

Treasury Committee

Oral evidence: [Autumn Budget and spending review 2021](#), HC 825

Monday 1 November 2021

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Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 94 - 215

Witnesses

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



Examination of witnesses

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

Q94 **Chair:** Good afternoon and welcome to the Treasury Select Committee and our second session today as part of our inquiry into the Budget and the comprehensive spending review. We are delighted to have before us the Chancellor of the Exchequer and two other witnesses. Chancellor, we all know who you are but I will ask Dan and Conrad very briefly to introduce themselves for the public record.

Dan York-Smith: I am Dan York-Smith. I am the director of strategy, planning and budget in the Treasury.

Conrad Smewing: I am Conrad Smewing. I am the director of public spending in the Treasury.

Chair: Welcome to all three of you.

Rishi Sunak: Thanks for having us.

Q95 **Chair:** It is a pleasure. Can we talk about fiscal targets, Chancellor? We had a session this morning with Richard Hughes, and, after the Budget, when it comes to your fiscal rules, he described it as a “white-knuckle ride”. There is a very useful table in the OBR report—chart 1.9—that looks at the headroom that you have against your two major fiscal targets: the net debt target and the deficit target. What it shows is that, compared to other Chancellors and their fiscal targets, your headroom looks rather pale by comparison. The chart also shows that, in terms of the average forecast error within these reports, those errors are potentially very large compared to the headroom that you have built into your fiscal targets. He did not say, “Not in a cat in hell’s chance”, but it does look like there is a strong risk that those targets will not be met. What would you say to that?

Rishi Sunak: Factually, he is right about comparing these headrooms to previous headrooms that have existed. The typical headroom under previous Chancellors’ flow targets have been about 0.9% of GDP, and probably 1.7% of GDP for the stock target. The target with the headroom that we have is lower in the first target year, which is the third year in the forecast. You will know that it is a rolling target, so that moves forward over time, when the numbers slightly improve, and so that will be helpful. I do not dispute his factual reflection. If you look historically, there is slightly less headroom than previous Chancellors would have had—less than Philip Hammond had and less than George Osborne had first time around, but not less than George Osborne had in 2015, from memory. He would have the precise numbers.

Chair: Yes, it is very similar to one of the ones in 2015 and a bit more than 2015.



Rishi Sunak: On your last point—Dan might jump in—I cannot recall but I think they did some modelling where they ran some simulations about the percentage likelihood of meeting different targets, and those numbers are also in there.

Chair: 55% and 60%.

Rishi Sunak: Yes, which I would probably describe as better than a cat in hell's chance, but the numbers are the numbers.

Q96 **Chair:** When you have your sleepless nights—you have used that expression in the past, particularly in respect of inflation and interest rates—what are the possibilities out there that could cause problems to you meeting those targets? What are your top four or five things that need to go the right way in order to meet those fiscal targets?

Rishi Sunak: One thing that is broadly within our control is spending, and the advantage that we have now, relative to previous Budgets when people have set fiscal rules, is that this is being set at the same time as a multi-year spending review. Conrad is nodding alongside me, so he will, hopefully, agree. From this point forward, we have fixed Budgets for the next three years, and that gives us an enormous amount of certainty compared to previous fiscal events on the spending side of the equation. We have just spent a long time with Departments figuring out what they need for the next few years, and so, on the spending side of things, that degree of uncertainty, compared to previous times, should be less.

Q97 **Chair:** On that point, are you concerned that there are a number of departmental pressures out there that might emerge but cannot be known at the moment? For example, Charlie Bean, in the evidence he has just given to us, pointed to transport. We do not know to what degree the patterns of transport demand go back to what they were pre-pandemic and, if they do not, a lot of these rail and bus networks and everything else are going to need further bailing out.

Rishi Sunak: As you would expect, we have had quite a long time to prepare for this multi-year spending review and we have had the ability to sit down with Departments in detail—that is what Conrad and his team have been doing extensively—to think about all the known risks, do our best to quantify them and come to a shared view of what an appropriate amount of risk tolerance and where the central case modelling should be on things, exactly as you described, without getting into all the details, such as the shortfall in rail income, which we have taken into account in all these numbers.

That should be there for everything that we know about and there should be a margin against that as well. You would not expect us to run things completely to the bone, so there is an appropriate amount of margin that will be built in for Departments to manage around. Hopefully, some things also just go our way and the risks are not all asymmetric to the downside.



You asked more broadly. On the Department's side, we will have taken care, hopefully, of most of those things. There are things that pop up. There is contingency built into all the spending numbers, as reserves and contingencies are always built in, both on the revenue and on the capital side, to deal with the bumps in the road. Maybe I will finish there.

Q98 Chair: I would like to invite you to keep going on the risks that there are. We are not at the end of the pandemic, so that is something that we have to worry about. There are clearly issues in the labour market, and with supply chain bottlenecks, inflation and interest rates, so the Committee would be very interested to know what your thoughts are around those issues, what weighs most on your mind and whether there is something that needs to be added to the things that I have mentioned.

Rishi Sunak: On the things that can be negative risk, I have talked about them in your Committee and elsewhere, and they are well flagged in the OBR's report. The risk from higher inflation and interest rates is well known and well flagged. You can see that the financial impact of increases in rates, both at the short and the long end, and of inflation are all documented in the OBR's report.

Q99 Chair: On that point, if inflation takes off in a way that we hope it does not and if it is mainly wage inflation—you have frozen the thresholds for income tax and there is lots of fiscal drag, which means that the Exchequer does quite well out of that on the tax side, albeit it will have negative impacts elsewhere in the public finances—rather than, say, product-based inflation, which would not have the tax-take elements to the same degree, what do you think of that scenario? Is it very unlikely that wages are going to start getting into a wage-price spiral or are you thinking at the back of your mind that there is a possibility that this could happen? What would be the fiscal consequences of it?

Rishi Sunak: Dan might want to chip in. The economy is very complicated. Its interaction with the fiscal numbers is also very complicated. As we go through these processes, there are lots of different moving parts, so it is probably difficult to say, "This one thing will lead to this particular outcome". In general, as the OBR has pointed out, the public finances are quite sensitive, on the debt side and the financing of the debt side, to changes in RPI, because we have a relatively large stock of inflation-linked debt—about 25% or 26%, give or take—which is about double the G7 average, for historical reasons, so we are particularly sensitive to that. Generally, the rest of the financing that the Government have to do would be impacted by the market interest rates for refinancing debt as they come up.

The short end of the curve impacts particularly the Asset Purchase Facility, and we have talked about this before in this Committee. The interaction between quantitative easing, the Asset Purchase Facility and our public finances has, again, been documented by the OBR in the March EFO, which explains how changes at the short end of the bank rate



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negatively impact the interest coupon that we receive. Those are the kinds of ways that it impacts the public finances.

Q100 **Chair:** Dan might have just looked up the box that I have in my head, which is the inflation box. They play around the central case, and it is an upper case that goes up to 8%, and there would be an interest rate response to that unknown, but they have to make an assumption on that. On that basis, fiscally, inflation is not quite as dangerous as it might otherwise look, and I just wondered whether that was how you saw it.

Rishi Sunak: In general, the Government's objective, as restated to the Bank of England just last week, is for low and stable inflation, and it has a good track record in meeting that target over the last 10 or 15 years. One would expect them to continue meeting that target because, for all the reasons that we have settled in this country, that is a good thing, and it would not be a good thing to have persistently high inflation.

Q101 **Chair:** On other issues such as labour market issues and immigration, have we got our approach to those right in terms of bringing skills in, should we need them, in the shorter term?

Rishi Sunak: Yes. As it relates to particular supply chain challenges, the Government have made some flexibilities available, whether it is on the HGV side or the agricultural side.

Q102 **Chair:** Have they done enough? It seems that No. 10 is quite insistent that we do not reach for the uncontrolled immigration lever.

Rishi Sunak: In a macro sense, that is right, having had all these debates about that. In the short term, there is an obvious desire for pragmatism to ease some of the challenges, where we think it can make a difference. The Transport Secretary would probably be better placed than me to give you an up-to-date sense of where we are in that process, and ditto the Agriculture Secretary on the seasonal agricultural workers scheme for an exact take-up on those relative to where the availability of those visas is.

The one thing that we have done on our side and in the Budget in spring, and then reiterated last week, was on the high-skilled migration side. This talks about driving up long-term productivity and growth in the economy, where we are keen to ensure that our visa regime for high-skilled migration is internationally competitive. At the spring Budget, together with the Home Secretary, I announced a series of reforms to our Innovator visa and Global Talent visa, the creation of a new High Potential Individual route, a Scale-Up visa and a Global Business Mobility visa for companies to move people here.

At the Budget last week, we outlined further details on the Scale-Up visa, for example. It was originally a recommendation from Ron Kalifa, who did a review into fintech for the Government. It was one of his recommendations, and what this visa essentially does is say that, if you are a fast-growing company, not limited to fintech but broadly just a fast-



growing company, for example in life sciences, and that is your eligibility criteria, you have the ability to bring people at a certain skill and salary level much more easily into your company, in an attractive, internationally competitive way for them. We announced the details of that last week and, on that side, we are making quite a lot of progress to have in place and enacted by next spring—so a year after they were all announced—all of these reforms. The impact of a small number of very productive people will be positive for the economy.

Q103 Chair: Just looking at my list here, on supply chain bottlenecks, you have often, quite correctly, made the point that a lot of this is outside of our control. What happens in south-east Asia is not something that we can reach into and fix. What elements of it are inside our control and what can we do about those elements that are more within our control when it comes to supply chain bottlenecks?

Rishi Sunak: We have talked a little about the HGV side. In terms of the things we can do, we can ease the bits that Government are responsible for. Again, it is not my direct portfolio responsibility, but it could be the testing requirements and making sure that we streamline that process and move people through the system as quickly as possible, providing regulatory easements where we can, all of which the Transport Secretary has done. Last week, we also announced funding alongside the industry to improve the quality of facilities at truck parks around the country.

Q104 Chair: Can that be done at pace?

Rishi Sunak: We have provided the money and we would like it to be spent at pace, but the exact timing of that will be a function of how quickly people can build things and all the rest of it. We are very happy to provide the money at pace.

Q105 Chair: That neatly brings me on to R&D. Chancellor, you announced in the Budget that the £22 billion target would move from 2024-25, slipping two years, basically. What lay behind that decision? Was it a fiscally motivated decision or was it a case of you being able to provide money but not able to get it out the door necessarily quickly enough and, therefore, reprofiling it for that reason?

Rishi Sunak: It is a mix of everything. In the round, we are doing a lot of things. I would start with the capital budget. The capital budget for the SR period represents the highest level of sustained capital investment that this country has seen in about half a century, so the overall pie for spending on capital is large by historic standards. That said, there are lots of calls on that pie, whether it is other types of economic infrastructure like roads, rail, broadband, et cetera, or net zero or social infrastructure such as schools, hospitals or prisons. It is just balancing all of those things together and making sure that the pounds you spend are going to be well spent while still delivering on our objectives.

If we had never mentioned £22 billion, what would people see? They would see £20 billion representing the largest amount that any



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Government have spent on R&D in this country. They would see a 50% cash increase between the start and the end of the Parliament, which would represent the largest cash increase in R&D.

Q106 **Chair:** That is understood, but what was it that drove you to reduce it?

Rishi Sunak: Part of it is making sure that I could meet all these things. It represents a very large increase, the largest amount that any Government have spent on the key priorities of the science and innovation community. We can meet those objectives, which are making sure that we can associate with Horizon and the funding is there to do that; secondly, to ensure that core research gets very generous settlements, which we announced anyway in the spring, and those are being honoured in full, which is important for basic research; and thirdly, in terms of the later-stage R&D on the innovation side, we wanted to make sure that incremental funds were able to go there, and they have. Innovate UK's core budget by the end of the Parliament—Conrad will correct me if I am wrong—will be about £1 billion, which is not quite a doubling but close to, compared to what it was.

Q107 **Chair:** Why the £2 billion row-back? If it was right to have that target before and the target has been shifted, what changed?

Rishi Sunak: It is just the balance between all these things. Again, I would focus on what this £20 billion represents. It is a very strong investment in research and innovation and in driving our future growth. The other thing I would say is that it is worth benchmarking it internationally, as people often do with R&D. Alongside the £22 billion, which we have maintained, there was a desire to get to 2.4% of GDP, which is the OECD average, by the same year, 2026-27.

If you look at what we will be doing at the end of this Parliament, if you combine, as the studies and the statistics do, our direct investment in R&D and our fiscal support for R&D through the tax system, which you need to do—it is all taxpayers' money, one way or another—it will represent about 1.1% of GDP in aggregate. The current OECD average is about 0.7%. The US is around that level, and France and Germany a little higher. If you are looking at the £20 billion and asking whether that is a good amount for a country that wants to be a science and technology superpower, you would say, "Yes, it is". It is an internationally very strong investment in our future innovation.

Q108 **Chair:** Some people would say that tax reliefs around R&D are not the same as putting in public funds to R&D, because some of that research and development that companies will claim relief against would have happened anyway. Do you accept that point?

Rishi Sunak: The international statistics are done in a way that looks at all of them, because, ultimately, it is fiscal support. All of that is taxpayer money that is being put into the system to support R&D. You are absolutely right to say, "Are you better off spending £1 on direct



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investment rather than on a tax credit?" That is an absolutely fair question.

