HOUSE OF LORDS

Economic Affairs Committee

Corrected oral evidence: With the Chancellor of the Exchequer

Tuesday 2 November 2021

3.05 pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (The Chair); Lord Fox; Baroness Harding of Winscombe; Lord King of Lothbury; Baroness Kramer; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky.

Evidence Session No. 1 Heard in Public Questions 1 - 19

Witnesses

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

Examination of witnesses

Rishi Sunak, Dan York-Smith and Conrad Smewing.

Q1 **The Chair:** Welcome to this session of the Economic Affairs Committee. We are delighted to have the Chancellor, Rishi Sunak. He is joined by Conrad Smewing, who is the director of public spending, and Dan York-Smith, who is responsible for strategy, planning and budget.

Chancellor, I wonder whether I could begin by asking the first question. What consideration did the Treasury give to the possible consequences of an expansionary fiscal policy and loose monetary policy coalescing at a time when inflation is already rising?

Rishi Sunak: Thank you, Lord Forsyth and colleagues, for having us today. It is a great pleasure to be here. With regard to inflation, I have direct control of fiscal policy; monetary policy is the remit of the Bank of England. As we are putting in place both the spending side and the tax side, we are cognisant of ensuring that our fiscal policy, as I mentioned in the Budget, does not create more problems.

While we wanted to deliver on our commitments on public services, which we did, we also made sure that very credibly and clearly you saw a path back on fiscal policy to getting to a more sustainable place. After, as you said, the loose policy of the last 18 months brought about by the crisis, it is right that we return to a more normal level. In particular, the output gap is broadly closing. Although it is difficult to know exactly when, you would not want us to be running a particularly expansionary fiscal policy persistently after that point.

The Chair: Does the Treasury have any contingency plans for rising interest rates that could cause it to cover any losses that the asset purchase facility makes?

Rishi Sunak: It is not a specific contingency so much as a general contingency for risks that will affect the public finances. The best possible protection we have against that is having some fiscal headroom. For the first time in a while, we have set out two fiscal rules, which are a sensible set of guiderails for a responsible fiscal policy. The OBR adjudged that we were meeting those fiscal rules, and meeting them with some degree of headroom. Admittedly there is not as much headroom as some of my predecessors have enjoyed previously, although slightly more than George Osborne had in 2015, but we have still some headroom that provides a buffer against challenges and uncertainties known and unknown. Our best protection is probably that fiscal space.

The Chair: Given that and the concern that a rise in interest rates could lead to heightened debt payments, have you reconsidered any of the proposals to pay zero interest on all or some of the Bank of England's reserves?

Rishi Sunak: That is not a policy that we have actively considered recently. There are many experts around this table who will correct me, but in general no major advanced economy that I am aware of has moved to a policy of doing that at the same time as they have a positive policy rate. Where you have seen tiering on reserve payments is only in those cases—Japan and the ECB to some extent—where there is a negative interest rate policy in place. Where there are positive policy rates, it would act to reduce the transmission of monetary policy. It is not something that we have actively considered.

The Chair: You will have seen the committee’s report on QE, and you gave a short response to it. Given the effect that QE could have on the public finances, why are you unwilling to publish the deed of indemnity?

Rishi Sunak: You have had my written response on this. The key thing that people want to know is already in the public domain, which is that the liability for that sits with the Treasury. You have had evidence from the Bank of England Governor on this specific point.

I would say two further things. First, there is a good amount of transparency and disclosure on both the Bank of England accounts and the Treasury accounts. There is parliamentary scrutiny with notification to the Select Committee and indeed the OBR. There is that degree of transparency and scrutiny of those things. The reason for not publishing it is that it contains some information that has operational sensitivity. As has long been a precedent, in order to protect that, it is not worth publishing, on balance.

The Chair: It was odd, because the Governor said there was no reason why it could not be published. The Permanent Secretary to the Treasury at the time said he could see no reason. They presumably are unaware of this sensitivity.

Rishi Sunak: No, they are aware. There is just a balance in these things. There is a balance between transparency and making sure that we do not compromise the need to execute various things effectively. Whether it is the Bank’s corporate bond purchase programme or the operations of the Debt Management Office, we need to ensure that those operations are not compromised by information contained in the deed of indemnity. As it relates to the cash transfer part of that deed, there is sensitive information in there.

On balance, given that we have a considerable degree of existing transparency around those arrangements and, crucially, the fact that the liability sits with us—that is fully declared in all the accounts—I judged that there was not much added benefit in publishing the exact letter. Indeed, that is in keeping with precedents before my time as well.

Q2 **Lord Fox:** During the Budget, you made a statement that the budget “levels up to a higher-wage, higher-skill, higher-productivity economy”. Yet the IFS calculates that the median earner will have their take-home pay decrease by about 1% and the OBR expects real wages to remain stagnant until 2026. How do those two positions square up?

Rishi Sunak: First, the one thing we have direct control of with regard to wages is the National Living Wage. We accepted the recommendation from the independent Low Pay Commission, which, as you know, is comprised of business groups, economists and trade unions, to increase the National Living Wage next year by 6.6%, taking it to £9.50, which will provide about £1,000 extra for people working full time at the National Living Wage.

Secondly, the significant reduction in the universal credit taper rate ensures that those who are in work on the lowest incomes will see a significant cash benefit. That change is being brought into effect in a matter of weeks in order to provide support for people on a take-home pay basis.

Lastly, the best way to get to that place is to invest in skills. That is my belief. All the economic evidence would point you in that direction. The spending review last week had a cash increase in skills spending over this Parliament of about 42%, from memory, or 26% in real terms. That is based on evidence of where we are putting those skills pounds. We are putting them into things that there is a strong evidence base to suggest will improve people's wages.

To give one example, sadly, many millions of adults in this country lack the numeracy skills that we would expect of a nine year-old. That is a sad thing that we can, I hope, try to address with a new programme we have created called Multiply. The evidence is very clear that the return on those pounds should be very high. An adult in their 30s is twice as likely to be unemployed if they do not have numeracy. The wages that they are losing are about £1,600 a year.

Lord Fox: We will come to skills in another question, but you mentioned the 6.6% increase in the minimum wage. The IFS calculates that, after inflation and the extra tax, that then comes down to 1.2%, which is quite a lot less. Do you agree with the IFS analysis or do you question it?

Rishi Sunak: Everyone will have their own view about every particular family circumstance. What I do know is that it is a gross increase of £1,000. Even after accounting for the impact of the new health and social care levy and personal allowances, you are still £600 better off than you otherwise would have been. Those are significant cash increases. That is not the only way to support people who need help. We created a household support fund a month or two ago worth £500 million to get very targeted support to the most vulnerable families in the country, in order to help them with some of the pressures they are seeing in the costs of things such as energy.

Lord Fox: We all welcomed the increase in the minimum wage, but what sectors will be affected most on the business costs side? Have you done some analysis as to which particular sectors are most likely to be passing that through to their customers, for example?

Rishi Sunak: It directly affects about 2 million people in work. The analysis shows that it has an impact up to about the 50th percentile, from memory, through the wage scale, but Dan will correct me if I am wrong. It is the sectors you know, such as social care and hospitality. It is worth saying that this was a recommendation that came from a consensus group of businesses.

Lord Fox: This was not presented as opposition to it; it is merely to get some illumination.

Rishi Sunak: It is the independent Low Pay Commission that does that analysis to balance the impact on employment with the need to try to continue moving the minimum wage up to two-thirds of median earnings by 2024, subject to economic conditions. They come to a consensus view, and the 6.6% compares to about 5.4% in nominal terms for the five years running up to coronavirus. We have had higher increases in 2016 and similar in 2020. I just put it in that context.

Lord Fox: Finally, you mentioned universal credit. The change in the taper goes some way, but the Resolution Foundation shows that 75% of 4.4 million households on universal credit will still be worse off following the £20 a week cut, even after the measures you have taken. What was it that really tipped the balance from the point of view of the Treasury to say that the national income was sufficient not to keep that £20 uplift?

Rishi Sunak: This is comparing apples to oranges. We put a bunch of interventions in place during coronavirus. We had the furlough programme; we do not have that any more. Comparing the situation now for someone who was furloughed would probably not be appropriate either. The temporary universal credit uplift is part of those interventions, ditto on things such as business rates or support for businesses. That was put in place for a particular time. We had a welfare system that existed before coronavirus that there were no plans to change. We did something temporarily. That has come to an end.

Going forward, we want to ensure that work pays; we want to encourage people into work and for those people in work to be rewarded for that work. It is important to me and it is important to the Government to do that. This is a targeted measure that affects around 2 million of the lowest paid people in the country and for them it will significantly improve both the incentive to work and the rewards from work. It is a good thing to do that will help many people.

Lord Fox: It does leave quite a large number of people essentially £20 a week worse off.

