off in the last few years. However, that is clearly subject to a lot of risks. I have two questions. First, is there a level of debt to GDP that you would think is just unacceptable? Secondly, we clearly have a big buyer of public debt at the moment in the Bank of England through quantitative easing. If inflation becomes an issue, are you concerned that you do not have that quantitative easing and that effective buyer of gilts?

Rishi Sunak: I cannot comment on QE and the conduct of monetary policy. On your first question around debt levels, for this Budget we deliberately thought it was not appropriate to set firm fiscal rules with precise targets and timeframes, given the level of uncertainty. You are right: the forecasts, as they are, show debt very slightly coming off at the back end, but, again, there is an enormous amount of uncertainty at the moment, so I would not read too much into that. It shows that the steps we have taken put the public finances on a much more sustainable footing, subject to, as we have been talking about, the forecasting uncertainty. It is harder to be precise about an absolute debt level. You will know that there was a historic convention around 90%, which was based on a Reinhart and Rogoff study and then clarified. That was written at a time of slightly higher interest rates. Focusing on affordability is important.

In the Budget speech, I set out some of the principles that we think about: not borrowing for day-to-day spending; making sure that debt over time is on a falling trajectory; having regard to the affordability of that debt, given the sensitivity we have; and using fiscal space as it exists for long-term productive capital investment. Those are the principles that I think about rather than one absolute debt level. Hopefully, that is helpful.

Felicity Buchan: That is very helpful.

Q216 Anthony Browne: Thank you, Chancellor, for your time today. My questions are on the fiscal side, really following up on some of the questions that Felicity asked. After the financial crisis, when the Government needed to close the fiscal gap they relied heavily on spending cuts. They used 80% spending cuts and 20% tax rises. The



Office for Budget Responsibility told us that this time around in the latter two years of your consolidation it is 60% tax rises and 40% spending cuts, which is almost the mirror image of last time around. I am wondering what the economic rationale behind doing it that way is, relying more on tax rises than spending cuts.

Rishi Sunak: To go to the question before, it was about making sure we could deliver our commitments to invest strongly in public services, whether that is 50,000 more nurses, 20,000 more police officers, more hospitals, or to invest in infrastructure around the country and spread opportunity. Those were all important commitments and we wanted to deliver on all of those. That required the approach that we took.

Q217 **Anthony Browne:** In answer to a question earlier, you mentioned that we have a very big pie now and the size of the state is the largest for some time to come. The OBR in its report points out that at the end of your forecast, in 2024-25, tax rises to 35% of GDP, which is the highest since 1969, when Roy Jenkins was Chancellor. Is this a new permanent state of affairs? Should we get used to the idea that we have a bigger state and a permanently higher level of taxation, or will it come down again?

Rishi Sunak: The Government have to raise the money to fund the public services they are committed to delivering. Those two things always have to be in sync. If there are demands on the spending side that are larger, it is reasonable to expect that those have to be paid for. Most people would understand that. That is what the forecasts reflect. They reflect a larger amount of public spending than we have seen historically, financed, as Governments finance it, largely by taxation, with borrowing then getting to sustainable levels.

Q218 **Anthony Browne:** You mentioned your three fiscal principles in your comments earlier and in your Budget speech. On stabilising the debt, tick, you are doing that in two years' time. On not borrowing for day-to-day spending, by my assessment you will have achieved that by the end of the cycle. Now is obviously a good time to borrow for investment. They are sound principles. You said that now is not the right time to have new fiscal rules that the OBR can score you against. When would be the right time? Are you thinking about it now? When can we expect it? Do you have any thoughts on the guiding principles above and beyond what you have said for the moment?

Rishi Sunak: Anthony, the appropriate time will be when we have a bit more certainty about the medium-term outlook. That might be towards the end of this year, all being well, but I would not want to 100% guarantee that. We are dealing with a time of heightened uncertainty. Those principles are broad, but they give you a good sense of what one might want to do.

People will have different points of view on the precision with which you operationalise them, but, as a general rule, not borrowing for day-to-day



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spending is something that is widely accepted and easily understood. None of these things is perfect, but it is a pretty decent approach to fiscal policy that has broad support. There are questions over whether you define that precisely to the pound or whether you have buffers that allow a bit of give or take, over what time period it is and whether it is cyclically adjusted, et cetera. As a principle, it is widely accepted. Debt being stable to declining, again, is broadly straightforward. It is a question, again, of what kind of time period and trajectory you would like to see.

Affordability of debt is the one that is more relevant now than it has been in the past, because interest rates are so low. To the Chair's question earlier, one needs to be mindful of the potential impact on the public finances if that changes. One needs to be looking forward. If rates are moving now, that has an impact over time, and we need to be thinking about that. Operationalising that is probably a bit trickier. I do not think we have had a formal fiscal rule that has done that, certainly not in a while. Thinking about how to define that is a bit trickier, but it should be part of the equation.

Q219 Anthony Browne: You are absolutely right, but what ultimately matters is the affordability of it. The Government only have limited control over that in terms of long-term interest rates. It is something slightly outside your scope to manage.

Felicity asked about the level of debt. When Gordon Brown was Chancellor, he did have a target for level of debt. It was 40% of GDP and he measured it every year, whether he was 1% or 2% below that. You did not sound like you wanted a target level of debt, but I wondered what you see as the downsides of being that specific. What would be the arguments against it?

Rishi Sunak: It would be wrong to assume that we know. What we have seen is that it is a function of what the affordability of that debt is. Given that that has changed quite significantly in a downward direction over the last several years and that one does not know how it will change in the future, it is probably right to think more about the trajectories of debt levels and building resilience for future shocks. The affordability of debt is probably a better approach than trying to be precise about that. You are right that those were the old rules; they were the Maastricht rules as well.

Q220 Anthony Browne: Yes. The Maastricht rules were on national debt and on borrowing and the deficit. It was 3%, if I remember rightly.

In the Budget, the biggest stimulus that you have over the next couple of years is the super-deduction, which is directed particularly at businesses. You have not done a stimulus for consumers in the same way as before. You have continued things like the VAT cut and so on, but you do not have schemes like Eat Out to Help Out. Was there a particular reason for thinking about stimulating business rather than stimulating consumption?



Was there a reason for balancing it in that way?

Rishi Sunak: This goes to the conversation I was having with Felicity. We probably now have higher confidence that there will be a consumption-led recovery even without intervention than we did before, because we have now seen it happen, consumer confidence is at different levels and there is a considerable amount of excess savings. You can have more confidence that you do not need to intervene to do that, and there is actually a lot of pent-up desire.

Investment is different. Investment has really suffered. It is down 20% year over year. Unlocking that is something where policy probably can make a difference, so we thought it was right for us to focus on that. That was based on conversations with many economists as well, as we were formulating policy. That was the general view we had when talking to lots of people about what they thought the right policy for this point in the cycle was. There was quite a lot of consensus on that point from people.

In the short term, things like the furlough scheme and the self-employment scheme are consumption stimuluses. What they are doing is supporting people's incomes, ultimately. Some of that will find its way into the economy. The OBR might be able to talk about the benefit on aggregate demand from things like CJRS and SEISS. CJRS is a labour market intervention that also has the benefit of providing consumption support.

Dan York-Smith: To add on that, The OBR's forecast was for a strong recovery in consumption, absent additional policy, whereas their forecast for investment is significantly boosted by the super-deduction. If you were to take the super-deduction away, you would have a very strong consumption recovery but not a very strong investment recovery. It is also about responding to what is in the forecast.

Q221 **Anthony Browne:** All your measures to boost growth are welcome. I know there will be questions about those later, but I have a high-level question about growth. When we had our economists here, we asked them about how to get the national debt down. There are tax rises and there are spending cuts, but growth is a key way to reduce debt as a proportion of GDP. If you look back at the post-war period, we had very strong growth in the 1950s. That eroded the national debt below 100% of GDP, ultimately. Do you agree with the economists that we cannot rely on growth as much now as we could after the Second World War, so it is going to be traditional fiscal measures of tax rises and spending cuts that are going to have to do the heavy lifting in terms of balancing the books?

Rishi Sunak: I would make a couple of observations. That period was also characterised by very high inflation as well as high real growth. For debt dynamics, you can erode debt-to-GDP ratios with high inflation. You had evidence from people on this.