Q109 **Chair:** What would you say the deadweight was on our R&D—

Rishi Sunak: It depends on the scheme. If you look at the figures internationally, we are an outlier in the amount of our fiscal support that comes through tax credits versus direct investment. To answer your question, big picture, top down, you might look at that and say, "These guys seem to think that, for the £1 that they have, they want quite a bit more of it in tax credits rather than direct investing, compared to everybody else". We have looked into this, as I mentioned in the Budget speech, and there is clearly something not working particularly well with our tax credit system, which other independent commentators have alighted on. Indeed, the chair of the Science and Technology Committee wrote a foreword to a report that highlighted this, and the Shadow Chief Secretary to the Treasury has also highlighted it.

If you look at what HMRC tells us is being claimed with regard to R&D tax credits, you get one number, which is £45 billion. If you then look at the other set of accounts of what is being spent in this country on R&D, it is considerably less than that, in the mid-to-high 20s. There are some measurement differences, but that is still a very big unexplained gap. Part of that is because we allow people to claim for a tax credit on activity that does not happen in this country. That is not a good use of taxpayer money and we are an outlier in allowing that, so we have said that we are going to fix that.

More broadly, to your point, we have different schemes in our R&D tax credit system. One thing that we want to look at is what the other reasons are for this big gap between the numbers I mentioned and whether there are things that we should be doing differently to make sure that taxpayers' money is more effectively supporting what we want, which is R&D here in the UK that drives economic activity and, to your point, that is additional.

We have two schemes—RDEC and the SME scheme—and Dan might have the numbers to hand. I cannot remember off the top of my head but, in the RDEC scheme, for every £1 we get £2 or £3 worth of value. For the SME scheme, we get far less than that. Even between the schemes we have, the degree of additionality is much greater in the RDEC scheme than the SME scheme.

Q110 **Chair:** When we look at business investment generally, there are some concerns about SMEs in particular. Are they concerns that you share and, if so, what in particular are you looking at doing at the SME level of things?

Rishi Sunak: Do you mean SME investment in general?

Chair: Yes, not R&D.



Rishi Sunak: General business investment.

Chair: I have now flipped to investment.

Rishi Sunak: I have the numbers somewhere. To your point on additionality, we will get you the two numbers.

On SME investment, what we have done—the Budget took action on this—is that the thing that SMEs use for investment, first and foremost, is the annual investment allowance, which is a very easy-to-use full expensing for capital investment. It is broader than the super-deduction.

Q111 **Chair:** Were you disappointed that the OBR said that it would not really make any material difference to the path of business investment? Your latest announcement on the annual investment allowance and the extension of the—

Rishi Sunak: These things are hard to know. They have also, in general, revised up their investment expectations in this forecast relative to the old one. In order to try to support those businesses, this is the tool that we have that, at least from the feedback—

Q112 **Chair:** Has the OBR got it wrong when it says it will not make any material difference to the path of investment?

Rishi Sunak: It is an independent forecaster and is going to reach its judgments. That is how we do these things. It could make a difference, particularly at a time when, to your point, we want to make sure that we continue supporting business investment. At this stage of the recovery, one might want to take a slightly more generous approach to it. That might not be true at all times, but at this particular time we might want to err on the side of generosity. Even if it is not the most overwhelming, compelling evidence that it was going to be transformative, it certainly, probably on the margin, is helpful.

That limit is currently £1 million rather than £200,000, and it was due to end at the end of the year. We have extended it all the way to March 2023. It is broader than the super-deduction because it covers second-hand assets and leased assets, and it applies to a broader range of people—for example, unincorporated entities. That is probably the best thing that one could do.

The other thing that we have done, which is probably helpful rather than completely transformative and is something that business groups asked us for, was to use the business rates system to incentivise investment. We have done two things there, both suggested by a range of business organisations, and they create two different investment reliefs. There is relief against business rates for particular types of investment. One is an improvement relief if someone is adding a floor to a shop, adding rooms or putting in CCTV or a bike rack, for example—any type of improvement.

Q113 **Chair:** We are a bit tight on time, Chancellor. The points that you are



making are all highly relevant—

Rishi Sunak: That and the green relief together are worth about £750 million and are things that were asked for.

Q114 **Chair:** You looked at this Budget and the upside was that the OBR's forecast had improved a lot since March, so you had more to play with. You then had to take a decision as to what you did with that extra fiscal space, and you spent quite a lot of it in departmental budget increases across the board. You have elected to go for certain fiscal targets and to make sure that there is some margin and headroom within that. You did cut some taxes, one of which you have mentioned—business rate relief. There were also alcohol duties and the taper change for universal credit, which I was very pleased to see. Why did you not go further on the tax-cutting side of things at this point compared to leaning into spending quite so much? Were you not quite tempted to do a bit more on that?

Rishi Sunak: We started this talking about fiscal headroom not being as much as previous Chancellors, so you start with that as one constraint. I guess your question is, given that—

Chair: Spend versus tax.

Rishi Sunak: Yes. We have a bunch of commitments that we want to deliver. I am sure we will get into, in the rest of this Committee, some of the things that people would rather we were doing more of on the spending side, but we wanted to deliver on all those key commitments, and we have done that across the board with what are historically generous spending settlements for all Departments, and to make sure that not only do we deliver strong public services in a way that levels up across the country but also invest in our future growth by doing things like investing in R&D, as we have discussed, and innovation more broadly, as well as in skills and infrastructure. That is a key part of what the Government promised they would do. At this moment in time, we believe that that was the right thing to do.

Q115 **Emma Hardy:** Welcome, Chancellor, and welcome, everybody. I apologise that my questions are all slightly disjointed, but they should enable nice, super-quick answers. The first one I want to ask you is related to the Money and Pensions Service, which I know the Treasury has oversight of policy of. I am not sure if you are aware, but Hull is currently the UK's debt capital. We have more people with the highest rate of unpaid debt in the country. It is more than double the national average. This is a quick question. The Money and Pensions Service is looking to move its support for debt advice to virtual call centres and away from face-to-face. I wondered what your thoughts were on removing that face-to-face support for people in debt, at a time when we are seeing such high levels of personal debt in the country.

Rishi Sunak: Emma, forgive me, but was that something that announced in the Budget or was it a more general question?



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Q116 **Emma Hardy:** It is a general question. I was told that the Money and Pensions Service engages with the Treasury on policy matters relating to debt advice.

Rishi Sunak: I do not have a specific answer for you. In general, on the debt side of things, we discussed this last time I was with you all. Breathing Space is the main initiative that we have put in place, with a lot of engagement from Parliament about that model. My colleague John Glen has been leading the charge on that, and that is providing support to people and giving them a breathing space to help restructure debts. That is probably the biggest thing I could point to.

With regard to the specific operational decision about face-to-face versus virtual, I am happy to get back to you. It is not something that I have a view on in terms of its rationale. More broadly across the public sector, whether it is DWP or others, there have been some moves during the pandemic to virtual. We are getting back to a more normal situation now and trying to grapple with people's desire to work hybrid and to use the advantages that virtual interaction can bring, such as appointments at different times that otherwise might not be possible. I could not comment on the rights and wrongs of it, what it is designed to do and what is driving it.

Q117 **Emma Hardy:** That is absolutely fine. I thought it was worth a try. I have written to the Chancellor about that individual matter.

On the issue of remote working, I wonder if I could draw your attention to something that I thought was really exciting. It is being done in Ireland right now. In March, Ireland announced plans to move home-working to shift workers from the cities to more rural areas in a big decentralisation push. It talked previously in the early 2000s and tried moving Departments, which I know is something that your Government have done, but it found that that delivered far fewer jobs to the regions than originally expected. Instead, it is looking at what it is calling "an unparalleled opportunity" that "exists for us to realise the objective of achieving balanced regional development and maximising recovery for all part of the country" by moving many civil servant jobs to be remote-only and setting up regional hubs.

They are also looking at offering tax incentives for businesses that want to relocate to other areas of the country. I know you have spoken many times about levelling up, your belief in it and your keenness to share jobs around the country. I wondered if this model that is being done in Ireland right now was something that you were looking at as potentially a model that could work for regions in the UK.

Rishi Sunak: I will have to go and look at the details before I can tell you whether it is something that we are doing or might do in the future. The tax system already provides tax relief for people with some of their home-working expenses, so I might get Dan to spend a minute on that. We have an existing tax relief in the system that already does that.



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In terms of moving jobs outside of London, the Treasury is very much a believer in that. We have opened a campus in Darlington, where we are going to be joined by several other Departments. So far, that has surprised on the upside in terms of what else it has catalysed. There have been other bits that are related to Government or other bits of Government that have now expressed an interest in joining us, which is great. It is not going to be just us and a couple of Departments; there are lots of other people whose names are not public so I cannot talk about it yet. That is good news. If you talk to people in the local area, there is also very clearly an enormous amount of interest from businesses and other organisations to now start opening offices in and around the area, so that they can be close to what this economic hub is.

Again, it is very early days but it is a clear demonstration of our intent to do this. Interestingly, lots of people assumed that, if we were going to do something like this, we would do it in a big city, but we did not do that with this.

Q118 Emma Hardy: It is still based on where you are physically relocating offices. What they are doing in Ireland is moving 20% of their 300,000 civil servants to remote working and setting up regional hubs, rather than it being based around an individual location.

Rishi Sunak: In a sense, a regional hub is an office where people can come and work some of the time and in hybrid fashion, which is probably not in London, so I do not think it is that dissimilar, given that we operate a hybrid model anyway. Particularly at the Treasury, as Dan and Conrad could probably rather painfully describe to you, we have not had enough desks for several years, so hybrid working is nothing new at the Treasury. On any given day, people are working like that anyway, so that is, in any case, how we work. We have the regional hub that they are trying to get to.

Q119 Emma Hardy: When you come back to us next time, I would be very keen for you to be able to say whether you have really looked into this model that Ireland are doing and whether you think it would be appropriate to the UK.

Rishi Sunak: Yes, sure.

Q120 Emma Hardy: I will now move on to the questions I was going to ask, which are related to health and social care tax measures. I mentioned earlier on today, when we had the OBR in front of us, that my constituency straddles East Riding, which is rural and Conservative, and Hull, which is urban and Labour. Both of them are saying to me, "Please can you help desperately lobby the Chancellor around the problems we have around adult social care?" In fact, I am sure you are aware that the Conservative leader of East Riding Council has written to you in regard to this matter.

Of the revenue raised by the levy, only 18% is going to go towards adult social care over the next three years. Given that social care is widely



considered to have been underfunded for years, do these measures go far enough?

Rishi Sunak: Yes. It represents historically very high levels of investment in social care in general and also funds a landmark set of reforms that the Prime Minister talked about when he was first elected on the steps of Downing Street and that we are now enacting. If you look at what we further announced at the spending review last week, on top of the health and social care levy funds there was an extra £1.6 billion a year in cash grant money that is going to go to local councils. That has been warmly welcomed by the sector. How they spend that will be up to them, but the key pressures that they face are on the social care side.

What it was nervous about and told me was, "This health and social care money is fine—that is the set of reforms—but we still obviously have day-to-day challenges and demographic pressures that we are grappling with. There is so much that we can do on efficiencies and through council tax, but if you can also provide further money centrally, that is helpful". The £1.6 billion a year is significant and will ensure that core spending power, which is the best metric to look at for the resources that local government has available to it, will grow over this spending review period by around 3% in real terms, which represents historically quite high levels of growth.

Q121 **Emma Hardy:** On the issue of social care, I raised in questions recently that there were no social carers available in the whole of the Conservative-run East Riding for my constituent who needed it. There is a dire situation. They are competing against organisations like Amazon, who are offering to pay people a lot more than they are getting in adult social care. Are you going to be looking at raising the levy rates again to manage this increased demand, which, as you said, is demographically not going anywhere, for adult social care in the future?

Rishi Sunak: It does not feel to me like that would be necessary in the forecast period that we have. In terms of the workforce, you raise a good point. Historically, one of the things we have not done as well as we could have done with the workforce is making sure that there is a real sense of career progression and qualifications that people can get. About £500 million of the health and social care money will go to exactly that: improving the quality of the training that we are able to give the workforce and providing a sense of career development and certifications that are recognised across the board.

Again, the Health Secretary is the best person to ask on the detail of exactly how that will be implemented, but that will help to address some of the recruitment and retention challenges that the sector has had, particularly on the retention side. If we get this £500 million of investment right in doing all of that, it should massively help on the retention side.



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I talked about the £1.6 billion as well. The national living wage announcement last week, which probably disproportionately affects people in this industry, is being put up at a reasonably significant rate next year, by 6.6%, which will represent £9.50 an hour and £1,000 extra a year.

Q122 Emma Hardy: With the current demand and the difficulties in adult social care that are felt right across the country—as in the example I gave, these concerns are felt whether rural or urban, Labour or Conservative—is the funding that you are offering for adult social care right now going to be enough to meet the demands next year?

Rishi Sunak: Yes. We have talked about this before. We sit down with every Department—that is what Conrad’s team does—and go through it. Exactly on adult social care, there is quite a complex model that we go through with the Department of Health and Social Care. We look at the demographic pressure and the various challenges. We look at what is reasonable from an efficiency and productivity improvement perspective. We look at what council tax can raise. We look at the gap. That is why we have provided £1.6 billion a year, which is a very significant amount of extra cash funding going into local authorities, largely to fund some of the challenges in social care. That is all additional to the money raised from the levy, which is going to workforce and to fund the reforms.

Emma Hardy: I sincerely hope you are right.

Q123 Chair: Can I just pick up on that? Health spending has gone up and up, from 32% of public spending about 10 years ago to 42% today. Health always comes back and asks for more. How can you be so confident that that particular Department is going to be happy enough and content through to the future with the amounts that you are providing?