Rishi Sunak: There were many people who were on furlough, not having to work and earning 80%.[1] There were businesses that had to pay no business rates and were receiving cash from the Government. We can compare lots of things that were in place during coronavirus to next year and say, "They were different". Well, of course they were. These were things that we put in place during the pandemic; we are no longer in the pandemic.

[1] There were many people who were on furlough, not having to work and earning 80% of wages for non-worked hours to a cap of £2500.

Now we are moving forward with policy that supports the creation of jobs. Our plan for jobs has been, in the OBR's words, "remarkably successful" in ensuring that far fewer people are out of work than we feared. Job vacancies are at a record high. That bit is working really well. What the cut change to universal credit does is to make sure that work really pays. That is the right economic policy at this time.

The Chair: At this point we should put our hands up and say that the committee's report on the employment consequences of Covid proved to be well short, thankfully, of what actually happened, due to your intervention. The committee congratulates you for that.

Rishi Sunak: That is very kind, Chair. You are not alone on that. Indeed, all of us feared something far worse than has, touch wood, thus far materialised, which is very good news for the country.

Q3 **Lord Livingstone of Parkhead:** I would like to turn to furlough. I would agree with what the Chair said. Putting in furlough has been extremely effective. Congratulations to your team for the pace at which they put furlough in. Now it is finished, I would be interested in your views on what the impact will be on unemployment. Could you drill down a little bit into sectors? We clearly have a strange employment market. Nobody would have predicted some sectoral shortages. Furlough has now ended. I would be interested in the Treasury's view on where we are.

Rishi Sunak: It is fair to say that it has only just ended, so we do not have perfect information. In the run-up to the ending of furlough, we were encouraged by what we are able to track internally, which is the percentage of people over time who were returning to the employment that they had previously. Those numbers remained very high, which was a good sign. We do some informal surveying of employees as well. We asked them, "Are you expecting to return to your old place of work? Have you been given a firm date?" That is anecdotal and not completely statistically representative, but those were all indicative of a pretty positive outcome at the end of furlough.

We still had around 1 million people on furlough by the end, but it is worth bearing in mind that almost almost half of those were on flexi-furlough. They were already at their workplaces and working, so it is really half of those who one might be particularly concerned about. We have also not seen a significant tick-up in redundancy notices, which is another thing that we have been tracking. The levels of redundancy notices in September were far lower than last summer, for example, when we introduced employer contributions into furlough. What you are seeing at the moment are record numbers of job vacancies.

If you look at the ratio of job vacancies to unemployed, which you can match by sector—I do not have it to hand; I do not know whether Dan does—it gives you a sense of where the labour market tightness is. You will have read about that.

Broadly, we have had about 10 months of rising employee numbers and eight months of falling unemployment. We still have not seen the numbers from the end of September, but broadly what I am seeing when I talk to businesses and all the informal work that we do would lead one to be cautiously optimistic that the employment outcome post the end of furlough will be nowhere near as bad as people feared. Thankfully, there is a robust labour market in place to absorb people back in, if they are not able to go back to their places of work.

Dan York-Smith: The sectors are the ones that you would expect: manufacturing, hospitality and administration. Hospitality are exactly the sectors where you would expect the ratio of unemployed people to vacancies to be below the pre-crisis level.

Lord Livingstone of Parkhead: Given how successful the furlough scheme was, would you use it in other circumstances? I hope we do not have another pandemic, but the German model has a furlough scheme of sorts. Would you look at this and say, "Actually, there are other circumstances where some form of furlough could be an effective government response"?

Rishi Sunak: I spent a lot of time looking at the German scheme at the beginning of this. I spent a lot of time talking to Olaf Scholz, who deployed it when he was Labour Minister and is now vice Chancellor. It certainly served as an inspiration not just to us but to others. There are quite a few differences between the German scheme and ours. It is probably more restrictive; there are different eligibility requirements. It is implemented through workers' councils, which just have a place in the German economic landscape that we do not have an equivalent of here. I am not sure you could necessarily assume that it would work in the same way here as it does there.

The key theoretical question that we grappled with over the period of furlough's existence was that this was a particular crisis where you thought there was value in trying to preserve a good amount of the status quo. That is what furlough does, broadly. For the most part, it protects existing jobs. Ordinarily, that would not necessarily be the right response to a typical recession, because there would be a reallocation of labour and capital in the economy that one would broadly think was the better thing for the economy to absorb and recover. Furlough inhibits that.

This was not a typical recession; this was not a typical economic shock. Therefore, arguably, this was the right response, even though it may have inhibited some of that labour reallocation. On balance, it was probably the right thing to do. That is atypical as an economic shock. For a typical economic downturn, it probably would not be the right intervention. Historically, our flexible labour market in the UK has broadly served us well in making sure that large numbers of people can find work and reasonably quickly. That is a good thing. Having high employment is broadly a positive thing. That would be my nervousness about that.

Lord Livingstone of Parkhead: Your view is that it should be put away in the toolbox marked "emergency use only".

Rishi Sunak: Yes. I hope we are not in those circumstances again. As we were just discussing, we need it to finish and then we will have the time, in the fullness of time, to look back and see which bits work and what one might have done differently if one had had more time or better operational ability to design and implement a slightly different policy. Our learning from this will come with the fullness of time.

Lord Livingstone of Parkhead: One of the other major Treasury interventions was in the area of loans of various sizes and varieties, the deferral of VAT and the like. The level of corporate debt does not look that high overall. A bit like unemployment, it has not gone up as much as we thought. Sectorally, do you see any perception of zombie firms? Are there issues with that? What would you do with these loans? You referred to the reallocation of capital and resources in the economy. Is this a problem?

Rishi Sunak: Very counterintuitively, the number of corporate insolvencies last year was lower than the year before, which is a very surprising result and probably has something to do with the fact that we were able to step in fiscally.

Lord Livingstone of Parkhead: The insolvency rules were also eased.

Rishi Sunak: Yes, they were also slightly eased. You are right: if you looked at corporate debt levels coming in to the crisis, they were low by historic standards. They had come down considerably. Whether you look at net debt to equity or any of the various gearing ratios that we saw at the time, they were far lower than they were a decade before and broadly lower than most of our international peers. It was actually quite healthy. That was good. We were in a position where businesses could absorb some extra debt.

There are sectors now where this is higher than in others. The Bank of England probably has the best data on this. Hospitality is probably an area where those levels look higher. What can we do to help and what is the risk of that? The one major thing we can do is to change the payment terms on bounce back loans. Those were over 1.5 million loans that went to small businesses up and down the country of up to £50,000. We created something called "pay as you grow", where companies, at their option, could have one year completely free and then turn that six year loan into 10 years, which reduces the monthly payment by 45%, which is a significant benefit to their cashflow. They can also opt for sixmonth repayment periods or payment holidays et cetera.

The numbers that we are getting from all the banks are showing a much higher positive repayment rate of that portfolio than, again, people feared compared to some of the estimates, which is positive. That is good. The OBR has done some work on scarring and has reduced its scarring estimate from 3% to 2%, based in part on a more positive view of capital shallowing and total factor productivity, saying that broadly we have done a good job of keeping alive the firms that should have stayed alive. The inhibition from the allocative inefficiency has not been a particular drag.

Is there going to be some of that? Of course there is. You would expect that to work through the system, but the OBR's analysis on capital shallowing and total factor productivity being better than we thought is probably a positive sign that we have got more right than wrong.

Q4 **Lord King of Lothbury:** Chancellor, may I ask you about the fiscal policy framework? One of the interesting additions to the framework this year was the extension of the mandate to have public sector net debt falling as a share of GDP at some point. This is very sensible, because if it falls in normal years, you have the room to allow it to rise sharply when something wholly unexpected like a pandemic occurs. Who knows what will happen in the future, but there will be episodes when the Government will want to take advantage of that?

I was struck that it is only in the third year when this falling share of debt to GDP kicks in. I noticed that the OBR report said, "History tells us that Chancellors tend to take advantage, over successive Budgets, of the additional year to meet their fiscal targets by loosening fiscal policy, while planning a sufficiently large fiscal tightening to hit the target in the target year". I wonder what kind of assurance you could give us that this time will be different.

Rishi Sunak: It is a perfectly valid question, Lord King. Your underlying point is absolutely right. In the space of 10 years, we have suffered two supposedly once-in-a-generation events. That should probably make us humble about knowing what is coming down the track next. I broadly agree with either the IFS or the OBR[2]—it was one of them, but probably the OBR—when it commented in one of its previous reports that the best protection against all of that is fiscal space, to your point. That is probably right. It is the best thing I can do.