Anthony Browne: Yes, everyone thought that was a bad idea.

Rishi Sunak: Yes, there should not be an active policy desire to do that. The flipside of this is that interest rates are low because, structurally, around the world global real growth in developed economies is lower than it was.

The other thing is that what the forecast already assumed for growth would rank it, from memory, give or take, about the eighth-highest in a five-year growth period in 120 years of records. What is already in the forecast is very punchy growth. We still have the challenges we have to the public finances, which is why we had to make some of the decisions we did. More growth is good and helpful, and hopefully the interventions we have put in place can surprise us on the upside when it comes to future growth.

Q222 **Anthony Browne:** I have one last question, because I am running out of time. As you said, at the end of the period you have the national debt stabilising and coming down slightly. Will you have room for fiscal relaxation towards the end of this period or in future Budgets?

Rishi Sunak: It is a bit early to be speculating, Anthony.

Q223 **Dame Angela Eagle:** Good afternoon, Chancellor. Could you tell us why you have budgeted to spend less on public services post 2022 than you had planned pre-pandemic?

Rishi Sunak: All that is, Angela, is a planning assumption. All the change that this Budget document has relative to the others is maintaining, mechanically, the same real-terms growth rate of 2.1%. That flexes with the GDP deflators as they change. That is all that assumption is, mechanically. It is the same assumption we have had for certainly the last fiscal event and maybe the one before that. It just moves.

The flipside to that is that, if the inflation estimates and the deflator estimates were higher and we did not adjust the other way, everyone would say, "That is a real-terms cut in spending assumptions". All we do is, very mechanically, adjust the medium-term spending assumption by the GDP deflator change. That is all that is. It is very mechanical.

Q224 **Dame Angela Eagle:** £16 billion is a mechanical change. However, I understand the explanation that you have given. Can we just turn to the negotiations for the NHS settlement for next financial year, which after all starts in 21 days? They have not been concluded yet, have they?

Rishi Sunak: No. That has nothing to do with the Budget, but, no, that pay review body process progresses to a different timeline, as it does every year, and concludes in the summer.

Q225 **Dame Angela Eagle:** I am talking about the settlement for the NHS, although obviously that does involve pay.



Rishi Sunak: I am sorry. The overall settlement for the NHS for the next five years is already done. That was part of the five-year plan. There is an extra £34 billion going into the NHS day to day. The NHS benefits from a long-term funding settlement.

Q226 **Dame Angela Eagle:** I understand that. Last year, understandably, there was an increase in NHS budgeting because of Covid costs. My understanding is that you have not yet let the NHS know what extra it will be getting in this coming financial year because of Covid costs.

Rishi Sunak: You are talking about Covid costs specifically. There is an ongoing perennial dialogue with all Departments, including DH, about Covid costs for next year. We set aside £55 billion, from memory, in the spending review, a bulk of which was allocated and a bulk of which was unallocated. The whole point was that, as things come up, we would work with Departments, because it was very uncertain and no one quite knew. Those conversations are going on all the time, not just with DH but with all Departments. I would not talk about those in public, but that happens all the time.

Q227 **Dame Angela Eagle:** With 21 days to go, they still do not really know what they are going to get. That is my understanding.

Rishi Sunak: We talk to the Departments all the time. They do have budgets for next year. Given the evolving situation, we are constantly, as we were over the last year, adjusting to circumstances on the ground based on what is going on. That is why we put aside a very significant amount of extra funding for coronavirus this next year, £55 billion, not all of which is allocated in the SR, to do exactly that. The whole intention was for it to be allocated over the course of the year, not all in advance of the year, depending on how things evolved.

Q228 **Dame Angela Eagle:** Let us hope they know before the new financial year actually begins. Can you tell me why you think nurses are only worth a 1% increase, which in real terms is actually a pay cut?

Rishi Sunak: Again, that is part of a separate process not to do with the Budget. There is a pay review body process that the Government participate in. The Department of Health make a recommendation to that body based on affordability, and then the body will take that evidence into account as it looks at everything in the round and then come back with a recommendation later on. That process concludes towards the summer.

Q229 **Dame Angela Eagle:** When I was a Minister in large spending Departments and also a Minister in the Treasury, I do not think a day went by when the Treasury was not involved in discussions with the spending Departments about issues like this. Are you saying that you have had nothing to do with it at all and the 1% offer was a surprise?

Rishi Sunak: It is one Government, Angela, so in one sense it is all one Government policy. What I would say is that I set out a broader approach



to public sector pay back in November at the spending review, which took account of the circumstances we were facing economically. As a matter of fairness and also to protect people's jobs in the public sector given what was going on in the private sector, we set out a targeted approach to public sector pay, which I thought was proportionate, fair and reasonable. That ensured that those in the NHS would receive a pay rise next year. In other parts of the public sector, that will not be the case next year. We did also protect those on the lowest incomes. If you earn less than the median salary, which is just under £25,000, you will receive an increase of at least £250 next year. That is a targeted approach to public sector pay, which was set out in November.

It will mean that the majority of those working in the public sector will see a pay rise next year, but that is being done in a more targeted way, in recognition of the circumstances that we face. The way that happens is that Departments have a process individually with their pay review bodies where they present evidence. That happens bilaterally.

Q230 Dame Angela Eagle: I have to say that the response from NHS staff to the pay offer they have had demonstrates what they think of it, even though you think it is fair and reasonable.

I want to go on and talk about value for money in expenditure, Chancellor. We briefly touched on this when we talked before, but I want to talk about procurement and value for money. Yesterday, the National Audit Office produced an excoriating report about NHS Test and Trace. There was £37 billion of public expenditure, and they said they could not find that it had a clear impact. Nick Macpherson, who was Permanent Secretary at the Treasury when I was there, said that test and trace "wins the prize for the most wasteful and inept public spending programme of all time. The extraordinary thing is that nobody in the Government seems surprised or shocked". Were you surprised or shocked?

Rishi Sunak: I have not seen the full report, Angela, but what I would say with regards to test and trace is that, considering where we were at the beginning of this, when we could do 10,000 tests a day and we knew that testing could be an enormous part of the toolkit in trying to suppress the spread of the virus, an enormous amount of investment was rightly put in to try to increase the amount of testing and contact tracing. Within the last few days, we have done 750,000 tests or more. That is a fantastic achievement. The people who have helped that happen deserve a lot of credit for that, because it is an important part of our armoury as we combat this disease. Now our testing capacity ranks as one of the best internationally, but the Department of Health and NHS Test and Trace run the operations of that.

Q231 Dame Angela Eagle: You have no worries about value for money with respect to that £37 billion of public expenditure. Let us talk about PPE procurement. When you were last before us, you said that the Chief Secretary would write to us in the new year regarding the spending



control framework used throughout the procurement of PPE. We have seen again excoriating National Audit Office reports on waste that happened there. We have just learned that £900 million of Covid-related contracts have been awarded to firms that have donated to the Conservative party, all without proper competition and much without transparency. Again, are you worried about this in any way?

Rishi Sunak: Angela, I cannot comment on the details of specific contracts, because we are not the awarding Department for PPE contracts. I know the Health Secretary is committed to publishing transparently the details of contracts, and I know that all contracts go through eight specific tests. That is the approach that has been taken in all these cases. That is probably as much as I can say on that.

We exercise the usual managing public money control framework through the Treasury, which Dan can speak to if we have time. Given that we were dealing with a pandemic, it was appropriate that we approached this with a degree of flexibility. Remember the PPE conversations we were all having at the beginning of this. Again, the track record shows that the vast majority of PPE is now manufactured domestically, except for gloves. Billions of pieces of kit have been supplied across the country. That is good and important. Again, the teams that have done that did extraordinarily well. Dan, I do not know whether you want to comment on the framework side of it.

Dan York-Smith: In terms of the procurement rules, the pre-existing procurement rules allow for speedy processes for procuring things where there is an emergency. Those were obviously used during the early phases of the pandemic last year in order to provide the PPE that was required on the front line. As the Chancellor said, there is an eight-point check on every procurement. I am going to try to remember the eight points.