Rishi Sunak: Emma’s questions were all about social care and making sure we have enough money for social care. In the plans that we have put out, £1.6 billion goes direct to local authorities, not to the NHS. We also have something called the Better Care Fund. Again, it is better for the Health Secretary to talk about this than me, but this is about having a more integrated approach to how we deliver social care on the ground. The Better Care Fund is an example of that. It will lead to better outcomes and make sure that the money is spent well.

To your broader point, we set out a set of plans. We have generously funded the NHS, not just for the elective backlogs but generally as well, with a growth rate in real terms of something like 3%. That is quite a generous growth rate. Given we have had a conversation quite a lot about tax in the last few months, with the health and social care levy in particular, and people’s focus on it, people would rightly say, “Hang on, we are now paying more and contributing more to the system”, whether it is the NHS or more generally. It is absolutely reasonable that we make sure that that money goes as far as it possibly can. We want every pound to be really well spent. Given that we are all asked to pay more, I am



sure that the NHS—and the Health Secretary has talked about this—is going to work really hard in driving up productivity and effectiveness, so that that money is well spent.

Q124 **Chair:** There was a kind of *cri de coeur*, Chancellor, within your speech about spending all this money, which is that, at some point, you want to get taxes down. You also talked about the extent to which individuals and society should keep looking to Government for all the answers, which seemed to speak about the size of the state. After all big events, like wars and pandemics, the state has tended to grow, remain large and continue to grow. We have the demographic changes that are also driving that. How confident are you that that vision that you presented in your Budget is achievable?

Rishi Sunak: I would point you to the words that I said at the end of the Budget. That is very much my goal and my mission over the remainder of this Parliament. We took a step in that direction at Budget, so it is not just words. We have cut taxes for millions of the lowest-paid people in the country, so we are already making progress on that journey.

The other thing that I said in the middle of the Budget that is pertinent to this is about a focus on delivery, outcomes and effectiveness. It is all very well to sit here and talk about billions of pounds here and billions of pounds there. This money needs to make a difference on the ground. It needs to transform people's lives. We have a very strong focus, as part of the spending review that Conrad's team have put in place, on how we do performance evaluation and drive performance in Departments, what metrics we are using to measure that, and what outcomes we are seeking to achieve. As you know, the Prime Minister has set up a new delivery unit to help with that.

Q125 **Chair:** I am sorry to interrupt but are you saying you think that, in the Budget, you took a step towards reining back the size of the state?

Rishi Sunak: No, I was talking about cutting taxes.

Chair: You were referring to cutting taxes.

Q126 **Siobhain McDonagh:** What taxes did you cut?

Rishi Sunak: Universal credit.

Siobhain McDonagh: That is not a tax cut. That is a benefit change. It is not a tax cut.

Rishi Sunak: It is one combined approach to how people look at it.

Siobhain McDonagh: It is a change in the taper on universal credit.

Chair: Order, order.

Siobhain McDonagh: Sorry, Chair.

Chair: I have hogged too much of the time as it is, and it is you, Siobhain, that I will go to next.



Q127 **Siobhain McDonagh:** Apologies, Chair. That really is not a tax cut. You are just desperate to find a tax cut. We are sitting in the Margaret Thatcher room and you hope to emulate her, but the British Prime Minister and the British Tory Government that you are most emulating at the moment is Ted Heath's: low growth and, therefore, high tax. Is that not the case?

Rishi Sunak: No. We are forecast this year to grow at what are historically very high rates as we recover from the pandemic. The OECD has us growing faster than most.

Q128 **Chair:** It does look a bit anaemic further out in the forecast.

Rishi Sunak: It returns back to the trend that we had before the crisis, around 1.5%. What you are seeing is that we are investing, as I said, at record rates in an effort to drive up those growth rates. Whether that is through R&D investment, which we talked about, through infrastructure or through skills, we are doing things on a scale that have not been done before. My hope and expectation is that that will translate into higher growth down the line.

Q129 **Siobhain McDonagh:** In my experience, people are generally happy to pay their fair share, if it is their fair share. In your Budget, the national insurance increases will cost a care worker £140 a year more, a nurse £310 a year more, and a paramedic £420. Meanwhile, banks that have recorded record profits are set to save £4 billion in taxes by 2027. In the words of my late mum, is that not yet another example of "much gets more"?

Rishi Sunak: I would disagree with that. Let us take the national insurance point first. When you are raising that amount of money to fund the NHS and social care, which we have just been talking about, you really only have three taxes that you can go to: income tax, national insurance and VAT. Most people would say that VAT is the most regressive of those. Given your question, let us just rule that out. You then have a choice between national insurance and income tax. Anyone who tells you that there is another way to raise what, in the end, ended up being low-teens billions of pounds is not being honest or credible, because there really is not. You are down to two choices: income tax or national insurance.

There is no perfect way to raise money. Raising taxes is not an easy thing to do and is a difficult thing to do, and we would rather not do it. There is no good way to do it. There are probably just less worse ways. The advantages of national insurance over income tax are primarily—

Q130 **Siobhain McDonagh:** That is not my question. My question is how you can put up national insurance for the least well-paid at the same time as cutting taxes to banks that have record profits.

Rishi Sunak: First of all, how else do we raise the money to fund the NHS? There are two choices.



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Q131 **Siobhain McDonagh:** Perhaps you do not cut taxes to the banks to make a contribution.

Rishi Sunak: Taxes on banks are going up. Taxes on banks, combined with corporation and surcharge, is going from 27%—

Q132 **Siobhain McDonagh:** You are cutting tax on banks to the effect of £4 billion by 2027.

Rishi Sunak: The impact of the surcharge change in isolation is several hundred million pounds, but you have to look at the increase. You cannot look at that in isolation. You have to look at it combined with the fact that the core underlying corporation tax on banks is going up from 19% to 25%, so banks are going to pay more corporation tax in the future than they did in the past.

Siobhain McDonagh: But less tax surcharge.

Rishi Sunak: The composition of the tax is obviously changing, and I said that at the time. If your surcharge rate is going up, we are resetting the surcharge rate.

Q133 **Siobhain McDonagh:** You are going to cut the tax surcharge profit on Barclays from 8% to 3%. This is a bank that made a pre-tax profit of £6.9 billion in the first nine months of this year. What it also did this year was close the branch in my town centre. It now has a van outside once a week, where all the longstanding customers who helped make their profits over the years have to queue in the cold, while the lease on its branch has three more years to go. Those people have to make an appointment online. They do not use online banking. How fair is that?

Rishi Sunak: Access to cash is a completely separate issue, which we have spoken about before, and you have had my colleague John Glen here talking to you about this as well. We have plans to legislate, if it is required, for access to cash. What we have done in the interim is a set of agreements, particularly with the Post Office. I do not have the stats in front of me, because it was not part of the Budget last week, but the vast majority of people are within range, for the vast majority of their banking provision, of a post office rather than a bank. You are also seeing banks pull together to provide community hubs. Cash and access to cash is important. Whether it is through the Post Office or through access-to-cash legislation, we are prepared to go further, if required.

It would not be right for me to comment on individual banks but, in general, the rate of tax that banks are paying is going up from 27% previously to—

Q134 **Siobhain McDonagh:** The taxpayer has stood behind the banks when they needed that support. It is about time the banks stood up for their most vulnerable customers.

If we turn to cladding, why does Government support to remediate unsafe cladding not cover buildings below six storeys? How much do you



estimate the removal and replacement of unsafe cladding in those buildings to cost?

Rishi Sunak: Again, this is not my specific policy area, so you will forgive me. What I can tell you is about the advice that we have got from the building safety committee about where the most acute risk, and that is why the funds that we have put aside are directed towards that. That is £5 billion. Over time, various Select Committees have put various numbers out there, which this is very much in keeping with. That is £5 billion of support to remediate the most dangerous buildings. That has been provided for in the spending review, alongside a residential property developer tax, which we previously announced and consulted on; that will be brought in to help fund some but not all of that. It will raise about £2 billion over a decade, and it will be levied at a rate of about 4% on developers with properties over £25 million. It captures 20 or 30 or so, from memory.

Where the considerable resources—£5 million—are going will be on remediating those buildings over 18 metres that are least safe. Below that—again, it is not my particular area—my understanding is that the expert groups on building safety have provided some guidance about what is appropriate and are working with the banks on the EWS1 forms and those things as well.

Q135 Siobhain McDonagh: Last week, former Housing Secretary Robert Jenrick described his battle with the Treasury over cladding remediation, despite the Government repeatedly insisting that it would be wrong to expect leaseholders to pay. Can you confirm today, as indicated by Mr Jenrick, that the Government's position is that anything above the £5 billion currently available should be paid for by leaseholders?

Rishi Sunak: Working with Robert when he was Housing Secretary, looking at where the risk was and what sums were required to remediate buildings in that risk, the sum provided was the £5 billion, which is a very significant amount, more than many people were asking for, targeted on those buildings where there was most acute risk.

Q136 Siobhain McDonagh: The top 10 executives and shareholders of Britain's largest house-builders have personally pocketed more money since the terrible fire at Grenfell than their firms have set aside to fix the cladding crisis. Meanwhile, housing associations have allocated six times more to building safety than developers. London & Quadrant housing association has even made the decision not to develop in London because of the risks on cladding. This is a problem that cannot go away. Someone has to pay for it. Who is that going to be?

Rishi Sunak: Maybe you missed the answer to your previous question. We introduced in this Budget the residential property developer tax. Again, without naming names I do not know the overlap between the people you are looking at, but I would imagine that many of them are captured by this. It is a new tax levied on the profits of large developers.



Siobhain McDonagh: The richest and the biggest.

Rishi Sunak: It is the biggest 20 to 30, from memory. Dan, is it 25, give or take?

Dan York-Smith: Yes.

Rishi Sunak: It is on profits of over £25 million. It has been extensively consulted on with the industry. It was someone from the industry who suggested that we should do this. What we said is that it will raise around £2 billion over a decade.

Q137 **Siobhain McDonagh:** Is the £2 billion in addition to the £5 billion?

Rishi Sunak: No, that will help pay for some of the £5 billion.

Q138 **Siobhain McDonagh:** It is going to cost more than £5 billion, so who pays for the rest?

Rishi Sunak: The rest is paid as with everything else. We are straying into territory that is not my portfolio responsibility, but I know that the Housing Department are bringing in, as you will know, because this is an area of particular interest to you, a new charge on high-rise buildings as part of the new building safety regime, so there is an additional regulatory intervention there. Beyond that, this will come from the regular source of funding.

Q139 **Siobhain McDonagh:** For young leaseholders who bought their property because it was the only thing they could afford as first-time buyers, there is no easy answer. They are going to have stump up.

Rishi Sunak: No. If they are in a building that is unsafe, as defined by the guidance that we have, there is £5 billion available to remediate those buildings, and that work is already underway.

Q140 **Dame Angela Eagle:** Good afternoon, Chancellor. Your rhetoric about having a high-wage economy was not really borne out by the OBR's analysis on living standards. If we have a look at it, in the 16 years from 1992 to 2008, real wages went up by 36%. The OBR forecast showed that, in the years between 2008 and 2024, we can expect a grand rise of 2.4%. How on earth does this square with your optimism about having a high-wage economy?

Rishi Sunak: Angela, you are absolutely right on the numbers. In common with many other countries around the world post the financial crisis, people have seen a slowdown in productivity and, accompanying that, increases in real wages. We are not alone in our experience of that.

A couple of things give me confidence. We have taken quite particular action to improve wages at the bottom end of the wage spectrum, because that is something that is in our direct control, and that is through the national living wage policy, which was increased last week by 6.6% for next year to £9.50—a £1,000 pay rise—for people full-time on the national living wage.



Q141 **Dame Angela Eagle:** It is accepted that, because of that policy, there is a more progressive element to raising the wages of the lowest-paid. What I am really talking about are wages in the aggregate across the economy as a whole; you have delivered stagnation there, have you not? There are stagnating real wages. The increases in inflation, which is going up increasingly—4.4%, according to the OBR—are threatening to take away even the progress in real terms that has been made in wages in the last year or two.

Rishi Sunak: It is not right to gloss over what is going on with lower wages, because a lot of the wage growth that you pointed to leading up to 2008 was not very evenly shared. That was one of the challenges with it. It is all very well to say, "Great, here is all this high wage growth". We had that, but it turned out that it was a lot of people at one end of the income spectrum benefiting from it. Now, if we are focused on those at the lower end of the spectrum, it is not a bad thing and is something that we should celebrate.

There was also a report just last week that said that the proportion of people in the UK on low pay was the lowest it has been since 1997 or 1998. That is a good thing and we should celebrate that, because not all wage growth is equal. If I had lots of lovely wage growth numbers but it was all accruing to the bankers who Siobhain was talking about, we would probably be talking about that instead. Wage growth for low-paid people is a good thing, and it is good that it is happening.

You are absolutely right that, more generally since the financial crisis here and in other countries, it has been a struggle for wages to reach some of the growth rates we saw previously. My firm view is that the best way to change that is to provide people with the opportunities to get the skills and retraining that they need to have well-paid jobs. That is what the economics and common sense will tell you. I can say that, in the spending review we delivered last week, in terms of investment in skills, the stat that you should have in your head is that about 80% of our 2030 workforce is already in work. It is all very well doing things in schools, but a chunk of people are already working.

We have a 26% increase in real terms and a 40-something percent increase in cash terms over this Parliament in skills, and that is tackling every which way we know to try to improve people's skills, which should lead to higher wages for them.