I can certainly give you my personal assurance that I am very committed to it, as I hope you will have seen from the various speeches and difficult decisions that I have had to make in order to make it a reality over the coming years. The reason for a three-year rolling target rather than a fixed target is just a judgment call. The downside of a fixed target is that it does not necessarily allow you the flexibility to respond to genuine events that you would want to respond to in the short term. As Dan was talking about yesterday in the Treasury Select Committee, if things happen very close to a fixed target, it gives you less time to be able to properly adjust fiscal policy.

The downside, of course, as you said, is that it is less constraining and you could have a situation where it keeps getting pushed out. My general view would be that people could see through that. If the whole point about these fiscal rules is to provide reassurance and confidence for

[2] The OBR said this

externals in our public finances, where a Chancellor or a Government were very transparently doing that, people would look through that and you would not get the benefits that you are trying to achieve by having it.

Slightly more practically, relative to previous times when rules have been set, this time it comes alongside a three-year spending review. Whereas normally there would be a lot more uncertainty about the path of future government spending, in this instance I hope we have set the path of government spending for three years now. Of course, there is some contingency built into those plans, which should be able to absorb some uncertainty and extra bumps that come along, but broadly there should be less volatility around that. The fiscal policy on the tax side is all announced, so I hope it is a credible plan that will get us there. If I start fiddling with it, it will be pretty painfully apparent to everybody what is going on.

Dan YorkSmith: I would point to two other things about this Budget compared to the spring Budget. The margin by which debt falls in 2024-25 is considerably higher. It was falling by £700 million in the spring, and it is a rather more healthy £17.5 billion. The other thing about the fiscal forecast is that the absolute level of debt is considerably lower, around 10% of GDP lower, than in the spring forecast. There has been a significant revision down of the level and an improvement in the trajectory. It is falling more substantially from that lower level.

Lord King of Lothbury: Would I be right in thinking, Chancellor, that your intention next year in the bold type in the section in the report is that it would say, "To have public sector net debt falling by the second year of the rolling forecast period". If it keeps going out to the third year, you will never quite get there.

Rishi Sunak: We also probably do not want to keep changing the rules. As has been pointed to me many times, we have had however many versions of fiscal rules over the past several years, so some consistency would probably be welcome. Even though it is a rolling forecast, my personal view is that the right thing for the country's public finances and the economy is to move on the trajectory that we have set and for that not to keep being pushed out into the future.

If something unexpected popped along and it was the appropriate response for fiscal policy to do something different, that is fair enough. Absent that, it should not be the case that we take advantage of a rolling rule to essentially not have any rule. That would not be right. It would not be responsible and it would undermine the entire point of the fiscal policy I have outlined, which has come with me having to take some difficult decisions on the tax side. I believe those were the right ones, because I want to deliver that fiscal trajectory.

Lord King of Lothbury: For very understandable reasons, this was not the Budget to set out a precise speed at which the ratio should fall. I wonder whether next year you might be tempted to say a little more about how quickly net debt should fall as a share of GDP in a normal year on the central projection in order to give yourself the fiscal headroom to deal with something wholly unexpected. It may take 50 years to come along, but at least we would be in much better shape at that point to cope with it.

Rishi Sunak: That is a fair challenge. Given that at the moment there is still a degree of uncertainty with us, it would probably not have been the right moment to be that precise, but that is certainly something that we could turn to in time. Once all of this is clearly behind us and we know we are on a path forward, people will probably start asking that question. Debt falling by 0.1% a year meets the letter but not the spirit of the commitment. That would be broadly apparent to people, and you would not be building up the fiscal space, the resilience, the buffer that the policy is designed to achieve.

Q5 **Lord Fox:** Looking at the denominator rather than the numerator in a sense, are you happy with growth at the end of the spending review period of 1.3%? That does not sound like growth; it sounds like stagnation. I wondered what your feelings about that are. How might you address that issue?

Rishi Sunak: I would very much welcome and prefer higher growth. I am grappling with the same thing that both my predecessors and contemporaries around the world are grappling with, which is a broad slowdown in underlying growth rates in most advanced economies post the financial crisis. Lots of reasons have been put forward for that. We are not alone in that, but, clearly, when you think about the demands on public spending, before everything else growth of 1.5% is going to make meeting those demands more challenging. So we would like to see that growth rate higher.

My broad view, even if it is not necessarily reflected today in the numbers, is that investment in infrastructure, innovation and skills is the right thing for us to be doing, taking advantage of the extra borrowing capacity that we have created with our fiscal framework to invest in those types of things. My belief is that, over time, that should help drive up our growth rate. That is the right strategy for us to be pursuing. There is a sound economic logic for why those three things, if done properly, should drive up productivity and growth. We will need to see it, and no doubt you will be having me or whoever else is in this chair back to see whether it has worked. That is the strategy that we are pursuing, at least, to try to improve those numbers.

Q6 **Lord Skidelsky:** I would like to follow up on questions asked by Lord King and Lord Fox. How do you expect to balance current spending at the end of the three-year period, in other words to get a balanced budget in normal parlance? Are you relying on OBR forecasts for 6.6% growth over 2022-23? Are the forecasts of a balanced budget dependent, in your view, on those growth rates being achieved?

If not, and if, as you have just indicated, they are challenging, in order to achieve your fiscal targets will you then have to raise taxes additionally to those that have been announced? That is what Chancellors have tended to do. The shocks are always there. There are lots of shocks in the pipeline and headwinds that justify measures that are not apparent today but that people might anticipate. How realistic are your fiscal targets?

Rishi Sunak: For this exact reason we have an independent forecaster now. It is not me managing the numbers to make them add up and look presentable. I assume that you take evidence from the OBR, and you would know that it has a rigorous process. It is the OBR's estimate of the growth that is driving those fiscal aggregates; it comes out of its model. The simple answer to your question is yes. It is dependent on the economic growth that is in the OBR's model, which is 6.6% this year, and then it drops down, as Lord Fox was saying, to slightly lower levels in the outer years.

That said, there is a buffer to meeting the current balance rule. Whereas the buffer to meeting the stock rule that we have probably gives us less headroom than previously, the buffer we have for meeting the flow rule, the current balance rule, is broadly in line with previous Chancellors' buffers. That is averaged at about 0.9% of GDP, which is just over £24 billion in today's money or money in a few years' time.

On the projections, we are there or thereabouts with a historically average buffer against the current balance rule. We probably have a bit more space on that relative to the stock rule. That should, I hope, give you and others comfort that there is some cushion in there to absorb some of those uncertainties and challenges.

Lord Skidelsky: Are you expecting the whole of the gap to be closed by the projected growth rate? How much of it? Normally, it would not entirely depend on that, so I wonder what the proportion of growth and tax increases that you rely on is.

Rishi Sunak: It is hard for me to give you a percentage breakdown, but it is clearly both. As I said, I have had to take some difficult but, I believe, responsible decisions on the tax side in order to deliver this set of public finances that we have been discussing.

I took two of those really two significant decisions in the Budget in the spring. One of them was to freeze personal thresholds for the next four years, which I thought was a progressive way to raise money that also has the effect of broadening the tax base. It was described as progressive and as a sensible way to do it. Because it builds over time, it is also supportive of economic growth in the short term. The second one was to increase the rate of corporation tax, particularly on large companies, from 19% to 25%. That is a historically significant move up, but it would still leave us with the lowest corporate tax rate in the G7 and the fourth or fifth lowest in the G20, depending on whether Turkey's temporary tax is genuinely temporary or not.

It is still an internationally competitive tax rate. Those two measures raise a significant amount of revenue, which is why the public finances in spring looked pretty well improved on the ones before and why the ones now are also in healthier shape, compared to where we were before. I am not assuming that growth is doing all the heavy lifting here. We have taken a couple of quite difficult decisions on the tax side.

Q7 **Lord Monks:** Chancellor, this question is about training and skills. The British training and skills story since 1945 is quite a sad one. It is littered with institutions and initiatives that did not live up to expectations. I remember the industrial training boards, MSC, the Learning and Skills Council, the knowledge economy and industrial strategy. I have no doubt missed some out as well.

No wonder Jesse Norman at one stage acknowledged that the British system was way short of international best practice. What is different this time? What is different with your proposals? What have we learned from the previous experiences?

Rishi Sunak: The first thing we have learned is that, if you look at us top down and benchmark the UK relative to other advanced economies, we do particularly well, both on an outcomes basis and on a funding basis, on the schools side—five to 16, primary and secondary education—and then on the tertiary side, which is universities. The funding there is internationally pretty healthy; the outcomes are very good. We can all celebrate the success of our university system, and our schools have improved considerably over the past decade thanks to some reforms that Michael Gove and others implemented, which have meant that our kids are learning better and the attainment gap is closing. Those bits are performing reasonably well.

Where we have not performed well is in that sub-tertiary education. I do not have the exact stats in my head but, if you look at the percentage of adults with those types of qualifications, it benchmarks lower to other countries; the funding has historically been lower. That is the bit where the interventions that we have put in place will be directed.