Q232 **Dame Angela Eagle:** You do not have to tell us the eight points. I am just concerned. A lot of public money is being spent and you have excoriating reports from the National Audit Office, but nothing seems to be being done to get a grip of it. You can talk about eight points all you like, but there is an awfully large amount of wasted public money and resources that has gone into these two areas. You seem to be giving a technocratic answer. Parliament gave the Government the chance to do this contracting without using the usual rules. I would have thought that it was the Treasury's role to make sure it was done properly.

Rishi Sunak: Angela, you make a very good point. Making sure that taxpayers' money is spent well is really important. It is important to me; it is important to the Treasury; it should be important to all of us. You are absolutely right to highlight that. Of course I take that seriously. If there are lessons to learn for all of us as a result of this when we go through all the reports, of course we will learn them.



While saying that, it is also important to remember the context we were operating in at the time. Vaccines are another area where we took a more flexible approach to how contracting is normally done to speed things up and provide that flexibility to the Vaccine Taskforce. Hopefully, that will be one small reason that contributed to our ability to move quickly and build a vaccine portfolio. That flexibility in the face of a pandemic is important. You are right that we should be judicious about using it. It is not our money that we are spending, at the end of the day. If there are lessons we can learn as we go through these reports, then of course we will learn them. It is very reasonable to ask.

Q233 Dame Angela Eagle: I have one final question, Chancellor. In the interests of transparency, can you tell us whether you have benefited from the huge increase in the Moderna share price as a potential owner of Moderna shares?

Rishi Sunak: Angela, my registered interests are disclosed to the Cabinet Office in the normal way and are available transparently for anyone to see there.

Q234 Dame Angela Eagle: They are not really transparent, are they? You could choose to tell us transparently whether you have personally benefited.

Rishi Sunak: All of my disclosures are in accordance with the Cabinet Office guidelines. They have been gone over rigorously and they are published in the normal way.

Q235 Dame Angela Eagle: You are not prepared to add that extra bit of information for us today in terms of whether you have benefited personally.

Rishi Sunak: I would, on all things, direct you to the register of Members' interests and all of the things that I provide to the Cabinet Office, which has issued statements about this as well.

Dame Angela Eagle: That is about as opaque as it comes. Thank you, Chancellor.

Q236 Alison Thewliss: Chancellor, when you announced the winter economy plan back in September, you said that "as the economy reopens it is fundamentally wrong to hold people in jobs that only exist inside the furlough". Do you still believe that?

Rishi Sunak: Longer term, it is appropriate that we help people find opportunities, if the current job they are in is one that is not likely to survive. We talked before about scarring and the fact that there are already 750,000 people who have lost their jobs, with more forecast to come. I have always said that we are not going to be able to save every single job through this crisis, and that is a tragedy. It is not in anyone's interests in the longer term to be out of the labour market for long periods of time. That is the balance we have to get right. You want to



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provide the support in the way we have, but also provide opportunities for people to get new skills.

That is why we have a plan for jobs that provides employers with a very generous bonus for apprenticeships; we have new traineeships; we have the kickstart scheme; and we have the lifetime skills guarantee. All of those things are in place to help those people whose current jobs sadly may not be there find something new to do.

Q237 Alison Thewliss: With regards to the Taxpayer Protection Taskforce that you have announced in your Budget, with £100 million and 1,265 HMRC staff to combat fraud, why has it taken you so long to establish this?

Rishi Sunak: We have regular fraud checks going on all the time. There are teams of people who have been working on this. What we want to do at this moment is to significantly beef up the resources now that we have a better sense of where we are with everything. What this investment of over £100 million and over 1,000 FTEs will do is use the information that we have learned. We have figured out how we can do targeting in a much more effective way, using the data we have, and we are now at a different stage of the pandemic, which allows us to do that and create a resource to do it. That is the right thing to do. This will be for some of the HMRC interventions like CJRS and others, but also things like bounce-back loans, where we are working with BEIS, the Insolvency Service and Companies House to put in place some regulatory changes that will enable us to tackle fraud there.

Dan York-Smith: The only other thing I would add is that one of the first steps in preventing fraud is the design of the schemes. Even though they were designed at pace, we designed the schemes in a way that meant we could try to find data we had to check whether a claim was legitimate to remove opportunities for people to manipulate their affairs before a scheme came into effect, so they could make it appear that they qualified for something and so on. That is the first step.

As the Chancellor says, we now have much more data. HMRC are real experts at using their data to target interventions, because they collect a lot of data from different sources that tell them about businesses' activities in particular. This is about giving even further resource, given the stage we are at and given that we are extending the schemes, to minimise the opportunity for fraud and in order to crack down where it is occurring and recover the money for the public.

Q238 Alison Thewliss: How much money do you expect to get back?

Rishi Sunak: I do not have the numbers off the top of my head, but the forecasts are in the Red Book. There is a line that explains the investment in and then the returns back over the back end of the scorecard. It is also worth bearing in mind that we think some of the return will come beyond the forecast period, from memory. Dan, you have the numbers.



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Dan York-Smith: It rises to over £1 billion a year by the end of the forecast. It is over £2 billion over the three years between 2023-24 and 2025-26.

Rishi Sunak: That is the mix of all the various investments.

Dan York-Smith: Yes. That is the consequence of HMRC's wider investment.

Rishi Sunak: It is not just coronavirus, yes. It is general compliance. There is a bunch of different initiatives under that, the details of which are all there and which build up to that number. That is typical for any Budget; we will work with HMRC.

Q239 **Alison Thewliss:** It is a bit of a shame, frankly, that you are now putting money into HMRC when people have been saying for a very long time that if you invest in HMRC staff you will get money back. We will leave that as it is.

I have had many constituents who have been victims, to some extent, of furlough fraud. Their employer has made submissions but that money has not gone to my constituents. They have had nothing at all and have not been able to claim universal credit either, because they are supposed to be employed, but they have not had that money. Will they get any of their money back?

Rishi Sunak: I would be grateful if you could write to me with the specifics of the names of the firms and the details. We can pass them on to the fraud unit and HMRC. We would be delighted to look at that. That is awful to hear, but it is great that we have specific examples of it. Please do send them, and then we will get them on to the right team at HMRC pronto.

Q240 **Alison Thewliss:** Given the way in which fraud investigations are going about it, it seems that the companies will be pursued but the constituents, at the end of the day, who have not had their wages will still have no money at the end of it.

Rishi Sunak: If you get the details over to us, we can pass them on to HMRC and they can see what exactly has happened.

Q241 **Alison Thewliss:** Thank you; I will certainly be in touch on that. The directors' income support scheme has been proposed by the FSB and others. Where are you at in looking at those schemes? Will you accept that those who have not had any support from the Government through coronavirus do need to have some kind of money coming in?

Rishi Sunak: The Financial Secretary to the Treasury has met with particular groups. We have looked at that scheme in detail. Unfortunately, it is not one that can be implemented without, following on from your previous questions about fraud, leaving the taxpayer exposed to an enormous amount of fraud risk.



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The basic problem, as you know, is that there is no objective, verifiable way to identify the groups of people who you are referring to. I would just gently say two things. First, we were able to make quite a significant change in eligibility to SEISS. Those who have filed a new tax return for 2019-20 are able to be brought in to the system, which is great news. That will bring just over 600,000 more people into the system, many of them for the first time, which is great. That is one of the big things that people wanted that we were able to do.

Even though this one thing might not be working for people in a particular way, there are so many other things that we have also done during this crisis that provide support to people in different ways. It is perfectly possible that one of those other things may be something that helps people, whether it is help through discretionary funding with their council tax bill, for example, which 3.5 million benefited from, or indeed things like mortgage holidays. We negotiated with the banks to provide people with quite easy six-month mortgage holidays as well.

There are lots of things in there. I appreciate that some people will feel that they have not quite got the help they would want in the way they would want it, but there are other things out there that hopefully will help.

Q242 Alison Thewliss: I can give you a pretty concrete example of a constituent of mine who runs a beauty business. She has been able to furlough her staff but has had to pay national insurance contributions for her staff from her own savings; as a limited company director, she is not entitled to anything herself. That is not fair, is it, Chancellor?

Rishi Sunak: If she is running a beauty company, it is perfectly possible that she has premises, has had a business rates holiday and would be receiving cash grants throughout this crisis.