Q142 **Dame Angela Eagle:** I do not disagree about having to tackle low skills, but your 42% increase in money for skills and education does not compensate for the 50% cut that there has been in those budgets since 2010. We are, at the least, just getting close to where we were 11 years ago, and there is that period of austerity where things have stagnated in between. I hope that our skills do go up but, at the same time, there has been this problem. Thinking about people's standards of living, do you accept that they are going to be under great strain in the next few years in real terms, with inflation going up and average wages, effectively,



stagnating?

Rishi Sunak: We can go through the numbers for particularly those on the lowest incomes and those for whom these things make the most difference. Next year, because of the increase in the national living wage and, if they are on universal credit, because they will benefit from the significant reduction in the taper rate, they will have significantly more cash in their pockets.

Q143 **Dame Angela Eagle:** So long as they are working.

Rishi Sunak: Yes.

Dame Angela Eagle: If they do not work, by the way, they do not get anything and they end up considerably worse off. It is not always the fault of people who cannot work that they cannot work, so there is no help for them.

Rishi Sunak: I am not saying it is, but we have a policy that is focused on employment. We started this conversation talking about wages. Unsurprisingly, it accrues to people in work, so the best way to help them is to cut the taper rate on universal credit to make sure that work pays. We have raised the national living wage to make sure that work pays. There is a plethora of opportunities available for people to help them get new skills, to retrain or to upskill, all of which we know will improve their ability to earn more money. That is the right thing to do. Is it going to happen overnight? Of course these things do not happen overnight, but we are putting in place all the things that are required to enable there to be better wage increases for people over time.

Q144 **Dame Angela Eagle:** One of the things that has squeezed people's real living standards is the increase in the tax take. The Resolution Foundation calculated it at £3,000 per year since 2019 at the last election. Do you accept those figures?

Rishi Sunak: Dan will correct me, but the way it did those figures combined lots of different taxes, which were not all necessarily directly levied on individuals. I have not gone through that analysis in detail but, more broadly, analyses like that are looking only at one side of the ledger. Of course, you would know that we can look at the taxes and, yes, people are paying more. They are going to pay the new health and social care levy. No one is pretending otherwise. That takes money from people. That is why, in an ideal world, I would prefer not to have to put taxes up on people, but you do get something for that money.

It is all very well to look just at the taxes without looking at what you are getting. On that particular levy, what are people getting? They are going to get the fact that they or their family member is going to wait less for an elective surgery that they have been waiting to have, or they are going to get a better experience of social care.



You can talk about living standards by looking just at the tax side, but that is probably slightly unfair because people's quality of life—and I am sure you would appreciate this in particular—is also influenced by the quality of the public services they get, especially if they are more reliant on them. Because of the significant investment in public services that those taxes are paying for, as you can see in the distribution analysis in the Budget, it is a highly progressive set of measures, which mean that those on the lowest incomes, in the lowest deciles, are the ones who are benefiting disproportionately more than everyone else from what we are doing. That is a way to help people.

Q145 Dame Angela Eagle: That depends on the expenditure being good value for money and being done properly. We had the National Audit Office report on the £37 billion spent on Test and Trace, which says that this organisation was using the public purse like a cash machine. We had the £27 billion in fraud in the coronavirus schemes, which is likely to have gone on. I appreciate there is more reason for that to have occurred, given that we were in an emergency situation, but those of us who wish the state to do things and public services to be properly supported want public money to be spent properly. Do you admit that there is an issue with this?

Rishi Sunak: I completely agree with you that people should expect and demand that their money is spent properly. You and I talked about this when I was last here and you are absolutely right to focus on it. I focus on it. We focus on it as a Department. I do think it is slightly unfair to focus on Covid schemes that were put in place in a time of national crisis at enormous speed.

Q146 Dame Angela Eagle: I admitted that, Chancellor. Perhaps you could talk to me about Test and Trace and the £37 billion.

Rishi Sunak: I am not the Minister responsible for it, so I cannot talk to you about it in detail. More generally, all the times I was in front of you and in Parliament during Covid, nobody, not a single person, including anyone from the PAC, was putting their hand up or standing up in any of those question sessions and saying, "Please can you go a bit slower, Chancellor? What we really want are more checks because we want this money to take longer to get to people". On the Covid side, that is what it is. I said at the time that, when you are in a crisis, you are going to end up casting the net more widely than you would in peacetime.

Now we are through that and are focused on the day-to-day stuff, you are absolutely right to push me. Everyone else should push every Department. I am pushing every Department, because, as we have talked about, the state is taking a lot of money from people. We have talked about the tax take being high and about the state doing a lot. It is absolutely right that that money gets spent really well. I want to see that. You want to see that. People who are paying taxes and looking at us to deliver for them expect it, rightly. You can rest assured that I am



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doing my best to hold Departments to account to deliver on all these things. That is the benefit of a three-year spending review.

It may be worth, for just one minute, because we have spent a lot of time on this, Conrad explaining to you all the various things we are doing. We have put in place a new framework and a new way of doing things, which I started working on with Conrad when I was Chief Secretary.

Q147 Dame Angela Eagle: Perhaps he would write to me, because I have another question for you, with all due respect to Conrad. We have been talking about the ending of the tax lock and the taxes that you put up, which was in your manifesto. Could I just ask you a question about the ending of the pensions triple lock, which was also a manifesto commitment that you have reneged on? How much will the Exchequer save by taking that triple lock into a double lock?

Rishi Sunak: Dan will know, but I think the difference is about £4 billion.

Dan York-Smith: It is about £6 billion a year.

Dame Angela Eagle: You will find it is £30.5 billion over the next five years.

Dan York-Smith: Because we have a target for a particular fiscal year, we tend to look at the impact in that individual year. You would not accumulate the pension that people are going to receive. The annual figure is about £6 billion. That includes moving to a double lock for the pension credit. That number is higher than people might have expected, had they looked at the spring Budget. That is partly because of the way the OBR constructs its forecast. Its forecast assumes that it will rise in line with average earnings, because that is the highest figure in the triple lock. It is the saving relative to that. However, compared to the spring Budget, the saving is smaller than that. In the spring Budget, they already had a higher forecast than 3.1%, which is what inflation is in September, and which is what the double lock will therefore mean it rises by. They already had some cost from being above 3.1% for the spring forecast.

Q148 Dame Angela Eagle: It comes to £2,300 per pensioner that you are going to be taking off them permanently, because of disapplying the triple lock in one year. If you look at the table on page 203 of the OBR report, it goes up to as high as 6.7% in 2026-27, and that is just by disapplying it for one year. There are going to be some pensioners who have a really tough time next year because of rising prices and the fact that they are not going to get an uprate that you promised them in your manifesto. What can you say to them?

Rishi Sunak: You may have a different point of view to me, but Siobhain was talking about working-age people, young families and people starting out. We had a situation where the statistics that determine earnings growth were completely distorted as a result of furlough, the composition



of the labour market before and after the pandemic, and the very rapid reopening after a very rapid fall. Everyone universally, not political, acknowledged that the statistics were not an objectively sound basis to be making decisions. That was not just me. I have a list here that I could read through of multiple organisations that all said the same.

In that context, we had a decision: do we go ahead and apply the triple lock in a way that it was clearly not meant to be applied and that would award people a number that we know to be wrong and false? That would mean that we would have to find those billions of pounds from somewhere else, or not spend it on the NHS, schools, R&D, as the Chair was asking about, or whatever it might be. I did not think that that was right or fair, and most people would accept that that was not fair.

The Institute for Government, the Resolution Foundation, the Social Market Foundation, the Institute for Fiscal Studies, former pensions Ministers and the Institute of Economic Affairs—I can go on and on—all thought it was a completely reasonable and fair thing to do. We did not scrap the triple lock in its entirety, as some people said we should. We just temporarily moved to a double lock, which does exactly the thing that you were asking about. It protects people against rises in the cost of living, because the double lock gives you the benefit of inflation or 2.5%. It is higher than 2.5%, so that is what pensioners will get. I stand by that decision. I genuinely believe that is the right and fair thing to do.

Q149 **Dame Angela Eagle:** It saves you £30 billion in the next five years.

Rishi Sunak: That money has been used for all the things that we have been discussing. If we did not have that money, the headroom that we started this conversation with being lower than anyone else would be even lower, so there would be even more risk, or we would more likely not have been able to spend on all the other things that we have spent on, or taxes would have gone up. I thought that this was a reasonable and fair thing to do.

With regard to pensioners, there is already lots of other support that comes through the system, whether it is the winter fuel payment, which is worth almost £2 billion a year to help with energy bills over the winter period, NHS prescriptions, which are worth several hundred million pounds, from memory, or bus passes. There is lots of other support for pensioners, separate to the state pension.

Relative to earnings, pensions in this country are the highest they have been in over 30 years. The triple lock has been in place for the last 10 years and, notably, was not in place before then. Let us just remember that the triple lock was put in place and executed after 2010. Before then, as you will remember, because you were in government then, Angela—

Dame Angela Eagle: I do remember.



Rishi Sunak: The Labour Government just had inflation. Then it moved to a double lock for the bulk of the Labour period—inflation or 2.5%. Because pensioners have benefited from something better than that since 2010, pensions relative to earnings are now, as I said, the highest they have been in something like 33 or 34 years. I thought that this was absolutely a reasonable and fair thing to do in the circumstances. You might disagree. Fair enough. I think it was the right thing to do.

Q150 **Dame Angela Eagle:** I was merely trying to get you to talk to us about how much money you had saved by making that decision, and it is £30.5 billion.

Rishi Sunak: I do not think that is the right way to look at it, but that is fine.

Q151 **Dame Angela Eagle:** Finally, you chose not to cut VAT on gas and electricity. When questioned on why, you said that such a cut would disproportionately benefit people in large houses, but you have frozen fuel duty. Does that not disproportionately benefit people who drive big cars? Why the one and not the other?

Rishi Sunak: No, not to the same extent. Fuel duty is something that benefits people very broadly. It is a smaller amount than freezing or reducing VAT on energy. Again, I think that freezing fuel duty was a helpful thing to do to ease the cost of living. It is something that people think makes a difference to them and, in that sense, is widely supported. It is not something that you may believe in. That is fair enough. I thought it was the right thing to do in the circumstances of inflation that we have been seeing, doing our bit to ease the cost of living.

I believe that a VAT cut on energy would not be a sensible thing to do. Again, that is not just me saying that. That is the Resolution Foundation, the Institute of Fiscal Studies and I forget which tax policy institute it was; they have all said that it means that the bulk of that very expensive tax cut, which is worth over £1 billion, would go to the wealthy. It is not a well-targeted policy. Our approach of creating a £500 million household support fund, where money can go directly to the 3 million most vulnerable families in the country and help them with their energy bills, is a much better use of cash than a massive tax cut that benefits predominantly wealthy people. It is not just me saying that; it is all the independent people saying that as well.

Q152 **Dame Angela Eagle:** If high energy prices persist throughout next year, will you be looking at this again, or is that it as far as you are concerned?

Rishi Sunak: I would not comment on future policy now, Angela. You know that. We have put policy in place now that will help, whether it is the household support fund or the universal credit taper-rate reduction, which puts a considerable amount of extra money in people's pockets next year. There is existing support for energy bills already in the system, which you will be familiar with.



The warm homes discount provides about a £140 rebate on about 2.2 million vulnerable families' bills already. That is already built into the system. The winter fuel payment, which we talked about, provides £200 to £300 to several million pensioners. The cold weather payment, if temperatures really drop, means an extra £25 a week for about 4.1 million vulnerable families. The energy company obligation helps about 300,000 people a year in fuel poverty, with upgrades to their homes in terms of insulation and energy-efficiency measures, generally saving them about £300 to £350 each. Those are four other things that we do anyway at the moment to help people with their energy bills.

Dan York-Smith On fuel duty, lower-income people tend to drive older cars, which are much less fuel-efficient. It tends to be better-off households that have new fuel-efficient cars or electric vehicles and, therefore, freezing fuel duty is quite progressive in terms of its impact on household costs.

Dame Angela Eagle: Do not tell them in Glasgow.

Chair: You cannot please everybody all the time, can you?

Q153 **Harriett Baldwin:** Can I just come in very quickly on the macro inflation theme? We heard from Sir Charles Bean this morning, who was reminding us about the bond market collapse in 1994, the loss of confidence and the rise in interest rates then. He was pointing to the scenario in the OBR reports for the really bad inflation outcome, which was quite a reasonable risk to your forecast, and he quantified it in terms of it costing the Treasury an extra £60 billion over the next two years. I just wondered, in your plan B, what you would do if that unfortunate turn of events occurred.

Rishi Sunak: Harriett, you will have to forgive me, because I did not see Charlie's evidence earlier, so I do not know exactly what he was referring to. Was he just talking more broadly to a situation where inflation was wildly out of control?

Q154 **Harriett Baldwin:** In terms of inflation, it has a central scenario and a risk scenario. In that risk scenario, he quantified the cost to the public purse over the next two years as being £60 billion.

Rishi Sunak: I do not know exactly what went into that. I completely agree with Charlie that persistently high inflation is a risk to the economy. That is why the remit for the Bank of England is low and stable inflation. I reiterated that remit by writing to them last week, and I would expect them to continue to do what they have done over time, which is to meet it. Hopefully, we can have some confidence in that.

On the fiscal policy side, we have thought about that as we have put together the policies. Fuel duty on the margin helps keep the cost of living down. It does something. Where we can make sure that fiscal policy is not going to lead to that scenario, that is something that we would have in mind. I cannot talk specifically about that scenario and



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what I might do in that scenario, but £60 billion is a very significant amount of money.

Q155 **Harriett Baldwin:** What I am hearing is that there is not a specific plan B that you have. You are hoping that it does not happen. £60 billion would be a lot of money.

