HOUSE OF COMMONS

Treasury Committee

Oral evidence: The work of the Treasury, HC 912

Wednesday 1 December 2021

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Julie Marson.

Questions 1 - 98

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Charles Roxburgh, Second Permanent Secretary, HM Treasury; Cat Little, Director General, Public Spending, HM Treasury; Anna Caffyn, Finance Director, HM Treasury.

Examination of Witnesses

Witnesses: Sir Tom Scholar, Charles Roxburgh, Cat Little and Anna Caffyn.

Q1 **Chair:** Good afternoon and welcome to the Treasury Committee session on the work of Her Majesty's Treasury. I am very pleased to be joined by four witnesses this afternoon, whom I am going to ask to introduce themselves very briefly to the Committee.

Sir Tom Scholar: Hello. Good afternoon. I am Tom Scholar, the Permanent Secretary to the Treasury.

Charles Roxburgh: I am Charles Roxburgh, the Second Permanent Secretary to the Treasury.

Cat Little: Good afternoon. My name is Cat Little. I am the director general of public spending at the Treasury and head of the Government Finance Function.

Anna Caffyn: Hello. I am Anna Caffyn. I am the finance director for the Treasury.

Q2 **Chair:** Welcome to all four of you. Thank you for joining us. Could I start by focusing on industrial strategy? Back in March of this year, the Government abolished the BEIS-sponsored industrial strategy and launched the Treasury-sponsored plan for growth. Can you outline the additional responsibilities that the Treasury has therefore taken on, in terms of that plan and industrial strategy? What has it meant internally, in terms of resourcing and focus for the Department?

Sir Tom Scholar: The plan for growth is the successor to the industrial strategy. It incorporates large elements of it, updates it and adds new things. The industrial strategy dates back to 2017, and since then there have been some extremely significant developments: the pandemic, leaving the EU, a general election, and a new Government with a new mandate. The Government thought it was time to update that.

It is a framework approach that tries to set out an approach right across the whole Government. Since the Treasury is not just the finance Ministry in this country but the economics Ministry as well, it is natural that it should be a Treasury-led exercise, although of course important elements of the strategy fall to other Departments as well. We can certainly talk more about particular elements if that would be helpful to the Committee.

In terms of Treasury internal work and resourcing, we have for many years had an enterprise and growth unit, which leads our work on the supply side. That unit sits under Charles. I cannot remember offhand the number of people working in it, but it is several hundred people. It is a substantial part of the Department, and they were the people in the Treasury who led the work on the plan for growth and led the discussions across Government on it. That, in a nutshell, is the plan for growth.

Q3 **Chair:** How would you characterise the bit that the Treasury is now more focused on as a consequence of this change from the industrial strategy to the plan for growth? What are the elements that you are now overseeing and responsible for that you were not and were vested elsewhere, or that are entirely new under the new arrangements?

Sir Tom Scholar: Let me say a bit and Charles will want to pick up too, I am sure. Clearly, over the last two years, growth and recovery from the pandemic has been a principal focus of the Department. We have expanded enormously our work in that area. In some sense, the new plan formalises that. Over the last two years we have also done two spending reviews, a one-year spending review last year and a three-year one this year, and that has included very important allocation decisions to support growth in the areas set out in the plan, in particular the three pillars of innovation, infrastructure and investment.

It is not that there has been, if you like, some kind of machinery of government change that has conferred new formal responsibilities on the Department that we did not have before. We have always been the economics Ministry. We have always placed economic growth right at the centre of our work. The document and the plan bring together a set of principles, a cross-Government framework, within which the whole of the Government is pursuing economic growth. Then, within that, a number of other Departments, in particular BEIS, the Department for Transport, DCMS and so on, have their own particular departmental responsibilities that, when all put together, make up the totality of the Government's approach.

Q4 **Chair:** Charles, do you want to come in? I am trying to grasp what the big change is, particularly for the Treasury, in switching from the industrial strategy to the plan for growth. What is the big thing from your end?

Charles Roxburgh: It brings much greater clarity that it is the Chancellor's plan—the Chancellor being the senior Cabinet Minister responsible for the economy and economic growth—which his officials have helped put together, but it is very clearly now integrated right at the heart of economic policy making. It allows for much greater integration with the important spending decisions. When you compare the plan for growth and the industrial strategy, there are many similarities and a similar analysis underlying them, but the plan for growth is much more ambitious.

We have more investment now behind the major pillars. That is completely integrated into the spending review, meaning we now have the spending to back up the ambitions in the plan for growth, so it is more ambitious. Because the Treasury sits at the heart of the Government and is well placed to co-ordinate across all the relevant Departments that have important roles to play, it is more natural for that integrative role, that overarching framework that Tom described, to be sitting at the heart of Government, underneath the Chancellor, so that we can co-ordinate the different elements.

It is really important that that framework has now provided the overall structure and you can, in effect, double-click on each individual bit to see what the next level of detail is behind innovation that is in the innovation strategy from BEIS, on digital—DCMS has that—or on skills, which is a key role for DfE. It is a really important overarching framework. It is completely integrated into the spending decisions that the Treasury controls.

Q5 **Chair:** In a way that it was not before?

Charles Roxburgh: It is much clearer to have that sitting in the Treasury. The industrial strategy is a very good document and set out some very important new ambitions for the Government at that time. BEIS is responsible for some sectors, but not other sectors, so it is not responsible for digital, which sits in DCMS. If you want to have a comprehensive plan for growth that covers all sectors of the economy, all capabilities, also including skills in DfE, it is more sensible to have that at the heart of Government, under the Chancellor, and integrated into the finance and economics Ministry than have it sitting in one Department that is only formally responsible for some parts of the picture, even though, as I say, the industrial strategy is a very important document that set a new useful direction. The plan for growth goes further, is more ambitious and is more comprehensive.

Q6 **Chair:** That is helpful. I will switch for a minute to productivity, which is one of the focuses within all this levelling-up agenda, and the different productivity that there is, for example, in London and the south-east compared with other parts of the country. Could you tell us a bit about how you are approaching that part of your mission to try to get productivity up across the board? Do you have any concerns that, in attempting to do that, overall we are going to be investing in areas where, in terms of growing the economy as a whole, we might be better continuing to put further investment into London and the south-east, because that is where we get the better return?

Charles Roxburgh: The productivity challenge is one of the central issues facing the UK economy and it has been much studied over the years. We have been working on it quite intensely since 2015, which was the first formal look at that when George Osborne was the Chancellor. Before that, Gordon Brown had looked at it seriously, so it has been a long-standing focus of the work of the Treasury.

We have a pretty good diagnosis of the causes of the productivity problem. It is obviously a very difficult one to tackle and it takes many years, but the causes, fundamentally, come down to low levels of investment in physical, intellectual and human capital, so skills, infrastructure, science and R&D. That diagnosis of our productivity problem caused by low levels of public and private sector investment is what has underpinned strategy, first in the industrial strategy and now, at a higher level of ambition, in the plan for growth. That is why we are now investing more in infrastructure, a lot more in science and more in skills, as those are the key drivers of it.

The gap, in terms of public investment, is being closed, through the actions of recent fiscal events, but particularly, with the spending review, a very significant increase in public investment. Private sector investment still lags, so that is an area of continued focus to see what more can be done to get private sector investment up, particularly in areas like science and R&D, which is where we lag behind international peers. That has been a big focus and there were further changes in the Budget to address incentives for that.

To your point about regional disparities, the different levels of productivity and economic outcomes, and differences of opportunity through the country, are a very major economic and social issue. You can look at it with a social policy lens or an economic lens, but it is a critical part of this Government's priorities to address those regional economic differences. The good news is that there are an awful lot of really good investment opportunities throughout the United Kingdom. It is a false choice to ask, "Why do you not invest"—as an example—"all science and R&D investment in the so-called golden triangle?" We are lucky to have outstanding universities and outstanding research facilities throughout the United Kingdom. It is a false choice to say you can only invest productively in one part of the United Kingdom. There is a real opportunity to invest.

If you take something like net zero, there are enormous opportunities to invest in areas that have been disadvantaged, like the north-east. Investing behind the net zero agenda there is good for economic growth. It is the best place to invest in some of those net zero technologies like carbon capture, and it is good to get better social outcomes and more balance in the overall economy. It is a false choice to say that we somehow have to compromise on our economic goals in order to invest and grow the economy and achieve better, more equitable, outcomes throughout the United Kingdom.

Q7 **Chair:** Do you accept that there is a trade-off between growth maximisation across the whole of the UK versus putting some investment into areas because they have low productivity, when you might, in the short to medium term, get a better return if you stuck to what we have been doing before?

Charles Roxburgh: In the long term, that is a false choice. No doubt in the short term you could optimise the one area but, in the long term, a country that has significant inequalities of outcome, differences of opportunity and differences of economic performance is not a successful country overall. The rewards of economic growth need to be seen to be available to all citizens in the economy. That is why this levelling-up agenda has resonated so strongly and why it is such a central part of what we are working on in the Treasury and was, in the Chancellor's and Prime Minister's words, a golden thread running through the spending review.