Q243 Alison Thewliss: That does not pay her wages, though, does it?

Rishi Sunak: We included personal care very specifically in the more generous grants of up to £18,000. Even though they were opening earlier, there will be some restrictions that will impact the business, so that is there for them. There are also other things that help. The bounce-back loans may well have helped her, and she can of course furlough herself for her PAYE income, which she may well have. As we said, there will be other more personal things that she may have been able to receive help with.

Q244 Alison Thewliss: She cannot, and that situation is still particularly unfair, given that she has done what she can for her employees.

For the first SEISS grant, the HMRC's planning assumption was that fraud and error could range between 1% and 2%. What is your estimation for the directors' income support scheme?



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Rishi Sunak: I do not have it to hand, but it will have been higher than between 1% and 2%, from memory. I can go over it and get back to you. I do not know whether Dan knows.

Dan York-Smith: I do not. The thing that I recall is that, of the people receiving dividend income, we estimated that only around a quarter of them would be classified as directors. There is the potential that three-quarters of the recipients of help through something targeting dividends would not actually be directors. It is not fraud, but it just shows you the difficulty in targeting.

Rishi Sunak: That is a very good point.

Q245 **Alison Thewliss:** That is a different thing to fraud.

Rishi Sunak: Yes, but it gives you a sense of the scale of the potential issue. Dan is absolutely right. No one actually knows how many company owner-managers there are in the UK, because there is no objective verifiable definition of what that means, so no one actually has a number. Even the people who are talking about it say, "We do not know". We roughly think there are 600,000, from memory, give or take. That is the number that is out there. No one actually knows.

The problem is, as Dan said, that we receive 3.3 million tax returns about dividends. That gives you a sense of how large the difference is. There is no verifiable way to go from the 3.3 million to the 600,000. We have been talking rightly about taxpayer money and balancing risk to the taxpayer and value for money. As Dan says, potentially £3 out of every £4 going out is going to people who the scheme was not designed to benefit. That is the challenge. That is always the challenge we have had with this.

Q246 **Alison Thewliss:** There are many inconsistencies in the scheme. There are many cases of people getting money who did not necessarily need the support and some people getting absolutely nothing at all. That does not seem to me to be a reason not to do it.

Moving on to another barrier, a lack of data has been a barrier to the newly self-employed accessing SEISS. On the Committee, we are all very glad that the newly self-employed are now eligible for grants going forward, but why is it that those who have now submitted their 2019-20 self-assessments cannot get that retrospectively? That data still applies, does it not?

Rishi Sunak: I do not think it would be right. If you are going to retrospectively do it for them, why not others as well? If you retrospectively opened up however many million people's tax returns and SEISS grants to recalculate them all, that would not be the sensible and appropriate thing to do. It would mean that lots of people would have less money than they were given, and you would have to get all of that back. That would not be appropriate. The key ask from stakeholders was that it would work on a prospective basis. That was reasonable, and I am



delighted that we have been able to do that. It will benefit, as I have said, over 600,000 people.

Q247 **Alison Thewliss:** Finally, 70,000 women who had their babies during the three years over which SEISS was calculated have clearly lost out. Why have you not fixed this mistake?

Rishi Sunak: We do have guidance that is out there around dealing with maternity leave and other things, but I know it is subject to a court case as well, so there is not much more I can say on that.

Q248 **Harriett Baldwin:** Thank you, Chancellor, for all the hard work you and your team are doing to give this unprecedented support to the UK economy. I know you published a household distribution and analysis that shows that the support has very much been going to those on the lowest incomes. It has been very progressive. Given that International Women's Day is this week, I wanted to take a gender lens as well. Clearly, women have benefited more than men from the furlough scheme. Women have benefited more than men from the uplift in universal credit. They have seen a smaller hit overall to employment. I wondered whether the Treasury considered producing an equalities impact assessment this time, with a focus on gender, age and ethnic minority status.

Rishi Sunak: You are absolutely right about the distributional analysis, which is in there and is something I am proud of. At the outset, we said that we wanted to make sure that those who were the most vulnerable got the support they needed. I am glad that the distributional analysis in the Budget document bears that out.

You are absolutely right to highlight the disproportionate impact this crisis was having on women, given that they are likely to be in the industries that are most affected and they have disproportionately borne the burden of impacts on schools and other things. When I last checked, the gender employment gap was at a record low. The last data we have on that is from October to December last year, which is quite recent. As you were hinting at, we have seen larger falls in employment among men rather than women. In that sense, even though they are disproportionately working in these sectors, we have been able to help protect them. The gender pay gap is at the lowest level it has been.

That is why our interventions on hospitality in particular are important for women, because they disproportionately work in that sector. Whether it is the VAT cut, the things we did last summer or anything else, hopefully those things will have all made a difference. Dan, do you want to comment in terms of what we publish and why?

Dan York-Smith: On the impact analysis, there is a significant analytical challenge here. People live in households, but a lot of these measures are about individuals. In order to construct this sort of analysis, for example, along the lines of gender, you would have to make assumptions about how households share that income or the effect of the schemes.



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Ultimately, that assumption would drive the outputs. It is a question of producing something meaningful.

Clearly, when we are advising the Chancellor on policies, we take very seriously our obligations under the Equality Act, which is to advise him on particular equalities impacts, but, when it comes to producing the type of analysis that we produce by income decile, the assumption around how a household splits its income totally determines the outcome. Therefore, we do not think it is that meaningful. The IFS has said that this issue of the assumption makes it very difficult to produce accurate analysis.

Q249 Harriett Baldwin: Under all circumstances, then, the Treasury will never be able to publish an equalities impact assessment of the measures, effectively.

Dan York-Smith: In terms of the types of analysis we produce on household income, the income deciles and the distributional analysis, it would just be so driven by the assumption that you make about the sharing of income within a household that it would render it not very meaningful. That assumption would drive the outputs. It is not a question of it not being technically possible; it is just that it would not meaningfully add to people's understanding of the impacts in the way that the income-decile analysis does, which is now well established.

We have also produced that on a different basis recently, as we did with the ad hoc release last year about the impact of the pandemic and the Government's response to it. That was particularly looking at the furlough scheme by income decile. We had not done that sort of new analysis before. Again, it is this question of a household versus individuals within a household, which is really very tricky.

Q250 Harriett Baldwin: Obviously, there are have the protected characteristics. I completely agree with the point about the difference in terms of employment. There was a very good report out from the House of Commons Library this week in terms of the difference between men and women in employment over the last year.

There is one category where women are 1.5 times more likely to have lost work or quit over the last year, and that is for mothers versus fathers. Chancellor, last week you said, "We owe mums everywhere an enormous debt of thanks". I just wanted to pick up on my colleague Alison Thewliss's question about this issue around maternity leave. We very much welcome the inclusion of the additional 600,000 people into the self-employment income support scheme. I know there is a live court case and that limits what you can say, Chancellor, but I just wondered whether you could share with the Committee whether or not in the run-up to preparing this Budget you considered how you might rectify that issue.

Rishi Sunak: I am not being difficult, but, because there is an ongoing court case, it is difficult for me to say anything. I can say that when we design the policies, we have these things in mind. That is why the



guidance we published at the time acknowledged it and provided flexibility in a different way to think through it, to try to provide the best we could to try to address some of the challenges that it poses. Beyond that, I cannot say anything else. We did think about it as we were designing the policy, as you would expect us to, rightly.

You are right about mums. One thing I am pleased that we were able to do—it was important for this reason—was to keep childcare settings and early years open. We had lots of difficult judgments to make to suppress the spread of the virus, but, as we allocate our budget, as the Prime Minister talks about it, keeping childcare and early-years settings open is something that has hopefully made a difference and helped parents.

Dan York-Smith: Just more generally, there have been a number of things over the course of the year where, for example, explicit guidance has been given to employers about their ability to furlough employees who cannot work because of childcare responsibilities. We have made changes to ensure that people who were on parental leave and then returned after the furlough cut-off date were eligible for furlough. Likewise, for people who went on to maternity leave after a period of furlough, we made changes to make sure their maternity entitlements were calculated correctly and so on. Where we have identified issues, we have tried to build it into the policy.