Rishi Sunak: You would expect us to think through lots of contingencies, and that is part of the reason for having headroom in fiscal rules. It is partly why you have fiscal rules that are met on a rolling basis rather than a fixed basis, to allow you to adjust to short-term changes in the economy and the economic cycle. Some people might say you should have fixed rules because they are stricter and more credible, but the benefit of a rolling rule is that it allows you to manage some short-term challenges, if you need to. Those are some of the things that we put in place. We constantly keep an eye on it. There are levers that we can deploy—things like the national living wage and others—on an annual basis or beyond, but the Bank of England has a good track record of managing the things that it is responsible for. We will make sure that fiscal policy is doing its bit as well, and I am reasonably confident that we can do a good job of things.

Dan York-Smith Just to the Chair's questions at the beginning, it would depend on what drove those. In the OBR scenarios, they point out that, if it was more on the labour side, so it was wages, that could be fiscally positive in the medium term. It would depend on what the driver was and the persistence.

Q156 **Chair:** Chancellor, when you took the decision to freeze those thresholds around income tax, were you thinking, to a degree, in terms of a hedge against future inflation on the fiscal side, if that is the consequence according to the OBR?

Rishi Sunak: I was very transparent about that decision in the spring Budget. I went out of my way to explain the rationale for it in the Budget speech. As a measure, what it has going for it is that it is incredibly broad-based.

Q157 **Chair:** I understand all of that. I just wondered whether you thought that, if inflation really takes off and it is wage inflation, the public finances would not be badly hit and, in the medium term, would be positive.

Rishi Sunak: That measure is not going to make up for 60 billion quid. To Harriett's point, I do not think that that could be a driver for that policy. That policy is a progressive policy and was described as such by everyone. It is broad-based and it builds over time, which is what you want in order to support an economic recovery. At the time, people recognised it as being a sensible way of doing what we needed to do.

Q158 **Chair:** It might yet prove very helpful to your numbers if wage inflation takes off.



Rishi Sunak: As you said, there is a natural link, but that was not the driver for the policy.

Q159 **Rushanara Ali:** Good afternoon. Chancellor, I just want to focus my questions on the overall tax burden—I know that some of it has already been touched on—and the taper rate. In your speech, you said that your goal is to reduce taxes. The OBR has said that the tax burden is forecast to increase to the highest rates since Clement Attlee. Clement Attlee had a lot to show for his tax increases in the form of the National Health Service, which we continue to benefit from, education, the welfare state and much else. What do you have to show for the tax burden rising to the level that it has? Is it comparable to the ambition of the post-war Clement Attlee Government?

Rishi Sunak: You talked about two things. You talked about education and the NHS. That accounts for a good chunk of where the money goes.

Q160 **Rushanara Ali:** The catch-up tsar set out a request for about £15 billion. The amount that you have invested is nowhere near that.

Rishi Sunak: It is £5 billion. You might want to cut the pie differently, Rushanara; that is totally reasonable. What I would say is that the reason the tax burden is very high is because we are spending a lot on lots of different things. No one can disagree that the pie is really large. You might say, "I want to spend even more on catch-up", but you have to point to the bit that you are going to spend less on.

Q161 **Rushanara Ali:** As Siobhain was talking about, is the £4.5 billion tax break that you gave the banking sector a fair way to allocate resources?

Rishi Sunak: I do not think that that comes anywhere close.

Rushanara Ali: It is still billions.

Rishi Sunak: The tax rate on banks is going up, so we are going to be collecting more from banks than we were previously. The tax rate on them is going from 27% to 28%. What do you get for it? On catch-up, £5 billion is a very significant investment. What is it doing? It is doing a few things. The things that I would focus most on are the areas where the evidence points to there being the biggest effect on kids' learning, and that is teachers and small-group tutoring.

All the evidence that we have been through will tell you that, if you do small-group tutoring, that can have a really beneficial effect on people's ability to learn more quickly. There is just a delivery constraint on how much tutoring you can do, because you have to hire people who have to be able to deliver it properly. We have broadly maxed out on that amount of what we can do.

Secondly, on the teaching side, again there is a delivery constraint on how many teachers we can provide extra CPD and mentoring for, particularly in the early stage of their career. We are maxing out on those things broadly as well. Those are the best evidence we have.



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Separately, there is money going into increasing the number of hours post 16 and, broadly, premiums that are delivered to schools for them to use at their discretion.

The NHS is important, because you mentioned it, and you are right to highlight Attlee.

Q162 **Rushanara Ali:** He established the NHS; you need to fix the under-investment.

Rishi Sunak: Yes, he established it, but I do not think that, when he set it up, he envisaged the demographics that were going to be in place 60 years later, nor did he envisage a pandemic that meant that the NHS backlog was reaching unacceptable levels. Where is this money going? This money is going to reduce the backlog to help us catch up with millions and millions of operations, and it is going on coping with the demographic pressures in a wealthier society demanding more from its healthcare system.

Q163 **Rushanara Ali:** What I am trying to get at, given we are coming out of a pandemic, is about the choices you are making and some of the longer-term pressures on the economy. We talked earlier this morning about the hit on productivity from Brexit in the long run of about 4% and also the pandemic-related productivity hit of about 2%. When you add up these things, including the tax burden that has increased quite dramatically, should the British people be confident in the measures that you have put in place in terms of taxation and expenditure, given what has happened in relation to the consequences of Brexit as well as of the pandemic, and confident that we are set, in the long run, to make up for the losses in the economy and productivity on your watch in terms of the plans you have put in place?

Rishi Sunak: People can already see that the plan we put in place is working. A year ago, people were saying that unemployment was going to be 12%. The forecast now is for it to be around 5% at peak, which is 2 million fewer people out of work than previously forecast. The OBR described our interventions as "remarkably successful". I did see a comment from them this morning that they were positively surprised by how successful our interventions have been, so people can take some confidence from the fact that what we have done over the last 12 to 18 months has averted what could have been a very significant outcome in the labour market.

A year ago, and even more recently, the OBR and others believed that scarring would be 3%. That has now been revised down. You have talked about the long-term damage of these things and whether our policies are making a difference. Clearly, they are. It has been reduced from 3% to 2%, and that is driven by a lot of different factors. There are three main components that go into scarring: capital shallowing, total-factor productivity and the labour market. Particularly on the labour market, outcomes have been far better than anyone expected, which has meant



that people could reduce that. On the capital side, because of things like the super-deduction or the fact that we have lowered business insolvencies, and investment in things like R&D and innovation has continued to be strong, people can feel much more confident that there is not going to be as big a hit to the total-factor-productivity component of the scarring. That is pretty good, and there is still room to go. Who is to say we cannot reduce it further?

Q164 **Rushanara Ali:** What would you say to the IMF's global forecast that suggests that the UK's recovery will lag behind other G7 nations? You mentioned the OBR; its projections are that growth is going to go down. How do we keep up with other countries?

Rishi Sunak: The IMF has us growing the second-fastest this year. Of all the numbers, they are probably the ones that have been least recently revised, so let us see what they say later this year, when they do those. The OECD projections, which are more recently updated, have us growing more quickly than everyone else. Whether you look at nominal or real GDP, the catch-up that we have is squarely in line with other major economies that we compete with, so there is no major delta there at all. That is true whether you look on a nominal or real basis, which is good, as some of those measurement issues unwind.

What gives me confidence is that the plan that we put in place over the last year and a half has worked. That has led to upgrades to what people thought, so we can take some confidence from the fact that we have done a good job of limiting the damage of the last year and a half. Going forward, I have confidence in our plan for growth. Investing in infrastructure, skills and innovation is what I believe will drive growth up.

Q165 **Rushanara Ali:** Are you raising taxes now so that you can cut taxes closer to a general election?

Rishi Sunak: Believe me: the last thing I would do is voluntarily raise taxes. We have done that to fund what we needed to do, which is to fix the damage that coronavirus has done, to make sure that the NHS can get the resources it needs to recover from the pandemic, when the backlog was going to stretch to unacceptable levels, and to fund what are landmark reforms of the social care system, which other Governments have not done. That is why those things were done. It is a once-in-a-300-year economic shock. It is unsurprising that it has had some consequences.

Q166 **Rushanara Ali:** In terms of what you have done with this Budget, women are left £48 billion poorer by your Budget, according to the House of Commons Library. 6 million families have been hit by the £20 cut from universal credit. 1.9 million families will benefit from the changes to the taper rate. We are going to see over 4 million children still living in poverty. Your Government talk a lot about levelling up, but the inequities have got sharper and the gender differences are even greater. What are you going to do to try to address the hit on living standards? You



mentioned the IFS; the director of the IFS described living standards as being awful in the next few years. How can our constituents cope with all that has happened and the hit that is going to be on these demographic groups that I am talking about?

Rishi Sunak: You are absolutely right to focus on women and children. I would say a few things, because it is very important and it was in my thinking as we constructed the Budget and the spending review. You talked about single parents. A single parent who is working full-time on the national living wage, with two kids, renting, is going to be, as a result of the change to the universal credit taper rate, £1,200 better off, which is significant support.

You talked about children growing up in poverty. There are fewer children in poverty today than there were in 2010.

Rushanara Ali: No, that is not true.

Rishi Sunak: We know that children in workless households are five times more likely to be in poverty than those not. There are now several hundred thousand fewer children in poverty because of that situation, which is why supporting work and making work pay is important to making sure that children do not grow up like that.

The other thing I would say is that we did a lot to support young families. As a result of the spending review, there is more funding going into supporting parents with children in the early years of their lives. There has been a lot of work done on exactly where we can be helpful. Whether it is the investment in the early years workforce, with £150 million to help them with professional development, the extra £170 million a year for provider rates, the £200 million for the supporting families programme, the £300 million for the set of interventions across early intervention, family hubs and parenting programmes or the digitised red book, that is considerable support, which will particularly disproportionately benefit women and help children. It will mean that they do not grow up in poverty.

Q167 **Rushanara Ali:** There is no question that you have been presiding as Chancellor under incredibly challenging circumstances. The CJRS and other schemes were very much what the country needed. You talked earlier about speed of delivery, but the waste of billions of pounds of public money is something that the British public should not have to put up with. What we are now seeing is that that money could have been used towards the levelling-up agenda, for instance, and, in terms of the numbers I have mentioned, the groups that are suffering and will continue to suffer because of inflation, the cost of goods, fuel prices and the rest of it. That ineffective use of public money is a serious matter, as the NAO pointed out and as Dame Angela has mentioned as well. Frankly, if a Labour Government presided over that kind of waste, a Labour Chancellor would probably have been hung, drawn and quartered.

What are we going to do about the millions of people who are not going



to benefit from the taper? I welcome what you have done with the 1.9 million or so who will see a benefit, but there are millions of others who the universal credit cut is not going to help, while, at the same time, these other pressures are kicking in, with the prices of food and fuel going up. What will you do about them? The measures that you have put in place are not going to reach them. In constituencies like mine, we have seen that child poverty has gone up to 60% and is hitting people very hard up and down the country. Chancellor, what are you going to do about those people?

Rishi Sunak: You were just talking about fuel prices, Rushanara. We have talked about freezing fuel duty, which I think Angela disagrees with.

Rushanara Ali: I am just giving you an example of the sort of pressures on families.

Rishi Sunak: Freezing fuel duty will help all those people. You guys might disagree, but that is something that will help. The universal credit taper rate, as we have said, will considerably help all those people. The national living wage increase will considerably help all those people. The household support fund, which we put in place early to give people reassurance, is £500 million, geared towards the most vulnerable families in the country and many of the people you are talking about, who will benefit from that.

That comes on top of many of the things we have already done. I will just pick one example. One thing we did last year, which we have maintained, is an uplift in the local housing allowance. We increased it by £1 billion a year, which is a considerable amount and means that 1.5 million of the most vulnerable families are receiving over £600 a year more to help with things like rent payments. If you look at any of the distribution analyses or at any of the events that we have done since I have been Chancellor, what they show is a very progressive set of measures, which is disproportionately benefiting those on the lowest incomes, in the lowest income deciles. Those are all the things that have been published. They are all there for you to see and that is the story that they tell, because our support has been geared towards those who need our help the most.

Rushanara Ali: That is not true.

Q168 **Anthony Browne:** My questions are on the new fiscal rules that you introduced in the Budget. I have several questions about them. You were targeting public sector net debt ex Bank of England but also the rationale behind the three-year rolling scheme. On the public sector net debt, that is quite unusual. There are lots of different fiscal rules in different countries, and we have had lots here over the last 20 years or so. The primary target is normally deficit rather than debt. Why have you decided to target the national debt rather than the annual budget deficit?

Rishi Sunak: We are doing a bit of both, and one leads to the other, to some extent. We have two rules. One is a debt target and the other is a deficit target of sorts. It is a current-balance rule, and some version of



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that has been in place for something like 18 of the last 25 years—it is the vast majority of the past quarter-century—so it is a reasonably common rule and is reasonably accepted as being good fiscal hygiene.

Debt is simple, easy to understand and, fundamentally, the best protection we have against future uncertainty and shocks. It is just having fiscal space, and that comes from lowering our debt burden from what is a historically high level. Particularly with all the risks that we have spent time talking about today, that is a straightforward thing for us to focus on. That is what gives us the protection we need to think about dealing with things that might come our way. There is one of each, so we are doing both.

Q169 **Anthony Browne:** The Office for Budget Responsibility, in its economic and fiscal outlook report and in the evidence we had this morning, expressed some concern that the national debt is prone to game-playing; that is one way of putting it. It is concerned about student loans, for example. The definition of what does and does not count in the national debt can drive policy. If you have a target for the debt, that might lead your officials to advise you that some things should be counted as debt and other things not. Is there such a risk?