Q8 **Chair:** Sticking with productivity for a minute, if you think about the OBR's forecast at the time of the Budget on productivity, for example, which is that it is not going to be taking off very quickly any time soon, what is your feeling about that? You are talking to us about the extra investment that is going into the areas that drive productivity. Do you think that it might be better than the OBR is imagining, or do you think we are going to plod along broadly as we have been since the financial crash?

Charles Roxburgh: I am very respectful of the independence of our OBR forecasts, so I will not comment on whether we agree with them. That is its view of the likely path of productivity. I am confident that the level of investment, particularly public investment, set out in the spending review and the plan for growth is addressing the levers that we need to address to improve productivity, infrastructure, R&D and the innovation theme, and skills.

I also know, as anyone who studied productivity knows, that this is a long journey. It will not happen quickly. Where Britain has had a good productivity growth period, which it had from the period of the mid-1980s to the early 2000s, that was a period of faster growth, both relative to the history and relative to our peers. It is never a sudden jump. It is not a volatile measure. It is a slow, incremental improvement that you have to sustain over decades to really make a difference.

I am confident that we have identified the right areas to invest in, and the plan for growth gives us that framework. This is a multi-Parliament journey. If some future Governments continue to invest in those areas, we will see better productivity, but I am not going to speculate on how fast and comment on the OBR forecast.

Q9 **Chair:** Could you comment, Charles, on those elements of the investment that the Government are proposing to put in that might drive productivity gains sooner, rather than some of the others that might be later. What are the early wins, if you can put it that way?

Charles Roxburgh: I am a big believer in our science and R&D investment. You do not quite know how that is going to pay off, but you just have to look at what is happening in the life sciences industry and the incredible impact that that has had. It has been an extraordinary success for public health reasons, with the great success of R&D in industry, genomics, sequencing and the Oxford vaccine. Those all came out of investments that we and the private sector have made in life sciences. I think we are in the middle of and probably on the cusp of an even bigger revolution in life sciences, so the investment in R&D there is well made and likely to pay off.

It is also backed up by a very effective part of Government and private sector collaboration in the life sciences sectoral strategy. We have a very effective Life Sciences Council, which is the leading chief executives of the industry globally, two Cabinet Ministers and various officials. They meet regularly to discuss the life sciences industry, and what we can do in the UK between Government, the NHS and the private sector to make that more effective. The proof of the success of that strategy is in the better health outcomes we are getting from the drugs that are coming out of the industry and the economic growth we get from life sciences.

Again, to this fallacy that it is all in London and the south-east, you will see a lot of these new investments are in Darlington, the north-east and the north west. It is not just a London and the south-east story.

Q10 **Anthony Browne:** It is very good to hear you talk about the importance of life sciences, because South Cambridgeshire is the life sciences capital of Europe. California has its Silicon Valley. I am trying to call it the DNA district and get it known for that. It is booming. It is quite an extraordinary thing that is happening.

My questions follow up those from the Chair about the levelling-up agenda. Charles, you explained that, as an objective, there is no contradiction between pursuing long-term economic growth and making sure that it is equitable across the country. You do not maximise economic growth by having a boom in one area and the opposite of a boom in the other area. I think we can all agree with that as an objective. My question is how you make that happen within the Treasury and, in particular, the metrics the Treasury uses to assess investments.

I have two examples. When I was in charge of economic development in London, in Boris's first term as Mayor, I had responsibility for EU funds. Some came to London. They deliberately target the parts of the country that are the poorest—all the areas of the country that are at less than 80% of GDP. They go against the trend of economic growth.

I also did the economic analysis justifying the investment in Crossrail and assessing the benefit-cost ratios, and indeed the Northern Line extension on the Tube. That was very easy to justify in terms of benefit-cost ratios, because there is so much economic value added in London that it was easy to make a positive case for it. You cannot do that in other areas of the country. That is all Green Book methodology. If you want to buck the trend of the Matthew gospel, as has been quoted, that he that hath shall be given, how are you doing that within the Treasury?

Sir Tom Scholar: Perhaps I will start, and then Cat might want to add on some of the spending issues and Charles on some of the broader industrials.

Anthony Browne: Presumably you have to change the methodology from what you had in the Green Book before.

Sir Tom Scholar: We have already changed the Green Book methodology and Cat can talk about that. That was a change that was, I think, agreed and announced either earlier this year or possibly last year; I cannot remember quite which. On levelling up more generally, as you know, the Government are publishing a White Paper later this month, which we are fully engaged in and which will be quite granular on all these issues, including some of the rather important data issues. The White Paper will be a comprehensive statement of the overall Government approach.

How are we approaching it in the Treasury? Levelling up was a theme of the spending review, so Departments were invited, in putting forward their spending bids, to draw out those elements that would particularly support that agenda.

Picking up your point on data, it is an issue that regional economic data is of nothing like the same quality as national data. The ONS has a big programme of work looking into improving that. We are working with it on that as well, as is the Bank of England. It is the case, as you say, that, at an individual project level, you can approach a cost-benefit analysis in a fairly similar way.

It is much harder to capture the benefits of the aggregation of a number of projects all being pursued at the same time or, indeed, apply the likely change at the aggregate level to a particular project. We hope that a combination of our improved Green Book methodology and better regional economic data from the ONS will help to support that. The White Paper is going to be the authoritative next statement on all this. Cat, perhaps you would like to say something about the Green Book and the spending review.

Cat Little: The Green Book was subject to a comprehensive review that was published alongside SR20. There are a number of quite significant changes to the Green Book methodology, which I hope many of you will recognise. The fundamental shifts were that, first, we place much greater emphasis on the strategic case. We place much more emphasis and have much more detailed methodologies and case studies on how we measure social value.

The other significant workstream that accompanies the Green Book review is the work we are doing across Whitehall with the practitioners to properly apply and understand how the revisions to the Green Book methodology should be used in practice. As with all bits of Government guidance, it is only as good as the way in which the guidance is applied in practice.

As part of the review, we found that BCRs were being used as almost a very blunt black and white tool for making investment decisions, and there was not enough sophistication in the way in which the five cases were being applied to support the overarching strategic cases in question. In the Treasury, we now have a team that is dedicated to training, teaching and working on the implementation of the Green Book revisions.

We are about to undertake an evaluation of how that is going, one year on.

Q11 **Anthony Browne:** To take you up on that, it is good you published that. I must admit that I have not read your revisions to the Green Book. You have various investments that are going through the pipeline at the moment. Will you therefore reassess them in line with this new methodology where you put a greater emphasis on strategic value and social value?

Cat Little: Very simply, yes. Since the Green Book revised methodology came into place, all of our investment approval points, whether that is through a Treasury approval point or the Major Project Review Group, have been using the revised Green Book guidance. These things do not change overnight. These are very sophisticated business cases and quite often we are seeing programmes come through at different stages in their lifecycle. We are trying to adapt and change as we go.

Q12 **Anthony Browne:** What do you actually mean by strategic value? I do not know how you assess it either, whether you give it a score out of 10 and do a scorecard for it. To take an example, South Cambridgeshire is part of the golden triangle that was mentioned and is seen as a growth area. I know the Treasury has an interest in maximising growth in this area to generate more cash, which I totally understand. On the other hand, in South Cambridgeshire there is a definite feeling that we are being slightly hot-housed and rather overdeveloped. Could you say that the strategic value is in getting maximum economic growth out of what is already a growth area, or is the strategic value helping those parts of the country that are falling behind?

Cat Little: I am alluding to the strategic case. There are five different cases that form the Green Book methodology: strategic, economic, financial, social and I always forget the fifth; I apologise. Ultimately, we are looking at the primary strategic objectives of the case in hand. There is not a very simple, quantitative methodology that we apply, but there are lots of weighted objectives and criteria that we use to provide a more qualitative analysis.

Q13 **Anthony Browne:** To take a real-life example affecting my constituency that illustrates the problem quite well, in South Cambridgeshire we have booming businesses. We have just opened the global headquarters of AstraZeneca. I have lots of amazing life science companies that have huge investments. It is great. We have had huge amounts of housebuilding already in South Cambridgeshire, but that is going to double. The Treasury keeps proposing building new towns in South Cambridgeshire. We have three already and I would prefer not to have any more, please. There are various infrastructure projects like East West Rail and so on.

The local council has suggested more than doubling housebuilding in preparation for all the jobs that are coming to South Cambridgeshire. It feels under pressure from national Government. It is not people who are working or living there at the moment, but all the people who are going to move there economically. At a strategic level, people from the north of England, to pick on them, where the GDP per capita is less, should not feel they have to move south in search of jobs if they do not want to. If they want to, that is great.

Most people want to live in the communities where they live and it would be better to make sure they can work where they want to live. I am wondering whether that is part of a strategic objective. At the moment, from the national policy point of view, it feels very much that the objective is basically to get as many people to move into the golden triangle as possible.

Sir Tom Scholar: Let me start on that and Cat may wish to add something. You are talking about an overall, nationwide economic strategy. In talking about the strategic case, Cat was talking more about particular projects.