Q251 **Harriett Baldwin:** Can I just quickly turn to domestic abuse, where you added another £19 million in the Budget, including £15 million for perpetrator programmes? I have certainly seen in Worcestershire how effective perpetrator programmes can be. Is there any evidence you can share with us in terms of those being more effective than other approaches? Do you have any particular value-for-money points you want to make on those?

Rishi Sunak: One of the hidden, though hopefully not that hidden, tragedies of lockdown has been the increase in domestic abuse and calls to the hotline. I forget the stat, but they were up very considerably. The spending review provided a large additional chunk—£125 million—for local authorities for next year so that they can meet all their new duties under the Domestic Abuse Bill. What we announced in the Budget was £19 million. That was split: £15 million was for perpetrator programmes and £5 million was for the piloting of respite rooms, which is based on a successful trial. These are smaller amounts of money to trial new things, gather more evidence and hopefully make a difference, which can then inform future policy-making.

The perpetrator programme is modelled on something called Drive, from memory. Again, this will be a Home Office thing. The Drive programme showed that it could reduce domestic abuse by 80%, from memory, and controlling behaviour was reduced by 70%. That is what that is based on. I can get you more details from the Home Office. The respite rooms are based on a programme that is already being trialled in London. From



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memory, I think they are called green rooms. I will have to get you the name.

We are basically trying to scale those things up to try them in a larger fashion. They are based on evidence that certainly the perpetrator programmes work and benefit women.

Q252 Harriett Baldwin: Turning to the very poorest people in the world, we had the announced change in terms of the aid budget from 0.7% to 0.5%. Obviously, it is still the law of the land that you try to spend 0.7%. I appreciate that you can make a statement to Parliament saying you have not achieved that, but what is your plan legally to do this within 2021-22?

Rishi Sunak: I know this is an issue that you care passionately about, and I appreciate that. The Foreign Secretary, who is responsible for the Department and for legislation in this regard, said in the statement he made was that he would set out legislative plans in due course, and I know that is something he plans to do. One of my colleagues at Treasury reiterated that at Treasury questions the other day, and I would refer you back to that

Q253 Harriett Baldwin: Does "in due course" mean before the beginning of the next financial year? Are you planning to go into the next financial year knowing that you are going to break the law, effectively?

Rishi Sunak: I would not want to ever be breaking the law. He is responsible for the legislation, so I cannot give you anything more specific than what I have told you. As he said right afterwards and as we reiterated the other day, he will bring forward the appropriate legislation. Obviously, in all cases, we would want to be compliant with the law.

Q254 Julie Marson: Good afternoon, Chancellor and Dan. I have some questions on corporation tax. Before I turn to that, could I just ask you about the Covid grants, the emergency grants? We have had reports that some businesses who are struggling have had difficulty accessing those from councils. Do you have an assessment of what problems they have been having and what the Treasury has been doing to make it easier and to help them get through that?

Rishi Sunak: You are right. It mainly concerns the discretionary funding that councils have, which is obviously up to them. We had two grant schemes running over the past several months. One was the one that will become more automatic, which is for the types of businesses that were closed by restrictions; those were monthly and we announced a top-up to that in January. Local councils have discretionary funding. It is definitely the case that this money has not all gone out. I cannot remember the aggregate figure, but it is less than 30%; it is far too small a number.

The Department responsible is BEIS rather than MHCLG, slightly oddly, but the Ministers have spent a lot of time working with local authorities to try to see what we can do to speed that up. We are publishing the



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guidance imminently for the new restart grant. That guidance is going to be published imminently in advance of those grants going out; it might not be this week, but will hopefully be very shortly. The money for the restart grant will go to local councils the week commencing 5 April, and they are worth up to £18,000.

What we have said to councils is that they will not get the top-up, the new amount, the £400 million-plus of discretionary funding, until they have already spent the stuff they already have, to encourage them to get that out of the door and get it to businesses. You are absolutely right: we send it away from here to councils, but they are the ones who have to do it. In their defence, if you had them here what they would say is, "You know what? Government have been doing too many grant schemes. They are all a bit different. That has slowed things down". That is fair enough. That might well have been the case, because we have iterated these things a couple of times. To the extent that this is partly our fault, so be it.

That is why in particular, when we did the new ones, we wanted to do them as a one-off restart grant. It is much easier for councils to do that and get it out of the door quickly. That will hopefully help as well.

Q255 Julie Marson: That is very helpful, thank you. Turning to corporation tax, Chancellor, as we know you have increased corporation tax from 1 April 2023 to 25%. Did you assess the dangers to businesses and the economy of increasing it all in one go rather than taking a phased approach?

Rishi Sunak: We went through all of that. We wanted to do a couple of things. First, we wanted to make sure we still had an internationally competitive rate and that this was still a pro-business place. I am confident that is the case. We also wanted to make sure that the timing of the rate increase was one that would be recovery in the short term. We have achieved both of those things. The third thing I would add is certainty. Businesses told us very clearly that what they wanted was certainty. They did not want something hanging over them, with them not knowing. Certainty is helpful to businesses, so we wanted to deliver that. That has been welcomed.

Corporation tax is, ultimately, a tax on profits. By definition, it is only those businesses that are doing well that pay it. We think it was easier to do it in one go, but we do have the very generous super-deduction between now and then. Businesses have the certainty of knowing that they can plan now, and we still have a rate that will keep us as a competitive economy.

Q256 Julie Marson: If you think of corporation tax as our shop window to the world, though, is it going to be a disincentive to direct investment from abroad?



Rishi Sunak: There was an interesting report from PwC out today, where they survey all their managers. The chap who ran that made a comment about this. In terms of the shop window of our attractiveness to business, you are absolutely right to think about it like that; I think about it like that as well. What I would say is that corporation tax is not the whole shop window. Corporation tax is just one of the things in the shop window, and there are lots of other things in the shop window as well that are going to entice people to come through the door. Even with the higher rate, we still have the lowest rate in the G7, according to the way the OECD looks at it, and the fifth-lowest rate in the G20, with only Indonesia, Saudi Arabia, Russia and Turkey below us. We are the lowest in the G7, but the US is forecast to go much higher. That is the stated plan of the Administration there.

The chap from PwC said today, as did the chief economist from Ernst and Young a little while ago, that corporation tax rates are probably not the significant driver, as long as they are in this kind of range. The things companies are looking at are things like skills levels and infrastructure. Even in the tax system, the PwC chap said that it is not just the headline rate. It is the overall package of the tax system: how easy it is to use or what other reliefs are in place such as supporting things like R&D. That is what I would say. When you look at the shop window as a whole, there are lots of goodies in there that will make sure this is a really attractive place to come and do business. I am confident that will be the case even with the slightly higher rate.

Q257 **Julie Marson:** We are going to need growth; that is a given. You have made an assessment that the harm to growth from increasing corporation tax in the way you have is less than doing it in another way, by using VAT or income tax, for example.

Rishi Sunak: The forecasts are what they are. You will have seen the forecasts. The OBR makes all its assumptions about the impact that the things that we do have on the economy, so that is taken into account. With VAT and income tax, we have a manifesto commitment not to raise the rates of VAT, income tax or national insurance. I wanted to honour those commitments. That is why we have looked elsewhere.

Q258 **Julie Marson:** Turning to the super-deduction, what assessment have you made of the types of businesses that will benefit from the super-deduction?

Rishi Sunak: Hopefully, lots of them will benefit. It will be those that invest in capital equipment, predominantly. It is capital investment where we have had the multi-decade challenge. Since the early 1990s, we rank lower than our European competitors, Australia, Canada and America when it comes to capital investment as a percentage of GDP. We know that capital investment is good, because it drives up productivity, creates jobs and spurs innovation. It can hopefully play a really important part in our recovery over the next year or two.



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Businesses that make capital investments are typically long-term decisions and big amounts of money. They are the ones that will, hopefully, sit up and see that it is very generous. Hopefully, it will grab their attention and incentivise them to do things that they either were not going to do for a while or were not going to do at all. We will all benefit as a result.

Q259 Julie Marson: We accept the case that it is a powerful investment. It is limited to plant and machinery. Was there a case, for example, to extend it to more intangibles, like IP, for example, and other areas?