Rishi Sunak: There is no perfect version of any of these rules, understanding the positives and negatives of all of them. It is simple and easy to understand and makes sense. Is it perfect? I doubt it. There is probably no rule that is perfect. Even if it did not have that particular issue, one might rightly say that debt is a very narrow measure of all the financial liabilities that a Government has. We talked a little bit about having a slightly broader view of the public sector balance sheet, which is probably a sensible thing to do. Again, it is not easy to do, so we will start thinking about that alongside debt anyway. It deals with some of the issues you talked about but it is even broader than that.

Again, it is commonly used by many countries, for the reason that it is, if not perfect, probably the best thing we have that is simple, easy to understand and broadly achieves the goal that you want. Hopefully, because of things like a suitable amount of headroom, you are not sitting there desperately trying to manage it. You should be meeting it with some room to spare in an ideal world to have that buffer.

Q170 **Anthony Browne:** Your target on national debt is that it should be coming down towards the end of the forecast period of three years, whereas I remember, when Gordon Brown first introduced a national debt target, it was 40% of GDP. Wouldn't it be nice to have such low national debt? I remember at the time reading with shock about the national debt levels of Japan and Italy, but we are now up there. Why have you decided to target simply going downwards, as it were, rather than targeting an absolute amount?

Rishi Sunak: It is probably more credible. When you talk to investors and think about what will make us credible and provides people



confidence, the trajectory is probably more important than the absolute level. That is something that has changed, because people's perception of all these things has changed slightly over time. The 40% was a Maastricht rule, so it was probably also making sure that, should the opportunity arise, one might be able to take to the UK into the single currency, but that is a separate discussion. In terms of where we are, what people say, what matters and what I am trying to project is for people to have confidence and reassurance in the UK Government, in our financing and in our borrowing levels. Having a trajectory that is clearly on a downward slope provides people that at this juncture.

Q171 **Anthony Browne:** You also decided to have a rolling target of three years ahead—you touched on this earlier—which allows you to adapt to short-term shocks in the economy. The Office for Budget Responsibility says that there is a risk of it being “Augustinian”, which I take to be a reference to St Augustine, who said, “Lord, make me virtuous, but not yet”. Is there not a risk that, if you are always targeting something three years away, that you could be very generous this year, because you can always plot to cut things in three years' time to meet your target?

Rishi Sunak: That is absolutely right and, again, there is no perfect way to do these things. You can either do a rolling or a fixed. The problem with a fixed target is that you have no flexibility, and people would rightly want fiscal policy to be able to adapt in the short term to changes in the economy and cyclical things that needed addressing, while maintaining medium-term credibility. That is the trade-off between fixed and rolling. If you were constantly never meeting it, that would be pretty apparent to the outside world and you probably would not get the credibility benefit that you need it to provide.

In practice, it is probably hard to do that, because people can see through it, but the rolling provides the right balance between credibility and flexibility. You have another choice of timing. You could have a rule that was not met for five, seven or 10 years. Clearly, that is not particularly credible, and you want to strike the right balance between it providing some flexibility but also being credible. Three years strikes that balance. Once you go to five years and beyond, it is much less credible, because lots could change between those times. To your point, it becomes much more pertinent if you are talking about five-year targets rather than three.

Dan York-Smith: To your point on the incentive to try to do things that shift it, if you have a fixed target, the less time you have before that fixed period, the fewer levers you have to adjust fiscal policy to meet it and, therefore, the more likely you are to go for unconventional things.

Q172 **Anthony Browne:** The year before a fixed target, you would have no flexibility at all. You have some sub-targets. There are two caps on spending criteria. We have had one on welfare spending for some time, which is understandable. You also now have a cap on investment of 3%. What is the rationale for a cap on investment, since we normally see



investment as a good thing?

Rishi Sunak: Conrad might want to jump in. That represents a historically very high level of investment and we are just under that level for the entire period of this SR and Parliament. As I said, it represents the highest level of capital investment sustained since the 1970s, where the numbers get a bit funky because of all the nationalised industries. It is because we have a current-balance target, to your point, that people generally might have had an overall borrowing target that would have dealt with capital investment. Because we have just a current-balance target, that is a sense of what you do on the investment side, which means that you are controlling overall borrowing. That is our way of getting to your overall nudge on borrowing, so there is some constraint on just aggregate borrowing.

Anthony Browne: Shall we give Conrad a turn to say something?

Conrad Smewing: A big moment—no pressure. The 3% number is about double what the average has been as a share of GDP from 1980 to 2020. It is quite a significant level of investment and, as the Chancellor was saying, it is the level that is roughly consistent with debt being on a downward path when you have the current Budget in balance. It is a lot but it is a sustainable level of investment that you could consider having over a long period of time.

One of the important things about it is that the UK has been up at that level for one year or so, and a couple of times in between times, but this is the largest sustained level, which is what allows you to do things like plan your transport and infrastructure spending over a very long period, increase the R&D budget and keep it there, really make big changes and fund a lot of the net-zero investments that are in the Budget. It is a level that is sustainable over a long period of time.

Q173 **Anthony Browne:** You referenced earlier that you want to monitor a wider range of metrics around borrowing and the fiscal state of the economy. One of them is public sector net worth. Just looking at the tables in the OBR's report, it is calculated at -0.37% of GDP by 2026, so the net worth is negative in four or five years' time. If that was a company, you would say that it should go into administration and was not a going concern. How much should we be concerned by the fact that public sector net worth is deemed to be going negative?

Rishi Sunak: We have spent a lot of time thinking through all this stuff, and Conrad and Dan will enjoy talking to you about in a second. These numbers are new, and so part of the reason why all of this is tricky is because we are trying to figure out the best way to do this. Again, what are the things to get out of it? There is a recognition that net debt is quite a narrow measure.

Q174 **Anthony Browne:** I fully support you looking at public sector net worth, but I was wondering how much we should read into—



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Rishi Sunak: I think about how we compare to other countries on an apples-to-apples basis, and it is really tricky to do. It is harder to do that than it is with pure, narrow financial net debt. How do we compare to other countries? Probably what is more important at this point is the trajectory: is it improving or getting worse? Are the decisions we are making improving it or not? That is probably what I would say, but, Conrad, we have been looking at this analytically for a little while.

Conrad Smewing: Yes, exactly. The important thing to read into it is the trajectory rather than anything else. It is a better measure than net debt of the overall financial position of the Government in the sense that net debt is blind to whether you have borrowed to consume for current spending or to build railways and roads that are going to last for years. Net worth is a more accurate measure of the balance sheet.

Anthony Browne: Take out a mortgage and buy a house, and the house price goes up.

Conrad Smewing: Dan will correct me but I do not think it includes the future right to taxation.

Dan York-Smith: No, it does not have the assets side.

Conrad Smewing: You might be less worried about it being—

Dan York-Smith: On the comparison with the company, the company cannot choose to raise taxes in the future.

Q175 **Anthony Browne:** That would be a great company to run. I just wanted to finish off with some questions on productivity. One of the focuses of the Budget was becoming a high-productivity country. I know you are doing lots of different things. You talked about investment in skills, research and infrastructure. Looking at the impact of Brexit on productivity, there are various angles here. The OBR reckons that trade with the EU has ended up 15% lower than it was pre-pandemic, whereas the rest of the world has more or less bounced back. They reckon that it will be a 4% reduction in productivity. Do you accept or recognise those figures? Do you have any idea why trade in Europe has not bounced back up in the way that it has in the rest of the world? Is it because of Brexit or other factors?

Rishi Sunak: I have not seen the latest set of trade stats. I do not know which bit you are specifically looking at. I will have a look, but that number from them is an old one. It is not a new one. It was in 2018. I forget when they first did it. Their view of that is already in all our numbers and in their forecasts, and has been for a while. It was in the Budget forecast that I did in my first Budget, before coronavirus happened, so the impact of that has already been taken into account in all their modelling.

Q176 **Anthony Browne:** The OBR has talked a lot about this. Trade with the EU has not bounced back as much as it has with the rest of the world. It



is noticeably different.

Rishi Sunak: Our trading relationship with the EU has obviously changed post Brexit. We have a free trade agreement but it is not exactly the same as we had before, which means that the trade patterns are going to take some time to adjust. I have not seen the last set but, from memory, the general trajectory—there was obviously going to be a period of adjustment—is on an upward slope.

Q177 **Anthony Browne:** Let me come back to something you mentioned earlier about having more high-skilled immigration, which is an objective of immigration policy. There is also less lower-skilled immigration because of the ending of freedom of movement of labour, and we are seeing all these labour shortages that various sectors are complaining about. As the Chair referred to earlier, the Prime Minister has said that he does not want to just pull the lever of cheap immigration. How much impact would reducing the free flow of low-skilled labour have on productivity?

Rishi Sunak: The thing that is going to make more difference is on the high-skilled side. We know that there are a small number of people who can be disproportionately beneficial to company formation and growth. To take an example, half of our fastest-growing companies have a foreign-born founder. By the way, those companies disproportionately account for our economic growth. You can do some things that are not high-volume in terms of the migration side but can end up being hugely impactful to our future growth as a country. That is why I spent a lot of my time focusing on all our high-skilled migration visas: Innovator, Entrepreneur, Global Talent, High Potential Individual, post-study, Global Business Mobility and Scale-Up. Those are the types of things that can be very beneficial.

Q178 **Alison Thewliss:** I want to ask you, Chancellor, some questions around net zero. The world is gathering in my constituency for COP26 as we speak. I want to ask you why in your Budget you decided that the best way to go about promoting your net-zero targets was to cut air passenger duty for internal flights.

Rishi Sunak: It is not the best thing we did. On that particular measure, if you look at the net impact on carbon emissions, you are mentioning one thing we did but not the other, which is to create a brand-new rate for ultra-long-haul. The principle is that the further you fly, with the most carbon emissions, the more you will pay. If you look at the impact of those two things, from a carbon emissions point of view, they probably just about offset each other or a bit more than reduce.

Separately on that, what you are missing more broadly on net zero, not just on aviation, is that, the week before the Budget, we announced the full net zero strategy, which is £30 billion of investment across almost every aspect of the transition. Particularly in aviation, for example, there is £180 million to create two sustainable aviation fuel plants in the UK,



which is ultimately what we will need to do. There is funding in the net zero strategy to do that.

Q179 **Alison Thewliss:** If you are taking a long-haul flight, there are not really very many viable options if you want to travel to Australia or the States, but there are other options if you want to travel from Glasgow to London. Can you tell me how much the difference is between a return flight and a train ticket between Glasgow and London?

Rishi Sunak: I do not have that to hand.

Q180 **Alison Thewliss:** I checked this morning. If you were looking to travel at the end of the month, between 22 November and 29 November, a return flight from Glasgow to London would cost you £49. A train would cost you £147.80. That is an average price; there are higher and there are lower. The Caledonian Sleeper would cost you £435 for a return ticket. Again, I ask you why you are cutting APD rather than taking action on train prices.

Rishi Sunak: We are funding the train network, as we talked about earlier on.

Alison Thewliss: Rail prices are going to go up in January.

Rishi Sunak: We are taking enormous action on train prices and we are subsidising the rail network to the tune of billions of pounds a year in order to keep it running at the moment. That is the action we are taking on train prices.

With regard to APD, we have a pro-union policy, because we are returning to the system that we had, which is that you do not pay double APD. That is, effectively, what is happening currently. You pay double APD on flights within the United Kingdom, but that did not used to be the case. It was never the case but we had to remove that for external reasons some years ago, so this returns it to the status quo ante, where you only pay the same amount of APD. You pay half rate on both legs, so that returns it to that system. As I said, it is alongside a new rate for longer flights.

In aggregate, that is either a wash on carbon emissions or reduces it. It is also worth bearing in mind that carbon emissions from aviation are about 8% of our total; of that 8%, less than 5% comes from domestic aviation. Aviation is already covered by our emissions trading scheme. We have invested £180 million to create sustainable aviation fuel plants. Regardless of any duties anywhere, given that I assume that people will be flying for years to come all over the place, the best way to solve emissions from that problem is trying to figure out what a sustainable aviation fuel looks like. That is where we are putting our investment. The duties are not, one way or another, going to do anything.

Q181 **Alison Thewliss:** The point of this is that rail prices are going to go up by 5% at the turn of the year. Why should rail prices go up and APD get



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slashed?

Rishi Sunak: It would not be for me to comment on rail prices. That is for the Transport Secretary, and he does that.

Q182 **Alison Thewliss:** You are the Chancellor. You are in charge of all the policies.

Rishi Sunak: The Transport Secretary will make a statement on rail prices, as he does most years.

Q183 **Alison Thewliss:** If you wanted to put that in your Budget, you would have put it in your Budget.

Rishi Sunak: What I would say, Alison, is that, as we were talking about earlier, there are billions of pounds of funding through this spending review to go on subsidising the rail network. As you know, not as many people are travelling on it at the moment.

Q184 **Alison Thewliss:** With respect, that is not going to have an impact on the prices people are paying for their tickets. The price of tickets will go up by 5% at the turn of the year.

Rishi Sunak: The vast majority of people do not use rail.

Alison Thewliss: And they are not going to if they are going to have pay more.

Rishi Sunak: We are already subsidising the rail network considerably. You might say, "Subsidise it even more", so spend less on the NHS, on schools or on cladding.

Alison Thewliss: You are subsidising aviation at the expense of the rail network here.

Rishi Sunak: The cost of that is fiscally broadly neutral. Just so we are clear, it is about £20 million a year. Dan will correct me if I am wrong, but it is that kind of order of magnitude. We are spending billions of pounds on the rail network every year to subsidise the fact that not many people are travelling on it.