Q14 **Anthony Browne:** I am asking how, as an active policy, promoting growth in Cambridgeshire fits in with the levelling-up agenda.

Sir Tom Scholar: In terms of the overall approach, as you have said, giving your own constituency as an example, there are parts of the country that feel overdeveloped and parts of the country that certainly feel underdeveloped. The overall approach in levelling up is to try to even out those disparities. There are lots of reasons for that, including very sound economic reasons. There is lots of literature, including OECD studies, that show how big disparities in regional development hold back countries overall.

Anthony Browne: We agree on that.

Sir Tom Scholar: On the specifics, a successful strategy, even one that is pursuing reducing these disparities, also needs to build on the strengths of particular areas. As you have said, Cambridge is completely pre-eminent in life sciences. As Charles was saying, other parts of the country have other strengths, either built around their universities, their industrial heritage or, in some cases, the geography. For example, the north-east coast is an ideal place to pursue offshore renewables, and carbon capture and storage, for all kinds of sound geographical and geological reasons.

The overall approach—the White Paper will say more on this—will try to pursue the overall strategy of evening out, while, at the same time, building on the strengths of particular areas, the second being one of the conditions to make a success of the first.

Q15 **Anthony Browne:** One other thing that must impact your investment decisions—again, it impacts those in my constituency and elsewhere—is the long-term impact of working from home, in terms of the cost-benefit analysis for transport projects. We have quite a lot of transport projects going through the business case phase at the moment in South Cambridgeshire. Some people like them; some people do not. We are talking about spending many billions of pounds here. How are you assessing the long-term impact of working from home on the cost-benefit ratios of transport projects?

Sir Tom Scholar: I will make some general remarks and then Cat might wish to add from the perspective of the major projects appraisal process, which she jointly oversees. In this fairly early stage of emerging from the pandemic, it is very unclear what the working pattern of the future will be.

Anthony Browne: It is too early to tell.

Sir Tom Scholar: The working from home of the last 18 months has changed consumption patterns very significantly. If it stays that way, they will change forever, including transport use. If it snaps back, we will go back to where they were before. We do know in this country, or yet in any other country, quite where that will come out. Where possible, it makes sense to allow a bit of time to pass and the economy to get beyond the huge supply-side shock that it has faced. Of course, these projects, as Cat said earlier, are in different stages of their life cycle. Cat, perhaps you could say how you are looking at those things right now.

Cat Little: You are right to point out that these are high areas of uncertainty and are very material to a number of very big business cases that are subject to review. There are two specific areas. There is the obvious area of transport that you have highlighted, where estimating passenger demand over a long period has always been quite a sophisticated and difficult modelling challenge, but it is increasingly difficult given the circumstances following the pandemic. We try to build in ranges of scenarios and forecasting estimation techniques that allow us to predict future trends.

We take a conservative approach in big investment decisions, given what we have experienced in the recent time. Equally, we do not expect there to be a very medium to long-term impact on a number of the passenger demand forecasts that the Department for Transport is currently undertaking.

The other area where we have a lot of inherent uncertainty is in the use of the Government estate. One of the big projects in the spending review was the Places for Growth programme, where we are looking to move more of our public servants out of London into different parts of the regional infrastructure of the wider Government estate. That also has given us lots of different modelling challenges. A lot of this comes down to good estimation and making sure we have modelling that has different scenarios baked into our decision making.

Q16 **Anthony Browne:** I have a couple of other questions on a totally unrelated subject, which is quantitative easing and unwinding it. The

Treasury underwrites any losses from the Bank of England in quantitative easing and unwinding it. In the programme so far, it has made a surplus of £113 billion, which is passed on to the Treasury, I think. When unwinding happens, it is quite likely that the value of the assets, of the gilts, will go down because interest rates will be higher then than they were when they were sold.

In its latest fiscal risks report, the OBR projected that, if the asset purchase facility was sold at par, it would crystallise a trading loss of £114 billion, but it might end up being even less than that if gilts go down further. Does the Treasury model the losses of unwinding quantitative easing? If you expect these big losses—these are really big sums of money—how do you end up funding them?

Sir Tom Scholar: As you say, the agreement now, going back I think nine years, was that, every quarter, the net profit of the asset purchase facility would be transferred across to the Treasury. As you say, so far it has been a significant sum. That has been used to pay down the debt. At the time that that agreement was announced, the Government were clear that, in the future, those flows might reverse, as you say, both as interest rates change and as the price of gilts changes. That is clearly something that might happen over the years ahead.

I should say that the process of unwinding QE is clearly a Bank of England decision as part of monetary policy, but it is likely in every country to be over many years. This will unwind over time. In terms of how we model it, we look principally to the OBR to do that. It does that forecast by forecast, as you have said. It will build its own modelling of the flows in either direction into its near-term, next-five-year fiscal forecast. Over a much longer timeframe, it includes it in its fiscal risks monitoring. It is our principal source of expertise on the modelling of it. The sums are large, as you say.

Anthony Browne: They are enormous.

Sir Tom Scholar: The stock of QE is nearly £900 billion, so even a small percentage of a large number is a large number, but it is over a long timeframe. It is not going to happen immediately. We are confident we have plenty of time to keep monitoring ahead and it is all in the fiscal arithmetic as well. Over time, that will just become part of the general questions of Government funding, alongside all the other things that the Government need to fund.

Q17 **Anthony Browne:** The Government would need to take this over time, depending on the tenor of the gilts and so on, but that is still a very large sum of money. If it is £114 billion—we do not know and I do not know what your modelling is—even if it is over 10 years, that is £11 billion a year. Presumably, these will have an impact on spending and tax decisions, unless you just reissue debt.

Sir Tom Scholar: Nobody can say what the sums will be precisely. It depends on interest rates and gilt prices, which you cannot forecast. You said over 10 years. It is not for me to say; it is for the Bank of England to decide, but many people would suggest that could be really quite a long period.

As you have said, the vehicle is guaranteed by the Treasury, so, in the end, if there is a reverse cashflow, it has to be funded. Every year, we have very large funding requirements through, for example, debt interest. Gilts mature and need refinancing. The numbers are very big, but we are very used to dealing with very big numbers. Part of our job, with the support of the OBR and the Debt Management Office, is to make sure we have a good handle on the sums in the future, so that they can be properly considered in a medium-term way as the Government think about their borrowing and funding strategy Budget by Budget, but over a medium-term horizon.

Q18 **Julie Marson:** I have some questions on staffing, so I will address them to you, Tom. If anyone else wants to come in, please feel free. The Department's staff numbers are the highest in history and actually have gone up. From 2021, they have gone from 1,599 to 1,992, which is about 25%. Are those increases due to coronavirus? Are they likely to be permanent increases?

Sir Tom Scholar: It is a very sharp increase, as you say. The main reason, yes, is dealing with the pandemic. This year and last year, it has hugely increased our workload, what with all the various economic support schemes and other things we have had to deal with. We took on a lot of staff quickly.

We now, like every Department, have a spending settlement taking us through the next three years. The plan in that spending settlement is that that increase in staff will unwind over those three years. We do not know the precise numbers yet. We need to do some business planning but, by the end of the spending review period, we will be back, let us say, for the sake of argument, more or less at the size that we were pre-pandemic, possibly slightly larger, because we have taken on some additional functions post EU exit, for example, on financial services legislation. Roughly speaking, as a first order of approximation, over the next three years we will unwind that increase and end up more or less back where we were before the pandemic.

Q19 **Julie Marson:** That is really helpful. Thank you. You are expected to have between 200 and 300—that is quite a big variation proportionately—staff at Darlington. What kind of proportion would you expect to be recruiting locally?

Sir Tom Scholar: We have not set a precise target for that. Let me talk a bit about the staffing-up plan there. As you say, the intention is, by the end of the Parliament, to get to 200 to 300. Let us say 300, for the sake of argument. Our intermediate target is for 100 by the end of this financial year, so by the end of March. I think the number, as of today, that we have currently recruited is 76, so we are well on track and confident that we will meet that 100 and very likely exceed it. Of those 76, there are 23 staff relocating from London and a further 53 being recruited directly.

We have invited all our London staff to consider whether they would like to relocate. Quite a few people are still thinking about it. It also depends on what opportunities will come up at the office there. From the beginning, we were keen to get a good mixture of seniority of people already in the Department relocating to help to establish the new office. I am really glad to say we have been able to do that already. We have two directors-general now working from Darlington as well as a director and other members of the senior Civil Service, so we have a good basis.

So far, we have a very good mix, some great people relocating and local recruitment. I should say that it is not just local, but also from other parts of the country. The direct recruitment in Darlington, some of which is still underway, is really encouraging too.

Q20 **Julie Marson:** Will the campus provide, for instance, graduate opportunities from local universities?

Sir Tom Scholar: Yes, absolutely. That is part of the plan for next year. We were not in time this year, since the new location was only announced in March. We were not in time to get new graduates in for September this year, which is when, in all businesses, most graduates start work, but we are really hoping to get that moving for next year. We are putting a lot of effort into outreach into universities in the north-east.