To put it in context, let me give you an interesting statistic that I mentioned in the Budget speech. Eighty per cent of our 2030 workforce, the workforce in a decade hence, is already working. There is normally a lot of focus on the flow coming in—schools, et cetera—but most of the stock of workers we will be dealing with in a decade are already at work. We have to have a system that is focused on those people in particular and on making sure that they can retrain, upskill and find new and better paid opportunities. We have spent a lot of time on that.

The other theoretical learning, looking at the evidence, is that classroom-based training is far inferior to training that is provided in conjunction with employers. I have reviewed the evidence and as an institution we have gone through it. Having people sit in the classroom doing some skills classes is not particularly helpful. We need people linked to an actual employment outcome and what the employer needs.

That is why the way we have reformed apprenticeships is important; it is why things like our skills bootcamps are important; it is because they are delivered with hundreds of employers around the country.

The third thing that I would add, inspired a lot by the US experience, is providing sector-specific shorter modular courses. That is something we have not done in this country historically. The evidence from the randomised control trials predominantly in the US but in other places as well shows a pretty strong positive impact on wages and employment outcomes from that type of interventions. That is what our skills bootcamps are modelled on. They are short three-month interventions. They can be for people either out of work or in work and upskilling. They are delivered in conjunction with employers, and tend to be linked to a specific job interview and offer at the end of it.

Those are the types of new things that we are doing. I hope that gives you a sense, at least broadly, of how we have approached the problem.

Lord Monks: Your proposals in the Budget, we understand, will not come in until 2025, which is a long wait in an area where the country desperately needs to raise its game. We also understand that probably 2.5% of the announced increase in expenditure of 3.8% was previously announced in relation to this particular area of national skills.

Are you not guilty of smoke and mirrors in presenting something that, for the moment anyway, is not real, with a delay and perhaps some money that was already earmarked for this area?

Rishi Sunak: Did you mean 3.8% or £3.8 billion?

The Chair: He meant £3.8 billion, I am sure.

Lord Monks: Yes, apologies for that.

Rishi Sunak: There are two 3.8 numbers, actually. The 3.8% represents the real-terms growth rate in overall departmental spending over the Parliament. That is, by historic standards, a reasonably healthy rate of growth for public spending, so although we might have disagreements on how we would split that pie, I think it is fair to say that the pie is large and growing at pretty generous levels.

The second 3.8 is the increase in cash or nominal spending that is going into a broad bucket of skills interventions, if you compare what is going on at the end of the Parliament to the beginning. We are democratically elected to serve a Parliament; it is reasonable for me to be able to say to people, "This is what the situation was when we came in, and by the time we leave we will have increased the amount of spending on skills, broadly defined, by 42% to 45% in cash terms—26% to 28% in real terms, give or take".

As for whether some of that has been announced, of course it has been announced. We are two years into a Parliament. We have had two one-year spending reviews. Almost everything that I announced last week was a function of things that are already in train and new things for the next three years. That is a matter of fact; that is going to be the case.

You will have to help me on the things that are not coming in until 2025. I would be interested to know which bit you were referring to. Many of the things that I have talked about have come in already or are being delivered very quickly. Whether that is the increase in apprenticeship funding or T-levels, which are our new technical qualification to sit alongside A-levels, those are already in place and they will ramp up over the period. The skills bootcamps are already in force. Traineeships are already being delivered. All these things will be scaled up over time. The Multiply programme should be up and running next year.

All those things are for the most part already in place and being expanded over the period. There should not be a delay. Indeed, some of the money is on capital as well. For example, we are in the process of upgrading our entire FE college estate at the moment, with over £1 billion over the period. That work has already started.

Lord Monks: It was the loans and modules that I was particularly interested in.

Rishi Sunak: Let me pick that up in a second.

Conrad Smewing: The overall Department for Education settlement is quite front-loaded. It increases by about £10 billion over the three years of the spending review. Of that, £7 billion is in the first year, so the overall settlement is pretty front-loaded.

Rishi Sunak: I think what you are referring to, then, Lord Monks, is the lifelong learning entitlement reforms. The Secretary of State for Education will reasonably shortly set out the proposals on that score. That is a slightly more complex reform that will take some time. That is about reforming the current student finance system to make it more accessible to people mid-career for more modular types of learning. That is quite a significant change. It will take a little bit of time to implement. A version of that is already delivered through the adult education budget; it is just not very well understood.

The reforms, should there be any—not to pre-empt the Secretary of State—will set out a plan for how to do that and respond to the recommendations that Augar put forward to the Government, before my time, with ideas for how to think about the balance in the student finance system between universities, higher education and other types of learning, to make sure we had a sustainable system that worked differently to cover more types of learning.

The Chair: The committee did a report on higher education funding and very much welcomed these things. I think Lord Monks' point is that the adult skills and lifelong training agenda is based largely on loans and modules that do not come in until 2025. I am sure the Secretary of State for Education would like to do it sooner, but is that not about funding?

Rishi Sunak: He has not made his statement yet, so it would be wrong for me to pre-empt what he is going to say. There are reforms that will take some time to implement. That is only one element of what is happening. All the things that I talked about are not based on loans; they are grants.

A skills bootcamp is probably worth £2,500 to a typical participant on that programme. The unit cost of a traineeship is also over £2,000. Again, that is grant funded by the Government at no cost to the individual. Our apprenticeship incentives to businesses are grant funded to the business, as is the Kickstart programme. The Prime Minister's lifetime skills guarantee is probably worth mentioning in this regard. We have about 10 million adults in this country who do not have a level 3 qualification at all. If you looked at us relative to other countries, that is one of the things that we would look pretty bad at.

We know that will have a beneficial effect on people's employment and earnings. For the first time, there will be a full entitlement to a level 3 qualification at any stage in your life, whereas currently it runs out at 21 or 24, from memory. Again, that is not loan-based; that is grant-based. It is a huge expansion in an entitlement to pick up that qualification. It has the potential to transform many millions of people's lives. The unit cost of delivering that, from memory, is about £3,500.

If you look at them on a unit cost basis to the individual, in all these interventions thousands of pounds of grant are being spent to their benefit. Going right back to the beginning, the best way to help people, create a more productive society and have people have more fulfilling lives is through better paid work. The way to get them there is by providing the support to them to get those skills in order to get better jobs, and to make sure those jobs pay well and that they are rewarded for that.

The Chair: The committee actually made recommendations very much along these lines, so we are very grateful for that.

Q8 **Lord Monks:** A final question. We have seen the Department for Education evaluation of skills bootcamps. They are not delivering the hoped-for benefits, according to the evaluation by that department at the moment. Can they still have a positive effect on the short-term and long-term skills shortages that face this country?

Rishi Sunak: Yes, I do. I was asked about this the other day on "The Andrew Marr Show", which made me go away and read the report. I will find the stuff in a second. From memory—I do not know, Conrad, whether you can find it—that evaluation looked at 68 or 69 people very early on in one of these bootcamps. It was conducted midway through, so it was not an evaluation of what happened at the end. At that point, only about six or eight people were at the point where they had finished. Of those—I do not know whether we have the numbers to hand—four or five had had job interviews and the majority of those people had been offered a job. The ones who had not been were still waiting to hear. There was only one who had been rejected.

I do not think that cherry picking those stats is a fair reflection on the programme. As I cited earlier, the evidence from the US and elsewhere is suggestive of quite a strong effect on both employment and earnings not just in the short term but in the medium term. That is what those skills bootcamps are modelled on. Conrad, do you have those to hand somewhere?

Conrad Smewing: You are right. It was a study on the implementation of the programme, not on the outcomes of the programme. It completed before the programme was finished. It was not focused on those sorts of outcomes, and you need to spend much more time looking at those to get an account of that. Yes, it is a bit misleading to present it like that.

Rishi Sunak: I have found it. I was just about almost right. It was 69 people who were surveyed. Only six had got to the interview stage of the process and, of the six, three were offered a job from that interview, one was not, the remaining two were waiting to hear the outcome. On that tiny sample, it was very positive. You arguably had a 75% success rate on the ones we had the data for. As I said, I would say that the US data is probably the most comprehensive on sectoral training programmes like this. There was a short and persistent beneficial effect on both employment and earnings.

The Chair: Presumably, you will be inviting the Department for Education to do a proper survey on the results at some stage.

Rishi Sunak: Absolutely. Conrad is relentless in ensuring that not just the Department for Education but all the departments that are benefiting from what is a historically high level of investment in public services deliver strong value for money for the taxpayer. That is of course the right thing to do. We should only be implementing policies that we have a sound evidence base for and then monitoring them to make sure that they are indeed effective.

I would point out—we were discussing this a bit yesterday—that it is not always the easiest thing in public policy to design randomised control trials when you have universal policy, because it means depriving people of something that you think is beneficial. There is an obvious challenge in doing it, but we are trying to do a much better job and encourage departments to put aside money to do this. For example, in the Multiply programme, which I talked about, we have very specifically made sure that the department will keep some of that £560 million over the three years specifically to do RCTs.