Q185 **Alison Thewliss:** Because it is so expensive to get a ticket.

Rishi Sunak: Because a fixed network is expensive. We are already subsidising it. You may say, "Subsidise it even more", which is fair enough.

Q186 **Alison Thewliss:** Would you rather pay £50 or £150 for a ticket?

Rishi Sunak: It would not come from the £20 million of APD. It really would not. It might come from schools or hospitals. You might not want to fund roads or something. That is totally fair, but APD has nothing to do with the rail pricing.

Q187 **Alison Thewliss:** The point of this, Chancellor, is whether you would



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rather pay £50 for a return plane ticket or £150 for a return train ticket. These are the options that people are weighing up.

Rishi Sunak: Nothing about the change in the duty rate is going to make the difference between those numbers on the rail ticket side.

Q188 **Alison Thewliss:** It is not going to attract people on to the railway, is it?

Rishi Sunak: The rail network at the moment is suffering from the fact that not that many people are travelling on it compared to pre-coronavirus.

Alison Thewliss: And they will not.

Rishi Sunak: All taxpayers, not just those who travel on the rail network, are currently contributing to a very significant subsidy of the rail network that is worth billions of pounds, because otherwise those tickets would have to be even more expensive or services would have to be significantly reduced. That is not happening. We are subsidising the network to the tune of billions of pounds a year currently, and are forecast to do so, as the Chair mentioned earlier, because of the recovery in passenger demand that is forecast.

Q189 **Alison Thewliss:** You described it as a pro-union measure, as did the Chief Secretary to the Treasury on the television. Would it interest you to know that 62% of people in Scotland think that reducing APD is the wrong priority for this Government, more so than in the UK as a whole?

Rishi Sunak: It is absolutely their right to have that view. This is a policy that ensures that travel within the United Kingdom is not disadvantaged relative to where it was previously.

Q190 **Alison Thewliss:** As long as you want to fly rather than go on a train.

Rishi Sunak: If you are going on a train, you are going to benefit from the fact that there are billions of pounds of subsidy going in this year and every year.

Q191 **Alison Thewliss:** And a 5% increase coming in January.

Rishi Sunak: And billions of pounds of subsidy.

Q192 **Alison Thewliss:** During your speech, you said it would be reckless to have unfunded promises to abolish a tax that raises £25 billion a year, when describing business rates. By contrast, the Government policy to ban new petrol and diesel vehicles by 2030 will lead to the abolition of, at today's prices, £37 billion of revenue through fuel duty. What is going to replace that funding?

Rishi Sunak: I would not say anything more today than I have done previously, which is that, as we set out in the Prime Minister's 10-point plan and in the net zero strategy last week, revenue from motoring taxes will have to keep pace with the change in the adoption of electric vehicles. That is something that you would expect us to be thinking



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about. The Transport Select Committee is currently doing some work in that space and I look forward to seeing what it has to say.

Q193 **Alison Thewliss:** The net zero review does not identify how it is going to replace that lost revenue.

Rishi Sunak: It does. As I said, over time, obviously motoring taxes will have to keep pace with changes in vehicle adoption. That is something that we have said publicly. I say it today and it is obvious. As I said, the Transport Select Committee is currently doing some work and I am interested to see what it comes back with.

Q194 **Alison Thewliss:** Are you planning a different tax?

Rishi Sunak: As I say, would not talk about tax policy here, Alison, but I am interested in the work of the Transport Select Committee, because it has been looking at this very issue. It is right that it does its work and I am interested to see what it has to say.

Q195 **Alison Thewliss:** Scotland has slightly more ambitious net zero targets than the UK. We are looking to get to net zero by 2045. We did not see anything in this Budget about the Acorn carbon capture and storage project in the north-east, which promises 20,000 jobs in the north-east of Scotland. Why was that not in your Budget?

Rishi Sunak: Because the carbon capture and storage announcements happened the week before as part of the net zero strategy and the £30 billion of investment all across the country. It was part of that. I am not in charge of deciding which clusters get picked. There is an independent process, I imagine, that goes through that objectively. What I would say is that there are things that Scotland in particular is benefiting from in the net zero transition, particularly with regard to offshore wind, where more money is going into that and particularly for floating offshore wind, where the Scottish coastline is particularly suitable for some of the new investment. There is money in the net zero strategy for hydrogen among other things as well.

Q196 **Alison Thewliss:** I am glad you mentioned offshore wind. We have to pay significantly more in grid charges for offshore wind to connect than somewhere in the south-east of England. Can you explain how we are supposed to meet our net zero targets when it is so expensive to make windfarms stack up financially?

Rishi Sunak: When you say "so expensive", the price of offshore wind has come down dramatically over the last decade, from about £140 per megawatt hour down to £40-odd, from memory, so it is now very cost-competitive. That is because of many things, like technology improvements and the contract-for-difference system. The challenge with offshore wind is the intermittency. We have very ambitious plans for offshore wind. We are investing in port infrastructure and floating offshore wind.



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To your point on grid connections, there is money in the spending review that BEIS will use to build better ring mains to improve some of those connections from offshore to onshore.

Q197 **Alison Thewliss:** It is not about the grid itself; it is about the cost of connection to the grid. The Beatrice array off the coast of Moray pays a unit electricity price of £4.50 to connect to the grid, whereas a comparator in southern England is paid £1.50 to be part of the grid. How can we meet our net zero ambitions when we are penalised for having offshore wind in Scotland?

Rishi Sunak: That is not something that I know the detail on, Alison. I am happy to look at it, talk to the BEIS Secretary of State and get back to you. From memory, there is money in the net zero strategy for some offshore wind ring mains and things, which will help with some of the connectivity. As I said, that is detail that I will talk to the BEIS Secretary of State on and get back to you.

Q198 **Alison Thewliss:** Why were there no measures within this Budget to incentivise people to make improvements to their homes to reduce their carbon impact—for example, cutting VAT to home insulation, energy efficiency, solar panels?

Rishi Sunak: Why were there not?

Alison Thewliss: Why were there no measures to remove VAT from those types of improvements?

Rishi Sunak: The net zero strategy published the week before contains billions of pounds to do exactly that across three building types: social housing, public sector and private homes. There is money put aside for doing exactly what you said: building efficiency upgrades to reduce people's energy bills. That money is part of the BEIS settlement. There are three different streams of it: social housing, private housing, which can be delivered through local authorities as well as individually, and the public sector, as well as the clean heat grant, commonly known as the boiler scrappage scheme. I cannot remember the total but, over the course of the Parliament, it will probably be something like £5 billion from memory. Is that right, Conrad?

Conrad Smewing: Yes, that is right. It is about £10 billion including the renewable heat incentive.

Rishi Sunak: That was all there. It was in the week before in the net zero strategy.

Q199 **Alison Thewliss:** If you were to remove VAT from those measures, it would save a huge amount of money for housing associations up and down the country.

Rishi Sunak: We are doing the alternative thing with direct grants targeted to people who need them. We have had this conversation before about cutting VAT. It is about whether you want to do things in a more



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targeted fashion. There are lots of different ways to support, but we are putting in place billions of pounds to do exactly what you are talking about, which is to decarbonise our building stock and tackle it through the different types of buildings. We will have three different programmes up and running. Again, the implementation of that is for the Department for Business, Energy and Industrial Strategy.

Q200 Alison Thewliss: The Climate Change Committee's last carbon budget made clear that reaching net zero will be capital-intensive, with increased upfront spending required. Is the current net zero allocation sufficient to cover the increased upfront spending that is required?

Rishi Sunak: Yes, I believe it is. It is £30 billion over the course of this Parliament. It is very significant. It covers all the major areas. We were just discussing it outside. Broadly, the OBR's view was that it did meet our commitments and will keep us on track.

Dan York-Smith: Yes, and the chief executive of the Climate Change Committee said that the net zero strategy was an ambitious and credible path for UK decarbonisation consistent with the Paris agreement. As the Chancellor said, the OBR, in its fiscal risk report, had some estimates of the amount of spending required to support the net zero transition, and said that the net zero strategy and, therefore, the spending review were in line with its central case.

Q201 Alison Thewliss: When he was Chancellor, Philip Hammond suggested that the cost of net zero altogether could be £1 trillion. What is your estimate at the moment?

Rishi Sunak: We published the net zero review alongside the net zero strategy and said that, at this stage, it is hard to reduce it down to one single number, especially with a transition that happens over multiple decades and with technologies that are evolving. What we can do is have a credible plan to get there. As Dan said, independent people think the plan is credible and ambitious, and we are funding it with £30 billion.

Q202 Alison Thewliss: I have one final thing as regards Scotland. The UK Treasury has had £350 billion out of Scotland through North Sea oil. We are looking for money to go towards a just transition, to move Aberdeen from oil and gas to renewables and these new, clean, green technologies. The Scottish Government have put in £500 million to this effort, so that we do not see the same scarring as we saw when coalfields shut across the UK. Why has the UK Government not matched that £500 million for Aberdeen?

Rishi Sunak: At the last Budget, we announced funding for part of the energy infrastructure in Aberdeen to help with the transition. I cannot remember the exact number off the top of my head, but there was a project that we announced and has been fully funded through this spending review, with a particular focus on Aberdeen.

Q203 Alison Thewliss: Yes, but it does not match the £500 million just



transition fund.

Rishi Sunak: As I said, we have put money into a transition deal that at least was put to us and we have funded.

Q204 **Julie Marson:** Good afternoon. I am going to invite you to be slightly more philosophical. In your Budget speech, you said that the Conservative Party is the real party of public services. You also said, "Do we want to live in a country where the response to every question is, 'What is the Government going to do about it?' ... or do we choose to recognise that the Government has limits?" To what extent do you accept a tension between those statements, and how would you reconcile them?

Rishi Sunak: The best way to reconcile them is the conversation we were having before, which I know is a subject dear to your heart, Julie, and that is about making sure that whatever we spend on people's behalf, we spend it really well. That is our job. That is why having a focus on delivery, outcomes and performance should be at the heart of everything we do.

Q205 **Julie Marson:** Like you say, I have been thinking about that. I have just released a report, which sounds like a plug, with the Centre for Policy Studies on outcomes-based approaches. How is the Treasury going to ensure that those outcomes are really measured and focused on? For instance, we have estimated that in what you might call human services—rehabilitation, healthcare or children's services—only about 1.5% of spending is related directly to outcomes. How are we going to improve and measure that and be accountable for that spending?

Rishi Sunak: He has been waiting a really long time to talk about this.

Conrad Smewing: I am so glad you asked.

Rishi Sunak: This has been some years, by the way. We did start work on this when I was Chief Secretary, so I am not being light-hearted about it. You are absolutely right that it is really important. In the first spending review that I did in 2019, when I was Chief Secretary and worked with Conrad on this, we started laying the foundation for a focused approach to how we strive for performance, measure it and hold ourselves and Departments accountable for delivering it.

Conrad Smewing: What we have been able to do in this spending review is set out for each Department the top-level outcomes that it is going to deliver for that money and a detailed set of metrics for each outcome, where its progress can be judged. The document is online.

What that is doing is implementing the public value framework, which the Treasury worked on with Michael Barber when the Chancellor was Chief Secretary. It is a more holistic way of asking how you drive value in public services. You need clear goals, you need to be measuring outcomes and you need to know whether what you are doing is working. You need tight control of your resources, ensuring efficiency and



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economy in what you are spending. You need a system that is resilient and learns. Another part of what we have done in the spending review is a lot of focus on evaluation and evidence: how robust is the evidence base that the interventions that we are funding are successful?

In the Cabinet Office, we had an evaluation taskforce that came in and did two things. It assessed the strength of the evidence of the individual bids and, where that evidence was strong, we reinvested. Supporting Families is a measure that the Chancellor mentioned that has a very robust evaluation that it is successful at keeping children out of care and saves money for local authorities in the long term, so we funded that.

It also put in a series of suggestions or requirements for how we would evaluate spending in the future, including how you can use experimental applications and randomised controlled trials to see how effective big-ticket interventions like Help to Grow, for instance, are, in order to make sure that there is that link between the intervention we are doing and the outcome we are looking to measure. There is a top-level set of metrics that you can look at and then more detailed evidence and evaluation of the programme.

Q206 Julie Marson: To give some examples, if we look at education spending, we know how much particularly the poorest children's education has been impacted by the pandemic. How will we judge the success of the increase in per-pupil funding, for example, and the milestones along the way to success?

Rishi Sunak: I will let Conrad walk you through the specific metrics that we have done as part of the departmental settlement. You were talking about catch-up in particular. We spent a lot of time, before figuring out how much to spend and what to spend it on—you heard me talking about it earlier—going through the evidence and asking, "Where can we look across the world at all the studies? Where does the evidence point to? What makes the most difference to children's learning?" That is why we zeroed in on teaching and small-group tutoring as being two of the things that have the best bang for your buck and could be delivered; there was a good evidence base for those in the circumstances that we were in. That is why we zeroed in on those two things, as well as giving general funding to schools. Conrad, do you want to walk through some of them?

Conrad Smewing: I will not read out the whole paper but there is a mix of overall indicators on the performance of the system—the number of level 4 and 5 starts, GCSE results and that kind of thing—and things like the disadvantage gap at key stage 2 and key stage 4. A lot of the money in catch-up was focused on more disadvantaged pupils who are more likely to have lost out in the pandemic. There is a range of things. There is no one perfect measure, as is always the case with public services, so you need to look at the broad suite.