Q21 **Julie Marson:** On a different staffing subject, in 2021, there were seven exit packages from the Treasury that exceeded £100,000, compared with three the year before. How good a use of public funds is that?

Sir Tom Scholar: I am not sure whether those would have been in the core Treasury or maybe elsewhere in the Treasury group.

Anna Caffyn: In the group.

Sir Tom Scholar: I would need to look into those and let you know. They would probably have been from one of our arm's-length bodies, which end up being consolidated into our accounts, although not part of the core Treasury. The question is still a good one. If I may, I will look into it.

Julie Marson: Yes, I would be grateful. That would be very useful. Thank you.

Q22 **Chair:** Write to the Committee, if that is all right, Tom.

Sir Tom Scholar: Certainly, yes.

Q23 **Julie Marson:** The number of working days lost to mental health and related issues increased by more than a half from 2019-20 to 2020-21. A higher proportion of those were long term: 52% in 2019-20, compared with 63% after that. There has been a lot happening in the last couple of years. What support is the Treasury giving, in terms of preventive measures, but also support to those staff who are on leave due to those mental health issues?

Sir Tom Scholar: It is certainly a concern. To the best of our information, a large part of the reason for that has been the pandemic and the impact that has had on people. Many people across the country have found that difficult. We do two things.

First, we put a lot of effort internally into trying to avoid issues of mental health becoming problems and people going off work in the first place. We have a very active mental wellbeing network. The senior management, all of us, go and speak to that. They also arrange events where people come in and talk about their own experiences. We try to encourage an open internal culture where people feel comfortable in talking about these issues, raising them with their line manager and trying to find sources of support.

Of course, as you say, there are cases where people need to take time off. When that happens, our welfare and human resources teams have various things they do. We have a group of trained mental health first aiders. We have an employee assistance programme. We have access to occupational health specialists who can undertake an assessment and make recommendations. We go to great lengths to make sure people who are taking time off are supported. We encourage their line managers to keep in touch with them in order to try to see what more there is we can do to help to get them back to work.

Q24 **Julie Marson:** Conversely, the staff turnover rate has decreased from 22% to 14%, 2018-19 to 2020-21. Would you say that that is likely to be due to the pandemic and would you expect those rates to maybe come back up when the economic recovery gets underway?

Sir Tom Scholar: It is difficult to be certain, but that is our best guess. Many of our comparator employers, both in the public sector and in the private sector, have had a similar experience, in terms of a sharp reduction in turnover last year and now a pick-up this year. We would expect to see that number rise by the time we publish our report and accounts next year.

Q25 **Julie Marson:** Do you have an ideal turnover rate, a target, or something you would expect to level out at?

Sir Tom Scholar: For as long as I can remember, indeed going back way before I ever worked there, the Treasury's business model has always been based on quite a high degree of turnover of staff. We try to keep continuity as well, but bringing in people from outside, from new backgrounds, is part of what keeps the Department ticking over.

Historically speaking, a range of about 15% to 20% is normal. That is much higher than other Government Departments, but it bears comparison with private sector employers engaged in similar business. Roughly speaking, 15% to 20% is where we have been for most of the time I can remember. I would imagine that the rate will settle at that level again.

Q26 **Dame Angela Eagle:** There is no mention of the word "cladding" in the HMT annual report. How many properties with flammable cladding or other fire safety issues were included in the Help to Buy scheme? What is the scale of the impairment on the Help to Buy policies that is implied as a result of these fire safety problems?

Charles Roxburgh: There are multiple Help to Buy schemes. The one I think you are referring to is Help to Buy equity loan. That was MHCLG, but now the Department for Levelling Up, Housing and Communities. It runs that scheme. We are responsible for the Help to Buy mortgage guarantee scheme, which is now closed, and Help to Buy ISAs, which have also closed. There is a new mortgage guarantee scheme, but not branded Help to Buy.

As we were aware that this was an area of interest for you, we talked with our colleagues in DLUHC. First, we know that cladding is a very serious issue. It is a very serious safety issue, but also causes real stress and anxiety for the homeowners affected by it. DLUHC told us that it estimates that 274 homes with Help to Buy loan accounts have been affected. Of those, 104 homes have redeemed their loans and 170 homes across 28 buildings have live loan accounts. That is their estimate of the scale of the problem. It is a responsibility of DLUHC and Homes England, which is the arm's-length body that manages the programme.

Q27 **Dame Angela Eagle:** Homes England has been advising that leaseholders could only sell their homes or redeem their Help to Buy loans at the unaffected market value. It has since announced that the prices have to take account of the impairment to the price that they can resell at caused by the cladding problem. That must imply quite a serious loss of impairment of the loans that are guaranteed by the Government in Help to Buy. Have you estimated how much that is?

Charles Roxburgh: I have not estimated. As I say, the numbers that DLUHC gave us were the 274 homes affected, of which 104 have redeemed. It said that there will be cases where the properties have been redeemed at an impaired value. As you say, new guidance was issued in August of this year to provide more guidance as to how to value those properties fairly.

The Department does not believe the impact to be extensive, but it is a not a Treasury lead, which is why it does not show up in our accounts. It would be a financial issue for Homes England and DLUHC. That was the information we were able to get from our colleagues in that Department.

Q28 **Dame Angela Eagle:** Thank you for doing that. What role do Treasury officials play in Budget policies being released to the press prior to a

Budget? Certainly there was not much going on in that respect when I was there, but it seems to have increased somewhat in the interim period.

Sir Tom Scholar: It is fair to say that, if I think back over my career, there has been a general increase throughout that time in the practice of pre-briefing.

Q29 **Dame Angela Eagle:** It has got a bit silly now though, has it not?

Sir Tom Scholar: Eight years ago, I think it was, my predecessor, now Lord Macpherson, did a review into this and published and agreed some principles that should govern this. In particular, while it was acceptable to trail certain announcements in certain cases, as I think all Government Departments do, it was important that the core Budget was protected and announced in the Budget statement to Parliament. That review and those principles remain in operation.

Q30 **Dame Angela Eagle:** What role do Treasury officials play in Budget policies being released to the press prior to a Budget? Is it the special advisers that do it or do civil servants do it?

Sir Tom Scholar: How to approach this is the decision of Ministers. We have a press office, which is staffed by civil servants, who work under the direction of Ministers, as indeed do special advisers.

Q31 **Dame Angela Eagle:** It is a mixture of both.

Sir Tom Scholar: Yes. The press office speaks to the press on behalf of Ministers.

Q32 **Dame Angela Eagle:** There were six different press releases being sent over the weekend before the Budget with different embargo dates, an absolute mountain of information all sent to the media. Do you think it would be a good idea for MPs to have those bits of information that are sent to the media behind our backs available to us at the same time as they are sent, given that we seem to be in new territory with respect to revealing what is in the Budget?

Sir Tom Scholar: With respect, that is not really a matter for me. That is really a matter for parliamentarians, between Ministers and the House.

Q33 **Dame Angela Eagle:** I am a parliamentarian and I am asking you a question. Do you think that it would be reasonable, given all the information that is now routinely sent to newspapers ahead of the Budget, that Parliament should have equal access to that in a timely fashion, instead of having to wait for days for the actual Budget, while newspapers up and down the land can have front-page news about what is in the Budget? We do not get any information at all.

Sir Tom Scholar: It is not for me to comment on that. The Chancellor and the Chief Secretary have dealt with this issue both in Committees and on the Floor of the House. It is for them to respond on this, not for me.

Q34 **Dame Angela Eagle:** Did you hear what the Speaker had to say about this ahead of the Budget statement itself?

Sir Tom Scholar: Yes. I think there was an Urgent Question on it, if I remember rightly.

Q35 **Dame Angela Eagle:** That was the day before, because he was so furious about what was going on. He also said something ahead of the Budget. Do you think that it is not the position of senior civil servants to pay attention to what the Speaker of the House says about how the system is being run by Government Ministers—no attention whatsoever, no view, no opinion?

Sir Tom Scholar: Ministers are accountable to the House of Commons. I do not think it is for me to comment on these issues.

Q36 **Dame Angela Eagle:** Right, so you are not remotely bothered about this shift in giving lots of Budget information to newspapers behind the backs of MPs, which has occurred and accelerated in the last few years until it is getting to ludicrous levels. You do not have an opinion.

Sir Tom Scholar: As I said, it is a development that has been continuous over probably quarter of a century. There was a review published by the Treasury seven or eight years ago that set out principles.

Q37 **Dame Angela Eagle:** Yes, the Macpherson review, which I wish had been called the Dalton review, which would mean that you could not press-release the entire Budget before the actual speech was made. When responding to the Urgent Question, I think Simon Clarke, one of your Ministers, Chief Secretary to the Treasury, hid, in essence, behind the Macpherson review. He said that no market-sensitive policies in the Budget were leaked in advance. Do you agree with him?

Sir Tom Scholar: Yes.

Q38 **Dame Angela Eagle:** Do you think that the national living wage announcement had elements of market sensitivity about it?