Conrad Smewing: In some programmes it is possible to do RCTs. Help to Grow is considering an experimental approach as well. It has been a central feature of the spending review both to look at the robustness of the evidence for the proposals and bids that we have got in, and to build this into the conditions of the settlement. Where a programme, because it is a newer programme, does not have robust evidence, we have insisted that the department work with the Evaluation Task Force in the Cabinet Office to design, as well as can be designed, given the public policy context, a robust evaluation of the effectiveness of that. Ideally, an RCT is the gold standard, but there are other ways of doing it.

Rishi Sunak: It also requires Ministers, whether it is me or others, to be able to stand up and say, "Do you know what? We tried this. It was based on sound evidence. We've tried it, and for whatever reason it's not working, so we're going to stop it". That needs to be a bit more normal. Otherwise, we persist with all these programmes because everyone is too afraid to say, "We tried that, but we're going to stop it because it's not working".

The Chair: Yes, or just change the name.

Q9 **Lord Fox:** You mentioned apprenticeships and their importance, and we would all agree. If you talk to the manufacturing sector, it remains really frustrated with the way the apprentice levy works and the inflexibility. Without rehearsing the solution, is the levy and how it operates still open for modification? How might the manufacturing industries influence something that benefits their supply chains, which is their objective?

Rishi Sunak: We are in the process of implementing some changes, which I announced in November last year. We are doing a couple of things in response to that concern, which I think have been very warmly welcomed. The first is to be able to front-load more of the training. That was something that we heard consistently: the ability to front-load the training rather than space it out. DfE is implementing that as we speak, I would hope.

The second thing, which is exactly to your point, was making it easier for businesses to invest their unspent levy funds down their supply chain. That is not only now much easier and more possible than it was before. DfE has created—by this point it should be up and running; I hope it is—an online SME matching function, which will really streamline the process of doing that. Those are two of the more significant things that we were asked to do, and the spending review last November delivered those reforms. I have to confess that I am not exactly sure what stage of the implementation we are in, because it is a DfE responsibility, but we are probably well on the way.

The third thing is the creative industries. This not directly related to manufacturing, but it is important. You used the word "flexibility". I believe that the creative industries are an enormous economic strength for the UK. They are one of our genuinely world-class industries. The traditional apprenticeship model relies on a fixed employer-apprentice relationship. The creative industries typically have people jumping from job to job and from business to business, so the traditional apprenticeship model does not work brilliantly for them.

Similarly, in November we announced several million pounds to work with the Creative Industries Council and others, which came to me with this challenge to pilot some flexi-apprenticeships in the creative industries to try to bring in an apprenticeship model that took into account the fact that someone would jump around a bit early in their career. Hopefully we can deliver on one of those as well.

Q10 **Lord Skidelsky:** This is somewhat related to the discussion we have been having arising from Lord Monks' question. What is your assessment of the Kickstart programme so far? The question is motivated by the fact that the initial evaluations show that most sectors are struggling to fill Kickstart placements. The figures I have seen suggest that less than two-fifths of Kickstart jobs created have been filled. In other words, that is 76,000 of about 200,000 available. The number of 16 to 24 year-olds out of work in the north-east is a third higher than it was before the pandemic. That is matched by employers' complaints of inflexibility, complexity, bureaucracy and the treacle nature of the process.

If you believe in the aims of Kickstart, I wonder whether you have any plans to help speed up the recruiting process and incentivise employers to use the scheme. Have you given any consideration to government making Kickstart programmes available to young people who have not been on universal credit?

Rishi Sunak: My view of this programme and its effectiveness would be probably much more positive than that. The easiest thing to benchmark it to is something called the Future Jobs Fund, which was put in place in the aftermath of the financial crisis by the previous Government. It did something similar; it directly subsidised the creation of job opportunities for young people at risk of unemployment. So there is an easy benchmark for us to compare to.

On a couple of metrics, how would I say that you should look at it? From announcement to the first person starting, the Future Jobs Fund took just over six months; from announcement to the first person starting the job, the Kickstart programme took just four months. It got up and running much more quickly.

If you look at where we are now, the Future Jobs Fund by this point had created about 50,000 jobs whereas the Kickstart programme by this week or next week, probably this week, should hit about 100,000, so it has proceeded at a much more rapid rate. If you look at the time taken over the life of the fund, the Future Jobs Fund took about 18 months to do 100,000; we will have done 100,000 in 12 months. It has been much quicker at getting people into work compared to the only obvious comp that we have.

The other thing that is better about this—this is about learning from previous evaluations—is that DWP did a very good evaluation of the Future Jobs Fund, from which we were able to learn when we designed Kickstart so it could improve upon it. One of the criticisms and drawbacks of the Future Jobs Fund was that it was almost exclusively reliant on third sector and public sector employers and, as a result, had relatively few—481—of those people engaged on the scheme. The Kickstart scheme is much more focused on private businesses and, indeed, small private businesses, so the number of employers involved in the scheme is a multiple of that 480odd, which is very positive.

Now, we will have to wait to do a full evaluation, as there was of the Future Jobs Fund. The evaluation of the Future Jobs Fund was positive about it, but it suggested ways that it could be improved. We have tried to incorporate those in the design of the Kickstart scheme. Thanks to the fantastic efforts of my colleague Thérèse Coffey, we have implemented it at a far faster pace, which is great.

I genuinely believe it is transforming people’s lives. It is right that it is targeted on those who most need our help, so it is right that it is primarily focused on those people. It is not necessarily just those on universal credit, but it is the young people who are most at risk of negative labour market outcomes. So it is a little broader than that. It will be down to the discretion of individual job coaches in each area, but it has performed well. I am grateful to the team at DWP for implementing it so swiftly and effectively. From all the personal engagement I have had with Kickstarters across the country, anecdotally it genuinely seems that it is making a huge difference to young people’s lives.

Lord Skidelsky: Yet it is true, is it not, that the unemployment rate among 16 to 24 year-olds is much higher than average unemployment?

Rishi Sunak: That has historically been the case.

Lord Skidelsky: Is it not at the moment?

Rishi Sunak: I do not know what the delta is today relative to previously, so you will have to forgive me. We were talking earlier about the impact of coronavirus on the labour market. One thing that we were most acutely worried about was the impact on young people, because they disproportionately work in the sectors that were most affected, for example hospitality.

That is part of the reason why we created Kickstart. It is an expensive programme. This is a direct taxpayer subsidy of several thousand pounds to create these high-quality jobs. It is not cheap, but I thought that was the right thing to do, given that we feared what could have been a disastrous impact on young people’s prospects of getting a job or staying in a job.

Actually, all the numbers since then have demonstrated that it was young people who were coming off furlough at probably the most rapid rate. The big increase in employment, I think, over the last several months has been strongest in those young groups. There were probably about 500,000 more people under the age of 24 in employment today than there were several months ago. Is that about right, Dan?

Dan York-Smith: Yes, half a million more in September of this year than there were in November of last year. It is under-25s, though. There has been a strong recovery for youth employment.

Lord Skidelsky: I was also surprised at the figures you gave of a relatively low take-up by the public sector, compared to Kickstart and the increase in private sector take-up. One alternative, which has been canvassed in the United States, is a young person's job guarantee, based on subsidies to local authorities. That has also been implemented in various countries. It would, in effect, be a job guarantee scheme. I wonder whether any thought has been given to that as an indicator of a government commitment.

Rishi Sunak: There might be a philosophical point of view.

Lord Skidelsky: It has been practically done in some places, but only philosophically in the Treasury.

Rishi Sunak: Ultimately, it is probably my decision. Creating jobs that there is no chance of sustaining is probably not a particularly brilliant use of the money. There is still value to the experience as it lasts.

Lord Skidelsky: What about if training is attached?

Rishi Sunak: We do that. What is the right thing to do? Kickstart being focused more on private sector businesses provides a much richer set of opportunities for young people. Everywhere I have been, it is industries you would not have at all found in the Future Jobs Fund. It gives a much richer, broader set of career experiences.

My hope is that it will mean it is more likely to translate into employment outcomes at the end of the programme. It is too early to tell. We will end up doing the evaluation. No doubt you will have me or Thérèse back at some future committee and we can discuss it. My hope is that, by doing more private sector involvement, you have stronger employment outcomes, because it is more likely that those are real jobs.

The Prime Minister has a lifetime skills guarantee. Where we can provide the guarantee is not necessarily on the job, but on giving people the opportunities to train, retrain and get the skills they need. That is what the Prime Minister's lifetime skills guarantee is about. It is saying to any adult who does not have a level 3 qualification, "We've got your back. That is £3,000 that we will invest in you to help you get that level 3 qualification".