Rishi Sunak: The one challenge that I find with this stuff is that, in an ideal world, you would run randomised controlled trials everywhere. It is



quite difficult to do that. We are not going to pick some schools and say, "You will not get the catch-up money, and then we will have a proper control group to everyone to". That clearly does not work, so it is a bit trickier in public policy to create as robust control groups to measure things against. When I was Local Government Minister, I did the evaluation for the Troubled Families programme, as it was then called, because there were questions about whether it was working. We had to design a different way of doing that, which you can do analytically, but it took quite a lot of time, working with Treasury, to design something that would give us confidence that the intervention was making a statistically significant difference. It turned out that it was, but it was not straightforward to design the evaluation.

Q207 Julie Marson: Another example is that we have 5.5 million people on the waiting list for elective treatment, so there is significant money going into the NHS to deal with that. Do you have a specific estimate about how quickly and by how much you can reduce that backlog with the extra funding?

Rishi Sunak: That would probably be a better question for the Health Secretary than me. If he was here, what he would say is that it is difficult for us to know, because we do not have a perfect understanding of the degree of bounce-back, so to speak. We know that there are people who have missed out on things, but we do not have a perfect understanding of how many of those people will come back into the system. That makes a big difference to where the overall numbers end up at the end of the Parliament or over any time period.

What we are in control of is money going in to increase an amount of activity. That is the bit that we are probably most responsible for, and you have heard the Health Secretary talk about activity levels. All this money we are putting into the NHS is meant to generate activity levels that are X% higher than this date and Y% higher than what we did then. That is the bit that we can do. We can drive up activity and make sure that every pound that we are spending is creating the most amount of activity. In terms of the absolute backlog level at the end of a time period, it is a function of how many people come into the system, which we do not have perfect sight of, and the variation in that could be pretty huge.

Q208 Harriett Baldwin: I just wanted to go through the Red Book numbers on overseas development assistance. There have been two types of cuts to what we spend on extreme poverty around the world. There was the cut when the economy went down by 20%, which was £2.9 billion, which means that the outturn in 2019-20 was £10.4 billion. That was the first reduction. This year, the outturn has been a bit lower, at £9.7 billion. The plans for the next two fiscal years are down by 7.3% and 8.5%. Net-net, over the full period, if we are looking at the Foreign, Commonwealth and Development Office budget, it looks as though it has fallen by something like 41% from that number before the economy contracted by 20%. I



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was rather hoping that, as the economy rebounded, we would see an increase in those numbers. Of course, the 0.7% to 0.5% cut is only 29% compared to the 41% that seems to be showing up in the numbers. I see you have the unallocated provision in the 2024-25 numbers, which are £5.2 billion. I am just wondering how you would even switch on something like that, given the size of the cuts that have happened.

Rishi Sunak: The reason why the numbers maybe do not quite add up in the way you think is that you have to add the £5 billion too, because it is sitting there as an unallocated bit. Then it would be allocated. The other thing is that you probably cannot look at the Foreign Office in isolation, because ODA is spent by a range of different Departments. The Foreign Office does the majority of it—over 80%, give or take—but there will be a budget spent in other Departments as well and the exact mix might change.

In terms of the numbers, though, they should just be the 0.7% to the 0.5%, and then the economy shrank the ODA budget, which was £10 billion at the time overall when that happened, from memory. That was the overall ODA benefit. The other difference is that the Red Book numbers are for a fiscal year, and ODA happens on a calendar-year basis, which means that there is a slight mismatch between them.

In general, what you should see—Conrad should come in—in terms of the numbers that we have here are the 0.5% growing in line with GNI over the forecast period, but that is split between FCDO and other Departments, so the mix of that might be slightly different, depending on the programming in any particular year or how it is decided to divvy up that pie. What you then have is the £5 billion bit in that last year, which represents the difference from 0.5% to 0.7%. Again, there will be an ultimate question about how that will get allocated between Departments.

Conrad Smewing: That is exactly right. What you are seeing over the spending review period is, as the economy is recovering pretty rapidly, at 6%, keeping it at 0.5% of GNI means that the FCDO budget goes up, as do the other budgets around Whitehall that are funded with ODA. As the Chancellor said, the move from 0.5% to 0.7% in 2024-25 is unallocated at the moment, so that is not in these budgets, but it will be allocated if the forecast turns out to be correct.

Rishi Sunak: If we get out and that is what actually happens.

Dan York-Smith: Conrad will correct me if I am wrong, but I think some of the ODA is capital. The numbers that you might have been reading out were where the resource DEL, but there is also capital, where the FCDO budget is growing a bit more in the spending review period, excluding the unallocated £5 billion that has been added. You have to look at current and capital together.

Rishi Sunak: There is nothing funny going on, Harriett. We have gone from 0.7% to 0.5% on a lower economy. It goes up as the economy



grows, and then the difference between 0.5% to 0.7% is the £5 billion delta.

Q209 **Harriett Baldwin:** It just shocked me that it was not bouncing more as the economy is forecast by the Bank of England to be back to where it was before by the end of this year. Perhaps you could follow up with a letter to the Committee in terms of what was there before and which other Departments are spending it, so that we can get a clearer understanding of it.

Rishi Sunak: That is no problem at all.

Q210 **Gareth Davies:** Thank you very much for being here, Chancellor. I am going to take levelling up and take it in two parts, if I can: first on the meaning of "levelling up" and then the delivery of levelling up. Throughout your Budget speech, you referred to levelling up on a series of announcements, including restoring culture and heritage, for example. The Government have outlined that levelling up can apply to many different parts of the public policy agenda. As you look back one day on your time as Chancellor, with levelling up as one of your key priorities in Government, what is the one outcome that you would be most proud of and what you believe you should be most focused on?

Rishi Sunak: You are right, Gareth, to point out that levelling up is meant to be the golden thread that runs through the entire SR. As the Prime Minister said, that is what he wanted, and it delivers that. That means different things in policing, healthcare, education and capital investment.

There are two things that I probably would most focus on. One is pride in place and making sure that people, wherever they live, feel that the community that they live in is a richer, nicer place to live in. The levelling-up fund and the community ownership fund are good examples of that type of activity. Cultural investment and sports investment in, for example, football pitches are probably in that bucket.

The other thing is just about opportunity. I know that that is a broad word, but whether you are growing up in a village in the south-west or on the south coast, or up in the north-east near me, it is about feeling that there is an opportunity that has been provided for you to fulfil everything you want to do in your life. Again, that will manifest itself in slightly different ways. If you are in Teesside, that will be about the freeport and the transition to hydrogen and carbon capture and storage. It will be about the Treasury being there. That will make people feel that levelling up has been delivered. If you are in a village in the south-west, it might be about broadband in a rural area. It will be slightly different things, but it is this idea that, "Where I am, opportunity is too".

Q211 **Gareth Davies:** The Treasury has outlined a series of outcomes and ways in which we can measure levelling up, as I understand it, in the spending review. Conrad was talking about this earlier, but some of these



metrics are around employment investment and output per hour. One of the metrics is “Economic performance of all functional economic areas relative to the trend growth rates”, and I just wondered what that meant.

Rishi Sunak: There are various things that you can look at: trends in employment, wages or unemployment by region. That is something that we would keep an eye on. The good news is that, so far, the quite strong labour market performance that we have seen has been quite well experienced across the country, which is a good thing, whether it is in wages or employment growth. The metric is already available and one would expect us to look at it. When people think about levelling up, they are probably not looking at that statistic. They are just going to think about their area and, “Did I have to leave home to go get the job and have the career I wanted, or did I get to stay in the home I am living in? Do I feel better about it at the end of a period of time?”

Q212 **Gareth Davies:** Some of the criticism from certain bodies is that you are spreading yourself too thinly with the definition of levelling up, to the extent that it is spread so thinly that there may not be a delivery of levelling up, depending on who you ask in the country. The danger is that, whether it is culture, health, education or productivity, if you spread yourself too thinly, you are not focused and people will not understand it.

Rishi Sunak: It is also a mindset across Government about doing things in a way where the default is not always going to the same places that you have always done things, and just being cognisant of the fact that there are lots of different parts of the country where, by the way, we can have a Treasury office or put in a freeport, for example. That mindset changed, and the changes that we made to the Green Book last year will percolate down and ensure that there is just a different way of thinking about these things going forward, which will be beneficial.

Your point is a fair one. The challenge is that it will mean different things to people in different places. Pride of place is a reasonably universal thing, and the levelling-up fund can do that, but even that in one area will mean the high street needs to be better, while in other areas it will be a transport improvement or a cultural project. Indeed, that is what we saw with the levelling-up fund. Half of it was high street and town centre regeneration, and about a quarter each was cultural and transport. Even with that, people will have different things, but they got what it was about. There are challenges, and the things that need to improve in different parts of the country will be different.

Q213 **Gareth Davies:** I totally understand, and it is how people feel, but from an economic perspective we have had pervasive productivity issues for decades. For a lot of bodies that monitor your work, productivity improvement is a key goal of levelling up. The Industrial Strategy Council has stated that it believes that you are overly focused on infrastructure spending as part of your levelling-up agenda, and yet this morning we heard from the OBR that it is not how much you spend on infrastructure but what you spend it on, and that we have underperformed nationally



over many years in terms of the investment in stock. I just wondered how you envisage the National Infrastructure Bank, which you announced at the previous Budget, helping with what the OBR feels you should be focused on.

Rishi Sunak: On infrastructure, I would go a step back, before the National Infrastructure Bank, to the National Infrastructure Commission, which is now an independent body that provides expert recommendations to the Government about where the best pound of economic infrastructure is invested. We now have a quasi-independent part of the process, where someone is objectively looking at everything. We give them an envelope to think about, and they come back and say, "These are the things that you should be doing", whether it is broadband, nuclear, flood defences, roads or rail. That is the part that I would point you to as being really helpful in that regard, to make sure that we are spending money on things that people think are sensible.

Secondly, I would agree that there are different types of infrastructure. One of the things that we have majored on in this spending review is intracity transportation. It is clear that our non-capital cities—a second set of seven or eight cities—underperform relative to the average UK capital city, and much more so than in other countries. That has been a perennial issue.

What are the reasons for that? One is that intracity transportation in those places, by which I mean not the fact that they are connected to each other but how easy it is to get around, from the out to the in and back, is not as good as it should be. Because it is not, you do not realise the agglomeration benefits that come from cities. We have started to correct that with these intracity transport settlements, which now have a different name—CRTS. That is £5.5 billion for seven next-tier cities outside London that will have the same type of TfL-style funding, where there is a long-term funding settlement for those places that can use that money to invest in intracity transportation, whether it is metros, buses or cycle paths. That, economically, will make a big difference and is the type of thing that we should be doing, rather than some other things, again informed by the NIC.

Q214 **Gareth Davies:** In this Budget, you also talked about the mobilisation of private capital and trying to bring in private investment. Is the National Infrastructure Bank seeking to do that?

Rishi Sunak: Yes, it absolutely is. It has two aims. One is levelling up and the other is net zero. Ideally, it will find opportunities where it can do both, as its first investment demonstrates. It is exactly designed to do that. We have capitalised it with about £12 billion. We have looked internationally at what other banks have done. It is reasonable that that institution could support total capital investment of £40 billion over a period, because it would be leveraging two to three times, depending on how it does. That is absolutely right. It can help fill some of the financing gaps in some of these more nascent technologies. That has certainly



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been the experience of other models that we have looked at. It is new and we have managed to attract a fantastic management team. It is up and running in record time up in Leeds. It has just made its first investment and I have high hopes, as you will, because it something that you called for, for what it can achieve. As I said, the early signs are promising.

Q215 Gareth Davies: I am trying to understand why you would not double-down on a mechanism like that to be able to mobilise private capital. You talked about £40 billion, which is a significant amount of capital that would fill any infrastructure gap that McKinsey and the like are saying that we have. In this Budget, you announced a series of central Government pots to help bring in investment capital as well. I am just wondering why you did that.

Rishi Sunak: It is a brand-new institution. We have never had an institution like that in the UK. It has been capitalised well and can do a lot. To Julie's point earlier about making sure we do things that work, that is already quite a significant start. Let us just make sure it works and it can do what we think it is going to do, and then we can have a conversation in time about what the right scale for it is. You would want to see that it works first.

Remember that there is a slight difference, in that it seems at arm's length from Ministers. In one sense, that is good, because it brings an independent set of scrutiny around lending and investment decisions, which has some benefit, but it is also not Ministers making those decisions, which, in one sense, is what we are here to do. We are here to be elected and accountable for what is happening. Me outsourcing the entire capital budget to someone who is not elected might also be a bit challenging. You would probably find that a bit challenging.

Chair: Can I just thank all three of our witnesses, and particularly you, Chancellor, for appearing before us? All Chancellors have challenges, but you have had a few more than most, certainly outside of peacetime. When you were first appointed, the virus was just beginning to circulate in China, and then you had the reality of the economy being hit by a 100-tonne truck, having to put it on life support and, in particular, keeping the job market and jobs protected. I speak for myself here and, I think, overall: you did a fairly remarkable job in that regard.

Now, of course, all that people are demanding is that you go from this high-debt, high-deficit, high-tax, low-growth, low-productivity large state, with low real wage growth, huge pressures on living standards, in the face of threats of interest rate rises, inflation and all the other things that are lurking out there, and that you deliver to us a high-growth, low-tax, high-skilled, high-productivity, high-wage, fiscally health future and that you do it all in a very fair way, if you do not mind. That is a very huge challenge. It is fair to say that, whatever criticism comes your way, you have more than your fair share of challenges and we hope that you have a bit of luck that comes your way as well in the future. We wish you



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well.

Rishi Sunak: Thanks very much.