Sir Tom Scholar: As the Chief Secretary said, the principles of the Macpherson review were followed. I have nothing to add to what he said at that time.

Q39 **Dame Angela Eagle:** The FCA deems information as market sensitive if the information has not been made public, relates directly or indirectly to one or more financial instruments and, if it were made public, would be more likely to have a significant effect on the prices of those instruments. Do you think that the media release on the minimum wage meets all three of those criteria? It seems to, to me.

Sir Tom Scholar: I do not think any market-sensitive information was improperly released.

Q40 **Dame Angela Eagle:** The FCA's best practice note on market abuse gives the following example of what might be considered market-sensitive information: policy changes and consultations or conclusions of any sectoral reviews that could affect one or more companies or a sector. Surely an announcement on the living wage would qualify as market sensitive in that case.

Sir Tom Scholar: The national living wage is an economy-wide measure. It is not a sectoral or company-specific measure.

Q41 **Dame Angela Eagle:** You do not think that there was anything wrong with anything that happened. What about the shipping announcement?

Sir Tom Scholar: I think you are referring to tonnage tax. There was no briefing of rates of tax. That was not the issue.

Q42 **Dame Angela Eagle:** Now we are in a situation where you can actually say that there are going to be changes to the tonnage tax in advance of the Budget, so long as you do not say precisely what they are.

Sir Tom Scholar: The Macpherson review refers clearly to rates of taxation. As I said, and as the Chief Secretary has said, the Treasury has followed those principles.

Q43 **Dame Angela Eagle:** How much information in advance of a Budget speech do you think should be press-released for good order, accountability and reasonableness and the right of a Parliament to hold Ministers to account, given that the Opposition gets the speech half an hour in advance, with everything written out. Do you not think that the way that this has been done, and increasingly is done, militates against decent, reasonable accountability?

Sir Tom Scholar: The accountability issue here is the accountability of Ministers to Parliament, to the House of Commons. I do not think it is for me to comment on that. These decisions are properly for Ministers, not for officials.

Q44 **Dame Angela Eagle:** You do not feel that you do not have any right to have an opinion of any kind about the balance in our constitution between the Executive and Parliament. Over something as important as the Budget, where there is so much information, you do not feel that you have a duty, as a senior civil servant, to have an opinion if that shifts in a way that might damage the way our constitution works.

Sir Tom Scholar: It is not for me to take a view on the constitution. We work under the direction of Ministers.

Q45 **Dame Angela Eagle:** Chair, I must say, the answers in this section have made me far more worried about the situation that we find ourselves in, in a country with an unwritten constitution, where certain norms were meant to be followed. We have senior civil servants in one of the most important Departments in the country who do not seem to think that an erosion of those standards is anything to do with them.

Sir Tom Scholar: Chair, if I may add something, I do not think that is a fair categorisation of what I have said. I have said that we have some established principles, the Macpherson review principles, which govern the release of Budget material. I am satisfied that those principles have continued to operate since the time they were introduced, including in this case. It is important that the Department lives up to those principles, and I think the Department has lived up to those principles. Beyond that, and as that review makes clear, it is a decision for Ministers how they approach announcements. That is true for Ministers in other Departments as well as in the Treasury.

Anthony Browne: Can I add one quick point as a point of reference? When I was economics correspondent at the BBC, back in 1997, when the Labour Government were then elected and had their emergency Budget after their election, I was briefed of the contents of the Budget ahead of the Budget by the head of the Treasury press office at the time, which I did on the "Today" programme. It got followed up in other papers and led to emergency questions ahead of Labour's first Budget. You can go and look back at Hansard. They had exactly the same debate then and that was 24 years ago. I am not saying it is justified, but it is not an entirely new thing.

Dame Angela Eagle: Chair, we can have a debate about this, but I do not think it is reasonable to be interrupted in that way.

Q46 **Chair:** Thank you, Angela. You have registered your point. Can I follow up on this point? I guess there are two things that we have examined here. One is whether the way in which Ministers are interacting with Parliament in respect of this information is the right approach. Your response to that, Tom, is to say it that is for Ministers and Parliament to have a view on that, not for you, as the Permanent Secretary, a view with which I have some sympathy, incidentally.

There is then the issue of the Macpherson principles and whether they have been appropriately applied in respect of the various matters that have been made public before the Budget itself. On that, the Committee will probably want to write to you, just to go away and have a think about the various things that have gone public and what the rationale was as to why you felt they met those principles or not.

I suppose I would have another question. Was there any point in the run-up to the Budget when these matters were coming forward, both those that went into the public domain and perhaps some that were discussed as potentially going into the public domain but did not, where you were uncomfortable with what Ministers were potentially thinking of doing, or were suggesting the Civil Service and the press office might assist them in doing?

Sir Tom Scholar: Needless to say, if you write to me about this, I will of course be happy to look into it and give you a formal reply in writing. To go to Dame Angela's point, the Macpherson review principles very much stress the importance of no pre-briefing of market-sensitive information.

In living up to and implementing those principles, that would also cover the inappropriate release of market-sensitive information.

The press office always has to take a view when asked to brief something. In most circumstances, no question arises, but it occasionally happens that it needs to take a view on whether that is proper, given the principles. I can think of a number of occasions over the years when I have also been consulted on that and discussed with the press office, and then that is taken away. Sometimes the planned announcement happens and sometimes it does not.

Q47 **Chair:** In the run-up to the last Budget, are you saying there were instances where you and/or the press office basically said to Ministers, "I am very sorry but this does not meet the requirements of the principles and, therefore, our advice is that you should not be doing this"?

Sir Tom Scholar: I am not making any specific comment about a specific instance. In any case, most of these discussions do not involve me. They involve directly the press office with Ministers. Those discussions routinely happen. They occasionally involve me. I can say that I am extremely satisfied that the Treasury press office is very alive to its responsibilities in this area in the case of a Budget announcement, in particular the Macpherson review.

In response to other issues of market sensitivity, again, I can think of an occasion a long time in the past when a non-Budget market-sensitive issue became an issue. I am thinking now about 20 years ago or more. These things do happen over time. I can say that we take it very seriously. I know the press office takes it seriously and it does, when need be, discuss that with Ministers.

Q48 **Chair:** There have been instances where you/the press office have felt it necessary to push back to Ministers and say, "This is not the right thing to do". You are saying that they would listen to your advice on those occasions and not insist.

Sir Tom Scholar: I am not even sure pushback is the way I would characterise it

Q49 **Chair:** How would you characterise it?

Sir Tom Scholar: People often have ideas about how to approach a particular announcement and, when an idea is put forward, you have to discuss whether it is a sensible idea. There are a number of elements that feed into that and one of those elements is whether it is proper or not. As I say, most of the time, most proposals are entirely proper, but it is one of the things that the press office would routinely examine.

Q50 **Chair:** On occasion, it would find that it did not feel it was proper in the context of the principles, by the sounds of what you are saying.

Sir Tom Scholar: If that were to happen, that is what it would say.

Q51 **Chair:** I suppose "if that were" is a hypothetical. Did it happen or has it ever happened?

Sir Tom Scholar: I do not think it would be right for me to be drawn on particular cases.

Q52 **Chair:** It is a general question.

Sir Tom Scholar: As a general question, I can certainly say that, over my career, in a number of capacities, including my capacity in this current job, it is a conversation that has happened from time to time.

Q53 **Emma Hardy:** Good afternoon, everyone. My questions are all going to focus on Covid, not that we want to will anything on here, of course, particularly with reference to some of the recommendations that the Treasury Committee made in its report on the economic impact of coronavirus, looking at the gaps in support and the economic analysis. We are looking at some of the recommendations we made in the areas we are now talking about to you today.

Obviously we have the new virus, and we have yet to understand its significance and what is going to happen in terms of its impact on the health of the population. I wondered if you could explain any, if you have done any, contingency planning that might have taken place around what would happen if this virus, or a virus in the future, turns out to be vaccine resistant and starts spreading.

Sir Tom Scholar: The Treasury has shown over the last two years that it is ready to deal with whatever circumstances arise. That said, the Government have been extremely clear that the best defence against the virus is the vaccination programme.

Q54 **Emma Hardy:** I have only 10 minutes, so I want to be as quick as possible. My question was specifically whether the Treasury has done any contingency planning. Have you done any contingency planning on what would happen if we have a vaccine-resistant virus?

Sir Tom Scholar: Going back right to the start of the pandemic, we have been planning for the unknown. Right since the beginning, we have been thinking, "What would we do if…?" We have also been keen, as we go along, to learn the lessons of the various schemes so that they are ready for whatever future eventuality, including possibly a future pandemic. That is something we have been doing as we go, and we have been ready at many times in the last couple of years.

Emma Hardy: There is a plan.

***Sir Tom Scholar*:** We have been ready to respond whenever, but, as I say, the Government are very clear that the vaccination programme is their response.

Q55 **Emma Hardy:** Maybe it is just me, but I do not seem to be able to get a clear answer on whether there is a contingency plan of what would happen if there were a vaccine-resistant mutation. Is there a plan in place? Do you have something there, if something happens in the future, that you can go to? Is it there and ready to go?