It is about the skills bootcamp that also costs us £3,000, or £2,800[3], in partnership with an employer, which will hopefully lead to you getting a job, because it will come with a job interview at the end. It is about the apprenticeship funding that we are providing, where 95% of the training

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[3] It is about the skills bootcamp that also costs us around £3,000per person, in partnership with an employer, which will hopefully lead to you getting a job, because it will come with a job interview at the end.

costs for a small business are met by the Government. Indeed, at the moment, they are being directly subsidised to take on an apprentice as well.

We can do a lot to provide skills and opportunities for people, ideally in conjunction with employers. I am not so sure that we can necessarily guarantee jobs for all, but again that might be a philosophical point. We should be able to guarantee opportunity for all, and I think that is what our skills interventions are doing.

Lord Skidelsky: You are relying on private sector take-up.

Rishi Sunak: Thus far, as all the stats I gave you would demonstrate, it has been much more successful, much quicker, in getting people into employment opportunities, than the only predecessor comparison scheme that we have had. On that basis, it has been better to have done that. It is a broader range of people who can participate in the programme, which is good. I have been meeting Kickstarters who are in digital gaming, technology, cyber and all sorts of other things. Those jobs just would not exist in the public sector.

The Chair: The committee was under the impression that access to Kickstart was dependent on being on universal credit. Can you confirm that there is discretion?

Rishi Sunak: The actual policy implementation on the ground is the responsibility of DWP. I cannot remember the exact wording of the guidance. It is predominantly focused for people on universal credit.

The Chair: It was a recommendation from the committee that there should be some flexibility on that.

Rishi Sunak: Forgive me if this is wrong, but my recollection is that there is probably, at least I thought, a sentence or two somewhere in there that ultimately gave some discretion to job coaches.

The Chair: It would be great to have your recollection confirmed.

Rishi Sunak: We will clarify that. Broadly, though, I would be on the side of saying that we should target this intervention at those who most need our help, and that is a great proxy for those who most need our help. Even if it is only that, I would think that is perfectly defensible.

The Chair: That was certainly the committee's view. Lord Livingston, you wanted to follow up on this.

Q11 **Lord Livingston of Parkhead:** There is great support in the committee for that as a principle and I think it is the right idea. Going back to operation, I have to say I am struggling with your description of how it is actually operating in real life. I am looking at an article here, with a lovely picture of you in it, talking about Kickstart and saying "clumsy, complex and slow". That was from employers.

I do not believe all journalists, so I did some research myself. One of the employers I spoke to put it very well. They said that it is very manually intensive because there is no single system. You have to link to all the jobcentres. They said that it was fraught with issues. They saw a significantly higher no-show level at interview or on the first day of employment. Unfortunately, after trying it the support fell away and the operations team said, "We can't deal with this any longer". I have heard that in quite a few places.

Certainly, it is the right solution. The DWP did a great job managing all the changes in UC, but at times, certainly in the evidence to us, some of its operations may not recognise some of the flaws on the ground. So a challenger question: does it really work in real life?

Rishi Sunak: Is it perfect? I am sure it is not. It is a massive government scheme, delivered at pace and at scale. I am sure it is not completely flawless and I have read those reports too. At the beginning, we were very open about some of the challenges and fixing them. The main challenge we had at the beginning is that it was tough for smaller businesses to access the scheme. Then DWP, together with us, made some changes to that to make it far easier for smaller businesses to access the scheme. That was a major blockage, which we fixed early on.

We actually then funded aggregators, whether it is local councils, local chambers of commerce or the FSB, and partnered with all those organisations to help gather together bids from individuals. At the beginning, there was a minimum idea that you had to do 30 jobs, which obviously was not going to work for small businesses. The way for small companies to do that was too cumbersome. Hands up, totally that was the case, but we broadly fixed that with a new process. Is it perfect? I am not sure.

I am very happy to take more feedback if there are things that we can improve. I will definitely take those away and discuss them with Thérèse. All I would say is that, compared to the only other version of this that has ever been tried in this country, it has done a better and faster job. Notwithstanding some of the challenges, it has done better than the only other time we have done it, so that probably counts in its favour. Can we improve it? I am sure we can. If there are specific things we can do, I will very happily take them away and see whether we can make it work even better.

The Chair: Perhaps we could follow up on that with a letter.

Q12 **Baroness Harding of Winscombe:** I should probably start by declaring my interest as deputy chair on the Court of Directors of the Bank of England and, with an abundance of caution, given the amount of money going to the NHS, the fact that I have recently stepped down as chair of NHS Improvement. It is important to put that on the record.

You have talked a couple of times today about the importance of incentivising people to work, making sure that work pays. Have you done any assessments of how investment in the UK's social infrastructure, particularly for families, could be aligned with the Government's levelling-up agenda?

Rishi Sunak: When you talk about the social infrastructure, I want to make sure that we are talking about the same thing. When we hear "social infrastructure" in the Treasury, we tend to think about the capital investment, the capital budget, that is going to schools, hospitals, prisons et cetera. My sense is that you are probably not talking about that and talking about it a slightly broader social capital sense, but I wanted to check, so we can make sure we answer properly.

Baroness Harding of Winscombe: Thank you for the clarification. I am indeed talking about something different. I am thinking about the support for families and for parents coming into work, specifically childcare provision, and the very welcome funding in the Budget for the rollout of family hubs. I want to understand how you join the dots between that and the levelling-up agenda.

Rishi Sunak: I was really pleased that we could do that, and you will obviously be familiar with the work of colleagues of mine like Andrea Leadsom. Indeed, the Royal Foundation has done a lot of work in this area as well, which is focusing on the importance of the first 1,001 days of a child's life. That is a difficult time for young families, and it is very clear that intervention at that moment is the nice and right thing to do, but it pays dividends, because it is a very effective use of a pound of intervention.

In the spending review, we put in place a set of things targeted on that area—on children and young families. First, we are increasing the amount that goes to childcare providers by about £170 million a year by the end of the spending review period, which is quite a significant uplift. The second is previously announced but fleshed out: £150 million to upskill and train the entire early years workforce. That has been a big ask and it is part of our recovery funding. That was previously announced, but we explained what we were going to do with that.

We have invested an additional £200 million over the SR period in something that used to be called the troubled families programme. It is now, rightly, called the supporting families programme and is based on an evaluation that I conducted when, as Local Government Minister, I was responsible for that programme, which we designed with the Treasury to make sure that that intervention was effective. It was, so we put more money into it. That helps a few hundred thousand families dealing with a complex set of issues, through a key worker model. It does it across the country, so it benefits people wherever they are, and it has been shown to have a beneficial impact on employment. That is one of the positive metrics that we looked at: participation in the labour force.

The last thing was the £300 million investment in rolling out a new Start4Life offer, which includes family hubs, parenting classes, perinatal mental health support at those family hubs and a digital red book, which you will be very familiar with. Bringing all that together, recommendations from Andrea Leadsom, the Early Intervention

Foundation and the Royal Foundation all suggested that those were the types of things that we should be doing that would make a big difference to people at that stage, so that is where we focused it.

In terms of the levelling-up side of it, all those interventions are essentially national interventions. We will roll them out. We will get to about half of local authorities over the course of this Parliament. We still have to decide how we do that. As you could expect, levelling up will no doubt be a part of figuring out where we go with those interventions first.

Baroness Harding of Winscombe: Can I follow up a bit on the timing of that rollout? This morning, I think DfE published an application for access to funding for the rollout of family hubs, but it was only for £12 million, for up to 12 local authorities, and a decision will be forthcoming—I am sorry; this is quite detailed—by the end of next March. There are 152-odd upper tier local authorities. At that rate, we are not going to succeed in meeting the levelling-up aspiration.

Rishi Sunak: I do not 100% know. If you will forgive me, because it is not my direct implementation policy area, I think that might be referring to a separate pilot project as part of something called the shared outcomes fund. Conrad will chip in if it is.

More broadly, the funding we have put in place through this spending review, which does not start properly until next spring and then goes for three years, is sufficient to roll out the full Start4Life offer to about half of all local authorities over this Parliament. That is what that funding is for. I doubt that between this week and last week DfE has moved that quickly on that. That would be amazing, so I think that probably refers to something else.

Conrad Smewing: You mentioned the number of 12 local authorities. I think that is the shared outcomes fund pilot coming through, so the main money will come after that.

Rishi Sunak: We all probably share your desire to move on with this as quickly as we can, because we know it will make a difference.

Baroness Harding of Winscombe: What lessons have the Government learned from previous policy interventions in this space? I am thinking particularly of Sure Start.

Rishi Sunak: The family hubs model is different from Sure Start in the range of services that it brings to bear and the age range that it covers. Those are probably some of the bigger differences. What I can speak most about is the supporting families programme, which is something that I had responsibility for as a junior Minister at MHCLG. Seeing that programme work in action was one of the best parts of my job, actually.