Rishi Sunak: I will make one observation, and then Dan will probably add another comment on intangibles. One of the other things that we have in the tax system is the R&D tax credit, for example. Again, the OECD has a ranking of those, and we rank relatively favourably for the generosity of those. They are split into two types: there is something called RDEC and something called the SME tax credit.

What we announced in the Budget is quite a wholesale consultation to look at what we need to do to make sure that tax incentive for R&D is internationally competitive and takes into account how R&D is being conducted today. For example, things like cloud computing are not considered R&D under the definitions. There is an argument for maybe changing that. There are some things we are looking at there.

At the last Budget last year, I improved the generosity of the RDEC limit as well, so we made that more generous at the last Budget. Dan, do you want add anything else on the intangibles?

Dan York-Smith: When you create an intangible, it tends to be a revenue cost. You are already able to write off the full cost of the staff that are working on the brand of your company or generating the goodwill your company has or the intellectual property, where it is non-R&D. On R&D, as the Chancellor said, we already give more than 100% relief for smaller businesses and then we have the RDEC for bigger businesses. If you are a larger business that is creating intangible assets, you are probably able to deduct 100% of the costs already.

For capital allowances, without the super-deduction for shorter-life assets, for typical assets that you would write off over a 10-year or 15-year period, you would get 16% of the cost in the year you made the investment and then a 16% writing-down allowance. For longer-life investments—these are things that last for a long period or are part of the fabric of the building, like cabling or lifts—you would get 6%, whereas under the super-deduction we are changing the balance in the short term. You will get 130% for the normal-life assets and 50% for the long-life assets. In a sense, because of the nature of the expenditure that generates the intangible assets, the tax system is naturally generous to it anyway.

Q260 Siobhain McDonagh: Would you agree with me that we have a housing



crisis in the UK?

Rishi Sunak: We have a challenge for particularly young people to buy their own home. It has been a challenge we have seen for a long time, which is why we are doing a lot to try to improve that situation, whether it is planning reforms, investment into housing, the temporary stamp duty holiday or the new mortgage guarantee.

Q261 **Siobhain McDonagh:** Chancellor, there are 1.15 million families on social housing waiting lists. There are 120,240 children living in temporary accommodation. 9% of the social rented sector is classed as overcrowded, with the Health Foundation concluding that overcrowded housing may have contributed to increased deaths during the pandemic. How does your Budget help any of these families?

Rishi Sunak: The Budget is primarily designed to deal with tax policy and economic policy, not all other aspects of public spending and social policy. We deal with some of that in the spending review. At the spending review in November we announced the affordable homes programme for the next few years. From memory, that is just over £12 billion and I want to say over 200,000 new homes, but I do not have the number in my head. That is a significant uplift on the programme it is replacing. That is probably the social housing intervention, but that is part of the spending review. Obviously, the Budget is primarily for tax and economic policy.

Dan York-Smith: I would add that in the last Budget there was the increase in the local housing allowance to the 30th percentile, which has been maintained in cash terms for this Budget, which is worth about £600 to 1.5 million households. For the 500,000 households in the areas of highest demand, it is worth £1,200.

Q262 **Siobhain McDonagh:** Mrs B in my constituency lives with her four children, who are 11, seven, three and two, in a one-bedroom Clarion Housing Association flat. She is in band C on the housing register, but there are 129 families with more points than her. Given that the council had just 17 three-bedroom properties in the last 10 months, it will take an extraordinary seven years until she is housed. By then, her children will be 18, 14, 10 and nine. What hope is there in the Budget for Mrs B and her family?

Rishi Sunak: I am sorry. If you write to me with the specific details—it sounds like it is more constituency casework—I will happily pick it up with MHCLG or her council if that is the appropriate thing. The detail of that particular situation is something we can deal with like that. It is probably best done that way.

Q263 **Siobhain McDonagh:** My use of this lady's situation is to illustrate the intensity and difficulties of the problem, which do not appear to be considered in your Budget or world view. These are real people with real children living in desperate situations made worse by the pandemic and lockdown. Can you imagine living in a one-bedroom flat with four children and for it to be without end?



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Rishi Sunak: That is why I said that we have actually increased the investment that is going into social housing through the affordable homes programme, which, at over £12 billion, will be significantly larger than it has been in the past and will provide hundreds of thousands of better-quality homes for people. That was done in the spending review.

I do not have the particular details of your constituent's case. Budgets cannot deal with every aspect of every Government policy. They are predominantly for tax, fiscal and economic policy. The spending review would ordinarily deal with social housing investment. As I say, I am pleased to say that the affordable homes programme shows a very strong commitment from the Government to improving the quality and provision of social housing.

As Dan said, the decisions we have made on the local housing allowance, which cost about £1 billion a year, mean that 1.5 million of the most vulnerable families in this country will receive on average over £600 to help them with rental payments. Next year, there will be another £670 million for about 3 million families to help with their council tax bills; it is about £150 each. We are making investments to help people with the quality and affordability of their homes, and those are the right things to do. We are also helping people get on the housing ladder.

Q264 **Siobhain McDonagh:** One in 10 adults in this country owns a second home, while four in 10 do not own their first. How does the stamp duty holiday help to address that balance?

Rishi Sunak: The stamp duty holiday will help people because it reduces the cost of buying a home. The stamp duty holiday is temporary and will taper down after three months, at which point first-time buyers benefit from a £300,000 stamp duty holiday, which means that about 80% of first-time buyers do not pay any stamp duty at all; that was the last stat I saw. That is a permanent stamp duty policy in place for first-time buyers, which is very helpful. Second-home buyers pay a 3% surcharge when they buy a home, and that remains during the current stamp duty holiday.

On the new mortgage guarantee, we know from history, when we last implemented something similar after the last crisis, that 80% of the beneficiaries of that mortgage guarantee were first-time buyers, so that is good evidence that it is benefiting those who are getting on the housing ladder disproportionately to other home-movers.

Q265 **Siobhain McDonagh:** As you know, the proportion of first-time buyers and the number of young people in a position to buy are reducing every year. Prior to the stamp duty holiday, the banks were lending 95% mortgages, which disappeared after the introduction of the holiday, so, really, Chancellor, you are stepping in to bail out the banks rather than first-time buyers.



Rishi Sunak: No, that is not right. You saw the same in the crisis last time. This tends to be what happens in a situation like this. As we saw last time around, lending products are removed as banks prioritise and react to economic circumstances, which is why this intervention is a good one and will make a difference. It helped 100,000 people buy a home last time. The average value of a home that was bought under the scheme last time around was about £160,000, compared to the average price of a home at that time, which was more like £225,000.

As I said, 80% of the beneficiaries were first-time buyers, so it is a policy that feels like it is quite well targeted and is helping people get on the housing ladder. We have done it this time around at 95%, because what you saw is products have returned at lower LTVs, above 85% and 90%, whereas, in the last crisis, they did not, so the guarantee started lower. There is not the need for the guarantee at those lower levels, so we have targeted it at the place where it can make the most difference. I am pleased that we work well with the banks on this, and it will be up and running by the end of April, in a few weeks' time, which is great news. This will make a difference and help people.

Q266 **Siobhain McDonagh:** Do you feel that the stamp duty holiday was well targeted, given that it has overwhelmingly benefited second-time property owners and landlords, rather than first-time buyers?

Rishi Sunak: I am not sure that it has overwhelmingly benefited those groups. It is universal, and second-home buyers have to pay an additional 3% surcharge. The motivation for the stamp duty holiday was predominantly to support the 500,000 people who are employed in and around the housing sector and, because of what had happened with lockdowns and the impact on that industry, which is quite an important part of our economy, this was a way to generate activity in that sector and to support all those jobs.

Those 500,000 jobs are being supported by this intervention, and that is the reason that it is helpful and valuable. You have seen that reflected on the ground in the economic activity and the jobs that it has protected. I care very much about those 500,000 jobs. Construction activity completely stopped last time around in the spring, and there were serious concerns about that. This intervention has changed the mood on that. As you have seen, there is strong activity in the housing market, which is protecting those 500,000 jobs; that is an important thing.