***Sir Tom Scholar*:** We cannot predict or speculate on future circumstances but, as at every other point in the pandemic, when things change, the Treasury is ready to take part in a discussion about how it should respond to that change and support Government Ministers in that. That is the position we are still in.

Q56 **Emma Hardy:** There is not a plan ready to go. It is just that, if there is a problem, you will try to react as quickly as possible, okay. I want to think about lessons learned from what has just happened. There is concern on this Committee about the amount of fraud related to some of the Government initiatives that were done last time. I wondered if you could explain the lessons you have learned, so that we can continue to offer people the support they need if we find ourselves in a situation where we have another vaccine-resistant mutation, and what we are going to do particularly around these issues of minimising fraud in the future.

***Sir Tom Scholar*:** One of the main fraud risks that has been identified has been under the bounce back loan scheme. That was identified as a risk at the time that it was introduced. It was designed explicitly to make loans available extremely rapidly, within 24 hours, to small businesses that were asking for them, including, in a number of cases, businesses that had no established relationship with a lender or that may never have borrowed before. That inevitably means that the full range of checks that a lender would undertake just simply—

Q57 **Emma Hardy:** I understand. I just wondered what the lessons learned from that will be. We obviously understand the situation as was and the decisions behind the way you chose to act. I want to know what would be different next time.

***Sir Tom Scholar*:** That work is not complete yet. The NAO is currently doing a report into the bounce back loan scheme. That is due to be published this month or next month. The Government, and that means BEIS, the British Business Bank and the Treasury, will look very carefully at that. We have always said that we will do our lessons learned on all the schemes and a proper evaluation on each one, as and when they come to a conclusion and it is possible to learn those lessons. We will be doing the same for the bounce back loan scheme.

Q58 **Emma Hardy:** The worry that I seem to be having at the moment is that there is no plan ready to go. You will just react to circumstances as they happen. The lessons learned report has not concluded. As it stands, if this new variant proves to be resistant to the vaccines, we do not have a plan ready to go and there are not clear lessons learned from the pandemic. Am I right?

***Sir Tom Scholar*:** If I have said that, I have given the wrong impression. We have a great deal of experience now, over the last two years, of a whole set of schemes in different sectors. Those have been changed over time, including being tightened up, to reduce the risk of fraud and error and to improve targeting. They are all ready and available. Some of them are still in operation; most of them are now closed. We will make sure that the lessons are learned for any future requirement, including a future pandemic.

***Charles Roxburgh*:** Maybe I can come in with a couple of specific examples. Through the crisis, we have learned lessons as we go. With the coronavirus business interruption loan scheme—CBILS—intervention, which was the very first one and was actually announced in the Budget on 11 March, we launched it and we had to make some mid-course corrections. We learned as we went. With the successor product, the recovery loan scheme, which is now in operation, the design of that explicitly reflected all the lessons we had learned through the first one.

It is not that you launch a project, launch an intervention, wait until it is finished and learn lessons later. We have been learning and doing course corrections as we go, and then we are ready, with a next version of the product, to bring it to market, having learned those lessons. All our teams have been documenting those lessons as they went, on the major interventions. Because we did quite a lot of course corrections to get them absolutely right, by the time the programmes had finished, we felt we had addressed many of the early teething problems.

Q59 **Emma Hardy:** Thank you, Charles. Perhaps if you are able to answer, looking at some of the particular Government initiatives that we are all praying and hoping we will not need again, because we are hoping we will not end up in lockdown, what would be different this time?

***Charles Roxburgh*:** That is a classic hypothetical, which is very difficult to answer until we hear about what our scientists know on this new variant. First of all, it is incredibly impressive how quickly the science is learning, which is a source of encouragement, but equally there is so much that we do not know about the nature of this variant, the impact it will have or how severe it will be. We really do not know that yet. It is hard to say, hypothetically, whether we might need programme A or programme B, because it will depend so critically on the impact of this new variant, which could range from being, hopefully, relatively mild, or maybe not.

Q60 **Emma Hardy:** What role does the Treasury play in whether or not to increase social restrictions? Understandably, I do not know the decisions generally made by DHSC, but what role does the Treasury play? One of the recommendations that the Treasury Committee looked at is a criticism of the Treasury's analysis for not providing models of the alternative to lockdown. What role does the Treasury play in looking at whether or not we should have further social restrictions, if needed?

***Sir Tom Scholar*:** The advice on those decisions is run centrally from the Cabinet Office, and they are decisions that I think go to the Prime Minister, obviously involving his senior colleagues. That certainly includes the Chancellor. The Chancellor is there as part of the discussion, bringing into the discussion economic considerations. The Treasury's role is to support him in that and give him advice on that. The Chancellor and I have written to the Committee about what is and is not really possible to do, in terms of economic analysis. We certainly do feed into it through the Chancellor, who takes part in those discussions and decisions.

Q61 **Emma Hardy:** Our recommendation 86 was asking for the Treasury to be more transparent about that economic analysis that takes place. I understand that you are advising the Chancellor when he goes into these meetings but, as a Committee, we are calling for greater transparency over how you are making those decisions. What are you advising the Chancellor on? What are the different aspects you are looking at, in terms of how this is going to impact the economy? How does it inform the decisions you make?

***Sir Tom Scholar*:** I set this out at some length, in the letter I sent the Committee in January. We look at all the available data, regional and sectoral. We look at employment data, investment data and consumption data. We look at the forecasts that others have produced. I think all three of the OBR's last publications have had some quite extensive analysis. The Government, certainly in each of the publications they have done this year on roadmaps—or the roadmap earlier in the year, the plan for the autumn and the winter—included a section on the economics. It does not include a precise quantification because it is simply impossible to do that, but it includes an assessment of the kinds of effects and the channels though the effects that take place.

Q62 **Emma Hardy:** Do you think the Treasury has the modelling capacity now to model the economic impact of such restrictions? Do you think you have the ability to do that? Do you have the capacity to do that now?

***Sir Tom Scholar*:** As I tried to explain in my letter, it is not really a question of modelling capacity. It is more a question of the impossibility of predicting the responses. A critical question in any restriction is what the response of consumers and investors will be. That is extremely difficult to predict. You can probably predict the direction, but the magnitude is much harder. The OBR, which is the UK's official forecaster and has all the modelling capacity, has said it is simply not possible to model or forecast these things with any accuracy.

Q63 **Emma Hardy:** Finally, if I may, I just want to bring you back to the pandemic. I am sure you must have had a huge wealth of correspondence from Members of Parliament, asking lots of questions about what was happening and what was going on. Do you believe your Department dealt with it all in a timely manner?

***Sir Tom Scholar*:** Last year, the correspondence we received increased by four times. That started in March last year. At exactly the same time that we were ramping up all our policy work to respond, we were receiving a huge amount of correspondence and we got very badly behind. I am more than happy to acknowledge that and to apologise, through this Committee, to all parliamentarians for the delays in responding to correspondence.

We had a big effort last year to get on top of it and to reduce the backlog, which I think we have been able to do. We are still receiving double the number of letters this year that we would typically receive pre-pandemic, so our response time has been slower than it was before, but we are working very hard on it.

Q64 **Emma Hardy:** There is of course an urgent need for Members of Parliament to get timely answers from the Department, especially during a time of a pandemic. As the person who is leading on this Department, are you able to put more resource in to ensure that you can deal with elected Members of Parliament in a much more effective manner?

***Sir Tom Scholar*:** That is exactly what we did last year. We redirected some staff to it. We took on extra, additional staff. I think HMRC kindly let us take on some of its staff for a while, to help us. We increased the number of staff in the central unit and in policy teams and, as I say, we got on top of a big problem last year and we are trying to keep on top of it.

Q65 **Emma Hardy:** What is your expected turnaround now? What should Members of Parliament expect when they communicate with the Department?

***Sir Tom Scholar*:** I think the target is 15.

***Anna Caffyn*:** We are responding to 68% at the moment within the Cabinet Office 20 working-days target. That is where we are. We are aiming to continue to improve that.

Emma Hardy: With the Chair's permission, I do hope you keep the Committee informed of that target and how it is progressing. Thank you.

Q66 **Rushanara Ali:** I have some questions on value for money and lessons learned from the PPE procurement and NHS Test and Trace, but also the collapse of Bulb Energy, just to give you a heads up. Before I go on to questions on those topics, I have a follow-up on the point that Charles Roxburgh made earlier about life sciences and infrastructure. You mentioned that it is not all in the south-east and it has to be elsewhere, and quite right too, in terms of making sure we have a more balanced economy and investment across the country.

As an MP who represents an area with Barts Life Sciences programme, we are beginning to see an either/or approach. That narrative, which has not come from you, is dangerous, because London is not paved with gold everywhere and there are areas of opportunity with high levels of health inequality. We have seen the impact of the pandemic having big effects in inner-city areas and lots of opportunities for the economy through life sciences investments in areas like mine. I am just putting that there for you to be aware, because we have seen that tension and not a recognition that there is a lot that we can gain as a country by not neglecting to invest in areas that are legitimate areas for investment. I just wondered if you had any assurances you can give me on that.