The thing that made the most difference was the key worker or case worker who was assigned to a family and looked at the problems holistically. It was because we had one person who built this strong relationship of trust and understanding with the family and could look across the board: “I can see there is this issue, this issue and this issue. We will try to solve those things together”. They could then bring to bear all these disparate services that government provides, through this case worker, to that family. That was the bit of the model that really made a difference. If you heard these families describe the relationship with the caseworker, it was quite inspiring. That was probably one of the things that helped.

The other thing that the evaluation showed is the confusion that exists among people who are already grappling with whatever difficulty—with mental health, a new baby and all the rest of it—to try to figure out which bit of government, local or national, does which thing. “Do I even know about it?” The idea that some of those things can be brought together in one place would enormously help people at what is otherwise quite a challenging time.

Q13 **Baroness Kramer:** On net zero, can I ask you the most obvious question? How does cutting taxes on domestic flights coexist with the Government’s commitment to achieving net zero by 2050?

Rishi Sunak: It is probably right, if you are going to look at the changes to APD, to look not just at the one change but at both changes. On APD, we not only cut the rate of domestic APD for flights within the United Kingdom, returning it to the similar situation that we had before we were forced to remove the return leg exemption and benefit travel around the union; we also created a brand new band for those travelling the furthest. There is a new ultra-long-haul band, which will have a higher rate of APD.

It is quite difficult to estimate those two things perfectly, but, from our analysis, the impact is probably at worst neutral and at best slightly good for reducing carbon emissions. I think the IFS independently has said that it believes that all the changes we have made will reduce emissions from that sector.

There are a couple of other things that we do with regard to aviation. First, aviation is already covered by the emissions trading scheme. It is already part of that and there is obviously a path to do more on that over time. Secondly, the week before we had the net-zero strategy. Included in that was £180 million of investment to subsidise the creation of sustainable aviation fuel plants in the UK.

Ultimately, I do not think that people will not travel by aeroplane in years to come. We just need to find a way to make that travel more carbon friendly. That will be through the creation of sustainable air fuels, so that is what else we are doing.

Baroness Kramer: That is a very revenue answer. You could have increased the taxes on long-distance flights, particularly the most-distance flights as you say, and kept that APD on domestic flights. That is the one area where, perhaps with the exception of Northern Ireland, there are alternatives—for example, our rail network, which is running under capacity. I just do not see how that can be justified.

The Chair: It is not just Northern Ireland. There is Shetland and the Western Isles in Scotland.

Baroness Kramer: Somebody said that the easiest way to get to the Shetlands is actually from the continent via Oslo. The point I am making is that you did not have to take one off in order to do the other. Given this very powerful commitment to get to net zero by 2050, I am just trying to understand how that works.

Rishi Sunak: There is a balance of things that go into any decision. It is probably worth bearing in mind that, in our transition to net zero, emissions from aviation account for around 8% of our overall emissions. If you look at the percentage of those emissions that come from domestic aviation, it is about 4% of that—not half of that, but 4% of the 8%. In our journey to net zero, and given that these changes are largely neutral, do I think they will be determinative one way or the other? No, I do not. The net-zero strategy that the Prime Minister published a week before the Budget is far more relevant. I think the Climate Change Committee described that as ambitious and comprehensive.

Dan York-Smith: It was called an ambitious and credible path to UK decarbonisation.

Rishi Sunak: It was also backed up with £30 billion of investment to tackle decarbonisation across all parts of our economy. That is a thing that shows that we are serious about this and putting significant funding behind it.

Q14 **Baroness Kramer:** That leads me beautifully into my next question. How much investment and on what is realistically needed, almost immediately, in order to make that transition to achieve the Government's net-zero commitment? I was trying to look at some of the international numbers, for example. I am very interested in electric vehicles. There is £620 million over three years to encourage people to move to EVs, along with encouragement for walking and cycling. In Germany, over the equivalent period, there is €5.5 billion for EV infrastructure charging alone. I wanted to understand from you the scale that we need to see immediately if we are going to get there and to ask why, in so many areas, the announcements seem to be quite modest so far.

Rishi Sunak: I do not believe they are modest. I think £30 billion is a very significant amount of money deployed. When you talk about the EV money, that comes on top of almost £2 billion that was previously announced already for the electrification of the vehicle fleet—the subsidies to consumers but also subsidising the rollout of the charging network. Additional to that is the money that we are separately partnering with industry on to create gigafactories. That is just what is going on in the electric vehicle space. I think £30 billion represents a lot.

I would be very careful with these comparisons to other countries. The last time people made them with me I looked at them. When Germany made its big announcement about all these things, no actual multiyear budget was put out in the way ours are—formal budgets that you can find in a document which will happen. It also had included in its very large numbers things like subsidies for renewable energy through electricity bills, which rather flattered its numbers. If we did that it would be worth £40 billion-odd. That was obviously not included in our numbers.

The only thing I would say on the Germany comparison, if we are going to use it, is that I think it is planning to phase out coal a good 13 years—over a decade—later than we are. Every country will get there in a slightly different way. They will do a slightly different set of things. I feel very confident in the plan the Prime Minister set out in the net-zero strategy. It is backed by £30 billion of investment, as I said, which is quite significant.

Conrad Smewing: Noting some of the difficulties of comparing figures here, there is quite a useful box in the OBR report that compares the spending in the Budget and the spending review with its central spending variant of its early action scenario. That says that the net-zero strategy is broadly in line with that. In terms of the amount of money being spent, that £30 billion rises by £8 billion to £10 billion by 2024-25. The OBR's estimate of its central spending scenario is in line with that and then goes up another £5 billion or so by 2030. The investment in the spending review is pretty consistent with what external commentators are suggesting is an ambitious package.

Baroness Kramer: Related to that, obviously a big spend is required from business. I think the net-zero strategy identified something such as £90 billion. Everything that I hear from businesses, and I am sure you have seen this in CBI surveys and elsewhere, is that if we do not have a fiscal road map to get us to net zero, the uncertainty means that we will not be investing at the rate we could and should.

I thought that that was going to be in the net-zero strategy. It was not. Then, naively, I thought it would be in the Budget and it was not. Is there a reason we do not have a fiscal strategy, laying out what the incentives and penalties would be—something long term that business can rely on for long-term investment?

Rishi Sunak: It already exists. You are presumably talking about carbon pricing.

Baroness Kramer: That would be one important element of it.

Rishi Sunak: There is a mix. Businesses want regulation that they know they can work towards and then a carbon price. We already have a carbon price that covers a good chunk of our emissions through the emissions trading scheme. The Prime Minister has committed previously, in both the 10-point plan last year and the net-zero strategy, to that being expanded over time. That will happen down the line.

On top of that, on the regulatory side, we have provided regulatory guidance for businesses, with the phase-out of things like ICE vehicles. That helps people as well. We are consulting on new standards for homes and other things. There is a good road map for business there. The other thing that business talks to me about is greening the financial system. I will be talking a lot about that tomorrow at COP, when I leave you and jump on the train to go to Glasgow.

There are different ways in which we can help business with that. One is the creation of the UK Infrastructure Bank, which again we have got up and running in record time. We have attracted fantastic leadership to that organisation. That institution is there to partner with business to help fill the financing gap that might exist in particular nascent technologies. We have capitalised it with £12 billion. One expects it could leverage in total investment of about £40 billion, but let us see. It made its first investment in an offshore wind project in Teesside just last week.

We can green the overall financial system with things that are boring but important, such as disclosures, which I do at a global level through the G7. We have now made those mandatory across the economy. There are things like green disclosures, building out a sovereign green curve, which we are now also doing, and making sure that the UK is a green finance hub. An independent body, just 10 days ago, said that this was the best place in the world for green finance.

Those are all the types of things that are really helpful to business, because it means they can raise the capital they need to make the transition. I am committed to making sure that the UK remains a great place to do green finance.

Baroness Kramer: What about something such as a carbon tax, which could be a substitute for existing tax? This would reshape the tax system to drive to net zero. I do not think we have yet seen that.

Rishi Sunak: We have an emissions trading scheme, rather than a carbon tax. Ultimately, those are two different forms of carbon pricing. We can have a long economic debate. If Dieter Helm was here, he would tell you that we should have a carbon price and someone else would tell you, "It's a carbon tax". Someone else would think that we should do an ETS. One is managing price, one is managing quantity. There are pros and cons of either system, but we have an ETS system. Obviously we had one as part of the EU. We have created an ETS system domestically, with a stated ambition over time to expand the coverage of that ETS system.

Baroness Kramer: Would you support the Bank, or the PRA in effect, in putting in place capital requirements to discourage investment in fossil fuel, on the ground of stranded assets and others? It was opposed by Treasury last time.

Rishi Sunak: It would not be appropriate for me to comment on the PRA's remit, beyond the remit that I set it.