Dan York-Smith: There is also some evidence from an academic assessment of the stamp duty holiday introduced in 2008 during the financial crisis. It indicated that, when people move home, they typically spend around 5% of the value of the home in the period after the home move. In terms of the wider economic benefits of property transactions, there is some evidence from the last time that there was such a holiday.

Siobhain McDonagh: My challenge to you is that, if money is scarce, you should spend it where it gets most benefit to most people—to young



people trying to get their first step on the property market and to the families I see, who are hugely overcrowded and who are never going to get a home that is large enough for their family.

Q267 **Rushanara Ali:** Before I go on to climate change and financing net zero, I had a couple of quickfire questions following up from colleagues. Chancellor, in response to Angela Eagle's questions on the NHS, you mentioned that about £55 billion is set aside. You promised that you would provide the NHS whatever it needed. They are saying that they are going to have to make about £8 billion of cuts within weeks if they do not get that money. Can you tell us if £8 billion will be made available to them at the beginning of the next financial year—yes or no?

Rishi Sunak: What I would not do is comment in public about conversations that we have inside with Departments to figure out exact funding requirements for next year. I can tell you that we are providing the NHS with an enormous amount of extra resources. I do not know if Dan has the breakdown of how much we have already provided. At Budget, we announced another £1.6 billion for the NHS, for the vaccine rollout, for example, and we have provided tens of billions of pounds of additional funding, both last year and this.

Dan York-Smith: I want to say it is £112 billion, but I will check.

Rishi Sunak: We will check. With regard to funding for next year, whether that is the Department of Health, the Ministry of Housing, Communities and Local Government or others, we have those conversations all the time to make sure that we can get the funding to where it is needed.

Q268 **Rushanara Ali:** They will want to know. The Red Book sets out that there is £7 billion to £8 billion in the first half of 2021-22, so we will all want to be assured that you will be able to do whatever it takes to help them, so that they are not having to make cuts. Can we have that assurance at least?

Rishi Sunak: As I said, I would not comment on individual Department conversations, but £407 billion of financial support for the country over last year and this year would demonstrate that we are doing an enormous amount to support public services, businesses and people through this crisis. It stands as a very comprehensive and significant amount of support.

Q269 **Rushanara Ali:** We are not going to get specifics, but I hope you manage to resolve this issue, because £8 billion is a lot of money and it will mean cuts if it is not resolved.

On gender, in relation to the question that my colleague Harriett asked you, the extra £19 million that has been provided to women's refuges is very welcome, but Women's Aid has identified that they need £393 million. As we speak, our colleagues are speaking in the International Women's Day debate. We had International Women's Day on Monday. My



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colleague Jess Phillips is reading out the names of women who have been killed in the last year; each year she has the grim task of doing that.

Given that, in the pandemic over the last year, the level of violence against women has gone up dramatically, is this a moment when you should be increasing the budget and providing the amount that Women's Aid has called for? In those discussions with Departments, will you consider doing that, Chancellor?

Rishi Sunak: You are absolutely right to highlight the increase in domestic violence through the pandemic. It is one of the costs of what we are doing. We talk about all the different costs of lockdowns and the difficult decisions that have to be made. You are right to highlight that this is something that has happened as a result of people being locked down.

That is why, at the spending review in November, we provided an extra £125 million for domestic violence to support all the ambitions of the Domestic Abuse Bill, which supports victims and their children with safe accommodation. That is really important and well funded, and it was warmly welcomed at the time. These extra investments will help trial and expand some new initiatives, which the evidence suggests can also make a significant impact on keeping women safe. That is why we made those announcements as well.

Q270 **Rushanara Ali:** We had a session yesterday. You have heard from Harriett about the impact on women, who have been hit very hard in this pandemic. I have specifically highlighted the plight of women who need to be in refuges, and the supply is not as great as the need, so I would just ask you to look at this in terms of the scale of what Women's Aid has spoken about. It feels like women's concerns and the impact on women in this pandemic in terms of wider economic impacts are not being taken seriously enough by this Government.

Moving on to climate change, you amended the remit of the Monetary Policy Committee to reflect the importance of environmental sustainability and the transition to net zero, which is very welcome, so thank you for doing that. How do you hope that this will impact the MPC's decision-making? When will the remits of the Financial Conduct Authority and the Prudential Regulation Authority be amended?

Rishi Sunak: It is for the Bank of England to interpret the remit. They have said that they will reflect on it and publish how they think it will allow them to do things differently, so it would not be right for me to comment on that.

Dan York-Smith: The Governor has previously said that he is interested in how they might adjust their approach to the corporate bond purchase scheme to be more supportive of the transition to net zero. Indeed, some other central banks have a regard to sustainability and net zero outcomes for some of their interventions. As the Chancellor said, the specifics are



for the Bank to interpret, but it is certainly something that the Governor has said in the past.

Q271 **Rushanara Ali:** You may not want to answer this question, but I will try, Chancellor. Do you approve of monetary policy being used to discourage investment in carbon? Was the change in the remit designed to give the Bank cover to do so?

Rishi Sunak: I cannot comment on monetary policy. The Bank of England Governor said that they will set out their approach, given the updating of the remit, in due course.

Q272 **Rushanara Ali:** In that case, I am going to move on to the international arena. Tackling climate change requires a global response. I was born in a country that is one of the most climate-vulnerable in the world and is likely to face some 30 million climate refugees. The UK has a very proud record, as Harriett mentioned, of international development contribution and cross-party agreements. That has been broken, by you, in fact, because of your decision to cut the aid budget. You have stated that there are reasons for that, but it literally means slashing budgets and will lead to people dying. It will undermine the effort to get developing countries to make the adaptations in relation to climate change and mitigation. Can you explain why that is justified? Does it not undermine the net-zero effort and our responsibilities to developing countries that also need to work to help to reduce carbon emissions and protect people?

Rishi Sunak: It is not a decision that we took lightly, as I said at the time. It is about priorities and about facing the most difficult fiscal and economic circumstances that any Government or the country has faced in a very long time, and responding to them in a way that is both responsible for the economy but also fair. Given that, we thought it was right to prioritise resources, at this difficult time, on things that we have just been talking about, whether it is domestic abuse, the NHS or social housing, as Siobhain was talking about. Those are all priorities that we also have to fund. Given that we are in a difficult situation, I thought it was reasonable that we focused on those domestic priorities at this difficult time.

That does not mean at all that we are retrenching from being an incredibly active and generous country when it comes to those who are vulnerable around the world. We will remain, even at 0.5%, which is the equivalent of what we are spending this year, the second most generous G7 economy as a percentage of GDP. It will be significantly ahead of the 0.38% or 0.36% OECD average spend, and we will remain the largest donor to international bodies, whether it is the IMF, the World Bank, COVAX for vaccines, or other things. None of that takes into account the other things we do that are not included in the aid budget—for example, the peacekeeping operations that we conduct or the help that we provide for asylum.



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With regard to climate in particular, the Foreign Secretary reiterated in his statement that we remain committed to the same targets that we had before on international climate finance. I do not have the numbers in my head, but I think it is a doubling of funding. That is protected and remains an important part of what we will do to help. I just met Secretary Kerry this week to discuss that, which was a very positive meeting. We are a leader globally, with our track record on this and the example that we have set, both by our actions and by our resources, and others will follow.

The last thing that I would say is that spending money is only one way to help. Innovation is another way. Because of the investments we are making in R&D to capitalise new technologies and showing global leadership on things like disclosures through the G7, all of that is going to help enormously as well. The Budget talked about that and about the disclosures that I am trying to champion through the G7 and G20 this year. We have talked about voluntary carbon-offset markets. There is a whole host of things that we are doing, which will make an enormous difference to countries around the world.

Q273 Rushanara Ali: Some people would say that slashing budgets by half in conflict zones is not going to help Britain's reputation and is not a sign of leadership. Is this something that you expect to continue in terms of keeping the 0.5% level and enshrining it into law, or is it going to be a temporary change? Could you just clarify that?

Rishi Sunak: It can be both. The Foreign Secretary said that we will bring forward appropriate legislation at the appropriate time, but we have also said that it will be temporary and that, when the circumstances allow, we will aim to return to 0.7%.