***Charles Roxburgh*:** The Prime Minister has always said it is not about levelling down; it is about levelling up. In the context of such a significant increase in the R&D budget, it is possible to be investing at a faster rate outside London and the south-east, while still increasing public investment in R&D behind some of our real centres of excellence, whether it is Oxford, Cambridge or London. As you say, London is a huge centre of excellence for R&D. That is true.

We are trying to catalyse more private sector investment, both by industrial investors in science and R&D, and by investors in the businesses that spin out of them. London has an incredibly rich set of financial investors that can support companies that spin out. We are seeing that in a whole range of sectors—the start-up success stories in technology and life sciences in London as well. As I say, if we had a flat budget for investing in life sciences in general across R&D, this would be a much tougher position, but as we have a significant increase in that budget it should be possible to avoid what I say are false choices and would be damaging.

Q67 **Rushanara Ali:** In that case, I will send you the demand list. Thank you very much. That is a reassuring answer.

On to value-for-money questions, the NAO report last year on Government procurement during the pandemic, and correspondence we received from the Treasury, showed that it still retained some involvement in the procurement of PPE. It held assurance meetings to provide challenge and scrutiny to the programme, and participated in oversight committee meetings, chaired by the Department of Health and Social Care. Did you find any areas for improvement in the working arrangements and the assurance meetings, and what, if anything, should be done differently?

You are obviously very familiar with the context of controversies. Earlier this year, a figure of about £2 billion was set out as being spent on contracts to those with connections to Conservative party donors. More recently, there is a report of 47 awarded contracts for PPE, totalling £4.7 billion, after referrals from politicians and officials, according to recent analysis. Given what we have seen, I just wondered what lessons have been learned.

***Sir Tom Scholar*:** We have certainly been looking at the issues and, as Charles said earlier, learning the lessons as we go. I will turn in a moment to Cat, who has been the person overseeing that. The early lessons were set out in the letter to this Committee from the previous Chief Secretary earlier this year. In particular looking at PPE, as he said, we felt that we could have done better, with better information sharing at an early stage, with greater challenge internally within Government. The commercial specialists in the Cabinet Office played a valuable role, but greater up-front, external scrutiny from them would have helped, as would a more collective effort from the beginning, embedding experts into the spending teams. Clearly, we have looked very carefully at the NAO reports and I am sure Cat will want to say something about that.

Q68 **Rushanara Ali:** Just on that, can I check something? There are still contracts being awarded through the emergency legislation arrangements, although not as many. Are some of those checks and balances, some of the lessons that the Chief Secretary was talking about, in place?

***Sir Tom Scholar*:** Cat, perhaps I can turn to you at this point. Cat has been overseeing this.

***Cat Little*:** The simple answer is yes. This morning, I was going through all of the lessons learned with my team and making sure that we were applying them to the latest judgments we are taking on the new variant. One of the Chief Secretary's recommendations was that the Cabinet Office and Treasury officials, as well as functional experts from the commercial function, were embedded within governance and decision making. I can confirm that that has been the case throughout the whole of this year. As part of the monthly discussions that we have on PPE, vaccines, and Test and Trace, the Treasury, Cabinet Office and commercial officials are embedded within decision making.

Q69 **Rushanara Ali:** The Treasury has told us that it decided not to have a Treasury approval process for new spending in PPE, but to instead have assurance meetings, as we have just talked about, to provide challenge for spending. Was that a mistake? Just so that I have heard this correctly, are we continuing to do assurance meetings or are we going to move towards a Treasury approval process?

***Cat Little*:** Could I perhaps start by clarifying what we have done? As you know, Treasury consent and the approval to spend is a critical core function of the Treasury and my team. It is not the case that no approval has taken place. If we take ourselves back to March 2020, it became clear very quickly that we would need to use the full flexibilities of the spending control framework and we needed to operate with pace, given the uncertainty and risks involved.

We took the decision that, as part of our approvals, we would move more quickly to take decisions to approve funding up front, but to put much more emphasis on the post-event spend procurement assurance processes. There was an approval process for PPE, Test and Trace, and vaccines.

To give you a sense of the lessons learned and how we discharge that assurance process, for example, for PPE, right up front we set an envelope of £100 million. That very quickly escalated, by June, to £13.8 billion. As part of the original conditions that we sent to DHSC, we put in place conditions on quality assurance, the existence of stock, involvement of commercial teams and unit costing ranges. We sent very specific requests for the way in which the accounting officer approved the delegation.

Q70 **Rushanara Ali:** Just to check, because it links to some earlier questions, how much awareness did you have of the fast-track programme in PPE equipment, where the cross-Government PPE team established a high-priority lane to assess and process potential PPE leads? This has become the subject of controversy and, frankly, brought a number of things that have been going on into disrepute. Britain has a pretty good record of being clean in how our contracts are allocated and awarded, but the recent scandals have had a hit on the reputation of how our Government work and how contracting happens. How much awareness was there in the Treasury?

***Cat Little*:** The £13.8 billion delegated envelope that was provided to DHSC meant that we were giving greater delegated spend authority to the accounting officer in DHSC. Therefore, it is up to the accounting officer locally to ensure that they are following all the spending requirements in *Managing Public Money*, which, as you say, include propriety.

Q71 **Rushanara Ali:** Were any of you aware at the time of this going on? Over £13 billion is a lot of public money. One would think that, if stuff was being delegated, you would want to know more about these special fast-track programmes.

***Cat Little*:** At the time, we were not aware that this was a process that DHSC was undertaking. As always, we are very grateful to the National Audit Office's review into this. It has given us some really interesting conclusions, which we are currently following up with DHSC and the Cabinet Office commercial team.

Q72 **Rushanara Ali:** Permanent Secretaries, were you aware? Were there any alarm bells going off over the period, because reports were coming up about this? At what point were you aware of this fast-track programme?

***Sir Tom Scholar*:** I do not remember it at all. If anybody would have been, it would have been the DHSC spending team. I have nothing to add to what Cat has said on that.

Sitting suspended for a Division in the House.

On resuming—

Q73 **Rushanara Ali:** I was talking about the contracts that were awarded during the pandemic and what lessons, recognising that it was a challenging period, can be drawn from that to make sure that we do not have the spectre of abuses of power, frankly, where, if it is the case, it is billions of pounds of contracts being awarded to those with political connections. It raises concerns about trust and the integrity of how contracts are done.

You were saying to me that the Department of Health and Social Care was ultimately responsible, once the money was allocated, for the oversight. Do you think that we need fundamentally to rethink that oversight? The Treasury historically has an excellent reputation of following the money, and making sure that money is spent correctly and there is value for money.

***Sir Tom Scholar*:** There are two different areas of control here. There is the approval of expenditure, for which the Treasury is responsible for allocating money and approving it. On that, as we said and the Chief Secretary said in his letter, it was a deliberate decision to give a much greater delegated authority to spend, in the interest of speed.

Secondly, there is the oversight of contracts, which is a Cabinet Office responsibility. It has its own separate control regime. That is principally the area it has been working through. We have already identified a lesson, as I alluded to earlier, which is the need for greater and earlier scrutiny within Government from the Cabinet Office commercial specialists on to whichever Department it is. That was an earlier lesson. Cat was about to talk about some of the further lessons since then, including in the light of the recent NAO report.

Q74 **Rushanara Ali:** Cat, what can we expect now, going forward, if we had to respond in a similarly dramatic way, that would avoid this sort of thing happening?

***Cat Little*:** Our spending control framework is built on best practice, from a three-lines-of-defence model. It relies on the Department functions, and the Cabinet Office and the Treasury in the second line, and then our independent assurors, through the NAO and the Government Internal Audit Agency, also playing their part. We are continuously trying to make sure that those three lines of defence are operating as effectively as possible.

On the very specific question you had about procurement, in the break, I did just go back and take the opportunity to reread very specifically some of the issues there and what DHSC has done about it. One of the very specific recommendations was that there was not enough of an audit trail or documentation of the way in which the priority procurement process had been undertaken. The accounting officer of DHSC has set out what he will be doing in future to change that. The Treasury's responsibility, through the Treasury minute process, is to make sure that we hold the accounting officer to account. Your point about us taking this very seriously and following through is obviously an important part of what we do.

More broadly, we have done quite a lot of lessons-learned activity with the Cabinet Office on wider assurance and controls. We have looked at the role of functions. We have looked at the accounting officer responsibilities and how effectively they operated during Covid. The finance leadership group, which I chair, has looked at forecasting and demand modelling. To go back to the point made earlier about fraud, we have done some specific work there. I would like to think that this is part of a continuous improvement exercise rather than specifics.

Rushanara Ali: That is really helpful. Thank you. Can we be confident, given those things you have done and the line of sight you have in terms of procurement—as you pointed out, the Cabinet Office plus DHSC; in the future, it might be some other Department—that we are not going to have a situation where billions of pounds of contracts are awarded and there are quite big question marks around whether they should have been awarded in that way, and a waste of public money in certain circumstances? Can we be confident that you have everything that can be done in real time rather than after the event? Obviously there are investigations, reports and audits that can happen afterwards, but it is a bit difficult to go and get the money back if it has gone to dodgy contractors who cannot deliver value for money.