Q15 **The Chair:** Do you worry about the concept of net zero? For example, at the COP conference, I believe today, they have reached an agreement to stop cutting down trees because of the obvious environmental benefits. Yet, if you take what is happening with biomass boilers or the Drax power station, for example, which I think provides about 6% of our electricity, we are actually providing large subsidies for people to burn wood pellets, which are based on cutting down trees across the Atlantic and bringing them here using diesel-powered ships. For an ordinary lad like me, I find it quite difficult to understand how that is saving the planet.

Rishi Sunak: It is obviously not my direct policy responsibility. I am not entirely sure what subsidies are in place for that very particular form of energy.

The Chair: We provide support for people who put in biomass boilers, which are based on cutting down trees, producing wood pellets and then burning them.

Rishi Sunak: I assume the Energy Secretary would be directly responsible for it. I am assuming that, if he was here, he would probably have a good explanation for why that is.

Q16 **The Chair:** I thought that, as Chancellor, you might see an opportunity to make a saving.

Can I ask you about social care? There is an immediate problem with social care, as you know. How will the Government guarantee that the social care sector will receive a proportion of the money raised through the national insurance tax rise? The experience of the last significant additional money that was provided to the health service was £20 billion, which is actually about the total spending on social care in the country. None of that seemed to make its way through to social care. It disappeared within the National Health Service. There are anxieties that the immediate demand is not going to be met, and that in three years' time the money will have been spent. Are you concerned about that?

Rishi Sunak: The Health Secretary, who is responsible for the specific allocations, set out that of the £5.5 billion or so from the levy over the next three years that was going to go to social care in aggregate—the overall amount going to social care—about £3.5 billion, from memory, was going to go directly to local authorities to help them strengthen the system and deliver the reforms. What was being kept centrally was going to do things like investing in the workforce on behalf of all local authorities, which will be very positive for them. That is that.

A plan has been set out where the NHS needs money up front because of the elective backlog. As Baroness Harding will know, there is a limit to how much the NHS can run above normal capacity, so that has a natural time limit to it. Then obviously the social care reforms come in over time and the costs for those builds, so you will see the social care system absorb more of the funds from the levy over time than it does at the start, naturally.

The other thing I would point to is last week's spending review, where we announced £1.6 billion a year of additional cash grant for local government. The details of that will be set out in the local government finance settlement, but, historically, when we have done these grants, they are predominantly used for social care pressures. Conrad's team and I did quite a lot of work with the department for local government and spoke to a lot of people in local government to understand the pressures they are facing. We wanted to make sure that there was adequate cash support in place to help them cope with the demographic challenges, as well as the funding they are receiving from the levy to deliver the reforms. Actually, I think that the settlement last week was very warmly received by those in local government who think that it provides them with the funds that they need.

Q17 **Baroness Harding of Winscombe:** I have a follow-up question. Clearly, one of the key elements for social care is the workforce, as it is in the broader health and social care system. As I understand it, at least according to the *Health Service Journal* today, the budget for Health Education England is yet to be set but was not set as part of the spending review and Budget. I wondered when that was going to be set, not just for the three-year spending review period but for next year on its own.

Rishi Sunak: That is slightly puzzling to me. I am trying to think. The overall Department of Health and Social Care budget has been set, and part of that is HEE. We have record numbers of doctors in training at the moment. That has been provided for as part of the settlement.

Conrad Smewing: That is right. We have set the overall settlement for DHSC and then in due course it will set out the split.

Rishi Sunak: It will divvy it up. We had these conversations. We roughly know what the pressures are in HEE. They will be the ones that then do the final allocation.

You are absolutely right on the social care workforce, which is why about £500 million over the next few years, which is probably the largest investment in the workforce that we have ever seen, will go into providing hopefully a much more rewarding career path for people in that sector—a sense of progression, clear qualifications, upskilling, training, all the things people have been asking for. That £500 million of investment will make a really good start on delivering that, which will improve retention and recruitment in the sector.

The Chair: That is certainly welcome.

Q18 **Lord Fox:** I think the fear is that the money has not been ring-fenced. Once it gets into the system, it gets used in other ways, which are important to the organisation, but it means that the training loses out. There is a real basis for that fear, from what I understand from people writing to me. It is something that perhaps you could take away and have a look at.

Rishi Sunak: I am happy to do that. We have the Department of Health and Social Care. It looks across both things and I would expect it to make the right decisions. It is very cognisant. You have heard the Health Secretary say that the NHS is receiving considerable sums. It is important that we get value for that in the first instance, but we also want to make sure social care is well funded.

Lord Fox: This is about the training budget within the NHS not being ringfenced.

Rishi Sunak: I will take that away and mention it to the Health Secretary. Baroness Harding will probably know better than I whether we have the powers, as of today, to do that kind of ring-fencing. There is a Bill that is being progressed through Parliament for all that.

The Chair: I have a final question on social care. It is a bit like *Billy Bunter's Postal Order*. When can we expect to see the White Paper on social care?

Rishi Sunak: I do not know what the appropriate government line is. Forgive me. I do not know whether it is shortly, soon or a more definitive date, but whatever the Health Secretary has said. I would have to defer to him.

The Chair: You are not holding it up.

Rishi Sunak: No, not that I am aware of. It is certainly not sitting on my desk. The best I can say is "in due course".

Q19 **Lord Fox:** Our current inquiry is into central bank digital currencies, so it would be remiss of us not to take the chance to get some input into our inquiry at an early stage. The question we are grappling with, and it would be really good to get your take on this, is what problem a central bank digital currency can solve. Why should we have one?

Rishi Sunak: I have been following your inquiry and I look forward to seeing the report when you are done. We are not approaching this question thinking that there is a problem that needs solving. It is just looking at a new technology, as we should with all new technologies. Does it provide opportunities and benefits to the country that we should be exploiting? Does it also introduce risks that we should be cognisant of and therefore either manage or take protection against?

That is probably the first thing I would say. We approach it with an open mind. No decision has been made. We are in the process of engaging with the Bank of England jointly in exploring the use cases for a central bank digital currency—the positives and the drawbacks.

Through the G7, where I had this conversation, as you could imagine, with my Finance Minister colleagues, one of my priorities for this year was for us to publish, as a group, a set of shared principles that would govern potential central bank digital currency. We published that a couple of weeks ago when we were in Washington for the IMF meetings. It has been welcomed, because no one has done that before. It sets out a set of principles such that, if one was going to look at this, it would have to satisfy these types of requirements. It is a helpful starting point.

We are not alone in looking at this. Something like 85% of central banks are doing exploratory work on central bank digital currencies. Some are more advanced than others, whether it is, say, Sweden or China.

Then there is also the related but different issue of stablecoins, which we confronted last year or the year before with Libra, which then became Diem. That forced all of us to think, "Hang on, what do we think about a global stablecoin that we are not in control of? What does that mean? How should we regulate that? Do we have to worry about financial stability?" That is probably what has catalysed work on this, but no decision has been reached about whether it is the right thing to do.

Lord Fox: Would a competitive country, in a sense, setting up a central bank digital currency make it more important to have one here? Would a really big global stablecoin put more pressure on you? How would you weigh the competitive pressures?

Rishi Sunak: Those are exactly the questions that we are grappling with as part of the work we are doing with the Bank of England. A global stablecoin that was not issued by a Government, which may or may not be backed by currency, has implications for financial stability, for example the transmission of monetary policy, as I am sure Lord King would be aware. You get that with a global stablecoin. We need to look at that.

Some might say that there might be something geopolitical to bear in mind with certain countries rushing ahead with a CBDC if that threatened—probably not for us—the reserve status of existing currencies. Do we think that would be a good thing? Those are all considerations that we are thinking through as part of the work we are doing.

Lord Fox: How do you approach the trade-off between the need for rigorous standards of privacy and the whole issue of know your customer and understanding who is trading what?

Rishi Sunak: That is the work. We are trying to come to a view on all these things. I would point the committee towards the principles document that we published, as I said, as a G7 group of countries a couple of weeks ago in Washington. It starts to tease out all these issues. People will want their privacy protected, but on the flipside we need to make sure that we know what is going on. There is clearly a risk that more digital forms of currency, if they are not properly managed, mean that people can hide. We do not want them to be able to hide if they are doing bad things.

The Chair: On that point, what is the timeframe for making a decision?

Rishi Sunak: We have not said yet, so if you will forgive me—

The Chair: That is why I was asking.

Rishi Sunak: It is a work in progress, so you would expect us to continue to make progress on it.

The Chair: If there are no other questions, Chancellor, can I thank you for what has been a really interesting session? It has been very broad ranging. You have answered the questions precisely and concisely, which is very much appreciated by the committee. We are very grateful to you for coming today and for giving us such excellent answers. I will leave you to catch your train to Glasgow. It is probably best not to have flown.