When you are talking about climate finance, this is just one of the many things we do. In terms of getting funding into developing countries to help them tackle the challenges of climate change, creating a high-quality carbon-offset market in the UK will also help do that. What that will do, essentially, is unlock billions of private capital in the developed world, and a well-functioning, high-quality market can channel that to other countries and help them do what they need to do as well. That is another way for us to show leadership that will make a difference.

I am delighted that Clara Furse, who used to run the LSE, has agreed to chair our working group on that, with an ambition that we make this the global leader for carbon-offset trading. That will unlock the capital that you rightly identify is needed.

Q274 Mr Baker: I refer to my registered interest in Glint Pay. Chancellor, what I would like to do today is try to enhance public understanding of where the money is coming from. On Monday, I asked Richard Hughes of the OBR to comment on box 2.6 on page 57 of the *Economic and Fiscal Outlook*. It is alright; I am not going to get into too much of the detail, but the point is he set out how much debt had been issued by the



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Government. It then says, "A roughly equivalent quantity of gilts has been purchased on the secondary market by the Bank of England's asset purchase facility". I asked Richard Hughes what the effect was; he said there were three effects. He said it keeps the gilt market liquid, it reduces the Government's borrowing costs and it provides a source of risk, which is that it reduces the effective maturity of Government debt. Do you agree with Richard Hughes that this is the effect of QE on fiscal policy?

Rishi Sunak: Sorry, Steve; what were the three? He is right on the maturity, because it has the effect of doing that.

Mr Baker: They were keeping the market liquid, reducing borrowing costs and maturity transformation.

Rishi Sunak: I am not being difficult; I am just being careful, because the exact purpose and function is for the Bank of England to talk about in the conduct of their monetary policy operations. I would just be a bit cautious.

Q275 **Mr Baker:** I am very conscious of that and do not want to draw you into commenting on the decisions of the Monetary Policy Committee, but the Governor used words like "fiscal and monetary policy are not uncorrelated". That is not a literal quote, but he has made the point that the two are now not uncorrelated and it is important to public understanding of where we are to just drill into this a bit, so I hope you will forgive if I just press on.

Rishi Sunak: Steve, you are absolutely right to highlight this. I do not know the exact quote, but it is fine for people to be acting independently but still in a co-ordinated fashion. That is something that provides reassurance to markets and is something that the IMF picked up on earlier on, where, if you remember, there were examples—I will not call them out—of other jurisdictions where it felt like there was not a more coherent approach coming from both fiscal and monetary institutions. That was causing market dislocation. We were praised for being independent but co-ordinated. It gives reassurance to people that the people responsible for economic policy are at least talking to each other.

Q276 **Mr Baker:** I can assure you that the thrust of my remarks is coherent with what you have just said, but I just need to press on. I think about the risks to the welfare of my constituents in Wycombe and of people across the country. For example, Ian Stewart, chief economist at Deloitte, told us yesterday, "Bond markets are not terribly concerned at the moment about levels of Government debt", but he also said, "It is also worth remembering that bond markets can change their views about fundamentals quite quickly". You are experienced in these matters. Would you agree with him on both of these points: that the markets are not terribly concerned right now but also that they can change their minds quite quickly?

Rishi Sunak: I do agree with that. It is worth bearing in mind that it is not hypothetical. It has happened just in the last four or five weeks,



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where we have seen almost a 50-basis-point move, which is a reasonably rapid move in a short space of time. He is absolutely right. It is perfectly possible.

Q277 Mr Baker: The chief executive of the Debt Management Office, Sir Robert Stheeman, made some remarks to *The Times*, reported on 30 April. I should say that he slightly played down the remarks when he came to the Committee, but he said, "We were very lucky to get away with that auction. A few hours later and we could have had an uncovered auction". He went on, "My worry is the ability to carry out my mandate to raise the funds that the Government need. There was that bad period in March 2020 where my worry was that liquidity would not be there. The Bank's actions were critical to fixing that". Do you recognise those remarks and that phenomenon?

Rishi Sunak: I cannot remember his exact remarks, but he is right that there was some disruption in gilt markets, not just in the UK but globally. I cannot remember when it was, but in March there was a period of volatility. That is what I was talking about before: people wanting to know that there was a joined-up approach from economic institutions. That was a period of volatility in gilt markets for a very short period of time, but we were not alone in experiencing that. From memory, it was global in nature as well.

Q278 Mr Baker: He also went on to say, speaking of the gilt market, "It has got used to the notion that there is one large seller in the primary market—us, the Debt Management Office—and, in the secondary market, there is one very large source of demand—the Bank. That has established an equilibrium that has given market-makers the confidence that it is now a safe market in which to operate". Bearing in mind Richard Hughes' comments about the liquidity of the market, does this not go some way to explaining why the markets are not too concerned about the level of Government debt right now? It is because of the level of QE right now.

Rishi Sunak: That is a question for sovereign debt purchasers. The numbers speak for themselves. As Richard Hughes and you said, there has been a very significant amount of purchasing by the Bank of England on the primary market this year. They have outlined the quantum and the pace going forward. Our financing needs are identified in the Red Book. You will be able to see those for the next few years. They are significant and that is why it was the responsible thing to do to make sure that our public finances are returned to a more sustainable position. You are absolutely right that we have to finance the spending that we cannot finance through taxes. Bond markets charge us a price for that. As we have been discussing, that price can change, and that now has a reasonably significant impact on our borrowing costs.

Q279 Mr Baker: I am not trying to catch you out here. I am trying to make the point in the public debate that this is a very serious situation. The *Telegraph* had an article yesterday by Matthew Lynn, referring to the OECD's economic outlook starting to say that some signs of inflation have



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begun to emerge. I just want to turn to an exchange that we had at length with the Bank of England on 20 May. I will not get into too much of it, but at the conclusion of my exchange, the Governor of the Bank said to me, “We have no objective to make sure all gilt auctions succeed. If a gilt auction fails, a gilt auction fails. It is not part of the objective of the Bank of England to make all gilt auctions succeed”.

I know that you would recognise that, but the point I really want to ask you about is that Jan Vlieghe said, “If we were the central bank of the Weimar Republic or Zimbabwe”—his words, not mine—“the mechanical transactions on our balance sheet would be similar to what is actually happening in the UK right now”. The point he was making—I am very clear about this, as was the Bank—was that it is the independence of the Monetary Policy Committee that enables it to conduct monetary policy at the scale that it does with the consequences for the bond market.

I have two questions for you. The first is quite straightforward. As Chancellor and as the person who hands it its mandate, will you commit to maintaining the Bank of England’s independence in pursuing price stability?

Rishi Sunak: Yes. We have already done that. The mandate has been published. You are absolutely right to highlight the importance of independence. I could not agree more.

Q280 **Mr Baker:** We are all agreed. My final point is that the thing that keeps me awake at night is that, if inflation were to get up—I appreciate it is a challenge raising it all at the moment—to , say, only 5% or 6%, the Bank of England has been very clear with us, as have you, that it must, independently, pursue price stability. Even at relatively low levels of inflation in single digits, it would, presumably, be looking at tapering off QE and possibly raising interest rates. Elsewhere, we have talked about the effect that would likely have on the bond markets. What are your reflections on the fiscal consequences for the UK of that scenario? To what extent are you concerned about it?

Rishi Sunak: That brings us right back to the beginning, with the Chair’s question. You have articulated the risks very well, so I am not sure there is much I can add, but you are right to highlight the sensitivity of our fiscal situation to changes in inflation and interest rates. You are right that the Bank has, rightly so, an independent remit to focus on price stability. As interest rates change, that has implications for the public finances.

Mr Baker: Chancellor, thank you very much. You will certainly have my support as you seek to do responsible things with the public finances.

Chair: That brings us to the end of this evidence session. Chancellor, thank you very much indeed for appearing before us and answering our questions this afternoon. Thanks also to Dan for his contribution. There are a wide range of issues that we have discussed today. It is fair to say that there are some areas of agreement and, inevitably, some of quite



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strong disagreement. What we can all agree upon is that these are unprecedented times and certainly some of the most challenging outside of wartime. We do not envy you the hand that you have been dealt, and I think I speak for the whole Committee when I say that, for the sake of our whole country, we hope that you take the right decisions going forward and that you successfully meet the challenges that you face.