***Cat Little*:** I can assure you that we have learned the lessons as quickly as we can. I do not think we can give a cast-iron guarantee that this will never happen again. Propriety risk and commercial risk, for the scale of procurement that we undertake in Government, are obviously significant. but I am assured by the actions that the Cabinet Office has taken.

***Sir Tom Scholar*:** The main issue here was the question of speed. The Government identified the need to move very quickly and, in order to enable that to happen as we set out, the approval process was streamlined.

Q75 **Rushanara Ali:** We are all sympathetic to that, but a clear pathway was created, and this is the subject of a number of court cases and controversies. It links to the earlier questions about whether civil servants are empowered enough—whether Sir Humphrey is empowered enough—to speak truth to power. I am not talking about your Department in this case, although your Department is connected because you are the holder of the public purse; you are ultimately responsible. Should DHSC and Cabinet Office officials be more empowered to speak up to Ministers, or those who set up this special pathway for contracts, to say, "This is not on; this is actually going to cause problems"?

It seems like that is where there has been a breakdown and there is a lack of confidence in the Civil Service, which is deeply problematic, because civil servants are there to protect the public purse. The continuity element is really important and we depend on a strong, confident Civil Service to speak truth to power. It seems like it has not happened in this case.

***Sir Tom Scholar*:** As you have said, there are investigations, inquiries and legal action going on, so I cannot comment on the specifics of the case, given all of that. As Cat said, we have learned lessons and tightened up the system so that that will improve the position in the future. It is always going to be the case, though, that if you, basically, streamline procedures, drop various steps and drop the level of scrutiny, you are increasing the risk of, ultimately, errors of some sort.

Rushanara Ali: You could have corruption.

Sir Tom Scholar: That remains the case, but subject to that, as Cat said, we think we have tightened it up as far as we can.

Q76 **Rushanara Ali:** On the collapse of Bulb Energy, the Government are reported to have set aside £1.7 billion for loans to cover the cost of running Bulb Energy, through a special administrator, this winter after the supplier's collapse. Are these additional funds to be approved in the supplementary estimate? How much of it does the Treasury expect to be repaid and by when?

Charles Roxburgh: We are facing a very challenging and unprecedented situation in the energy supply market, given the fivefold increase in wholesale gas prices. As a result, 27 supply companies have gone out of business. Ofgem, the regulator, and the Department for Business, Energy and Industrial Strategy are leading on this. We are very closely involved. Their recommendation was that the right way to handle the difficulties at Bulb was through a special administration regime. The other suppliers have been handled through a different mechanism, called supplier of last resort. In order to ensure continuity of supply, which is the critical consideration here, we needed to make a £1.7 billion loan facility available to cover the administrator's needs on that. That will be for a six-month period.

It is a contingency facility. It gives confidence and enables the administrator to protect supply, keep costs down and look for an appropriate exit strategy. We do not know how much of that will be used. It will depend on the final cost of the administration, which, at this stage, we do not know. The administrator is required to do the administration at the lowest cost possible, but we will not make any estimates of how much we will need.

Q77 **Rushanara Ali:** What about repayment? Will it be repaid, if it is used?

Charles Roxburgh: It is a decision for the Secretary of State for BEIS as to how to secure repayment. He has the powers to impose a levy on the industry in order to get repayment. The terms and conditions of that will be decided in due course, but we do not yet know the scale of that until the administration has run its course.

Q78 **Rushanara Ali:** Is the Treasury expecting or anticipating the need for funding others in the future that might find themselves in difficulty? As you mentioned, many have found themselves in difficulty. If so, what are the additional amounts likely to be required and have the Government set aside enough contingency funding for this purpose?

Charles Roxburgh**:** This is a fast-moving situation and it would be quite wrong to speculate on the financial viability of remaining companies.

Q79 **Rushanara Ali:** But you would stand ready to provide contingency support, if necessary. Our constituents will want to know that, if their energy company is in trouble, the Government or somebody will step in to fix it.

Charles Roxburgh**:** It is absolutely clear that the regulator, the relevant Government Departments and the Treasury stand ready to ensure continuity of supply, which is critical at any time, but particularly through the winter. To date, with 27 companies having been transferred to other suppliers, and Bulb now in a special administration regime, the Government have delivered on that. There is a lot of work, co-ordination and close working together with our regulator on how to navigate the rest of this challenge.

Q80 **Rushanara Ali:** Thank you. That is really helpful. You will appreciate there has been a lot of anxiety, given the stories about the issues that energy companies have faced. I have one last question, perhaps for Sir Tom. There was a rather unseemly row, it seems, between the Treasury and BEIS a while back, in terms of what public funding or support would be provided. I remember listening to it and thinking, "People are worried about whether their energy company is going to go bust and the Treasury is putting out statements saying that the BEIS Secretary has got it wrong and so on".

Can we expect a bit more maturity in the way that Government Departments and Ministers behave when it comes to these issues, so that they are focused? As you have described, now there is much more co-ordination. Can they get to co-ordination rather than departmental spats? The reports are that Downing Street had to step in and arbitrate.

Sir Tom Scholar**:** As you say, there was a certain amount of noise in the press. I do not remember the precise details of it now, but the main focus of the Government, as Charles has said, is to guarantee security of supply to households in the short term, then resolve the problems facing the companies in the medium term, and then no doubt learn the lessons as to the underlying cause of the situation.

Chair: Can I quickly ask you one question relating to Departments, funding of Departments, spending bids, et cetera? The Department of Health and Social Care has received multiple billions of pounds over the last period. When you look at that particular Department, the kind of controls it has in place and the kind of data it can provide, in terms of demonstrating that money is going where it should and that value for money objectives are being met, do you think all is well or do you have any sympathy for the commentariat out there? There are certain sections of the press that constantly seem to be suggesting that a lot of money goes into that Department, and we are never quite sure whether it ends up doing what it is intended to do.

***Sir Tom Scholar*:** I will turn to Cat, because her teams oversee the relationship. I have one observation. DHSC has had a huge amount to deal with in the last two years. Some of its financial responsibility has been very difficult to discharge effectively, the most obvious example being on Test and Trace, where spending under the programme, as I am sure this Committee knows very well, was much lower than forecast, largely due to the take-up of testing being much lower than forecast. That is inherently an extremely difficult thing to do.

While we have been working with them to try to improve their financial modelling and forecasting, at the same time, we recognise that they have had a pretty tough task on their hands. As you said, very large sums of money have been allocated over the last two years, but also before that. Quite a lot of that has been emergency response funding, but a lot of it, particularly with the September announcement, is now a permanent uplift in the budget, which the Treasury will be monitoring in the way that we always do. Cat, maybe you could say a bit about how we will be doing that.

Q81 **Chair:** And about specifically whether, from where you sit, you feel, "Ah, yes, it is DHSC and therefore I am going to get very robust numbers. I am going to get timely information. I am going to get the right information. I am going to have confidence, at the end of the day, that I can hold them to account for the multiple billions of pounds that have been going their way".

***Cat Little*:** The context that Tom just went through is very important here. It is fair to say that there are some significant financial management challenges, and that has been highlighted through the work of the NAO, but also in the work that we have done with DHSC directly. DHSC has very much recognised a number of the areas of improvement that it needs to prioritise. It has established a financial management improvement programme, which I, in my role as head of the Government Finance Function, sit on the board of, working collaboratively with them. It includes improving the financial capacity and capability of the Department. It is about analytical expertise and the control environment. It restores some of the pre-pandemic controls and assurance processes that we would expect to be in place This is a work in progress and we are very focused on taking swift action to respond to some of the issues that the Department had identified.

Q82 **Chair:** If I could crudely put it this way, as you survey the various Departments of Government, do you put DHSC mid-table, bottom of table or top of table in terms of providing you with the kind of robust information and analysis that you require?

***Cat Little*:** As part of our work with finance leaders and accounting officers, we do an annual appraisal of areas to improve. It is fair to say that DHSC has a range of areas for improvement. It involves better data, higher-quality information for decision making, and some of the things that I just talked about around controls and assurance. I would not want to put them in a league table. It is obviously a Department that has gone through a very difficult period and has borne the brunt of some significant issues over the last 18 months. There is no doubt that there are significant challenges.

Q83 **Chair:** It would be helpful, Cat, if you were able to just drop a line to the Committee on the issues we have touched on here and the improvement programme that you referred to. We would be interested in hearing a little bit about that. I say that particularly because the level of public expenditure that is now taken by Health has grown very significantly over the last decade, even outside of the context of the immediate pressures from the pandemic.

***Cat Little*:** I would be very happy to do that. I would also be happy to follow up your question about assurances and how we monitor spend, given that context.

Chair: Thank you. That is helpful.

Q84 **Gareth Davies:** I am going to cover net zero and the future regulatory framework. First of all, with net zero, the UK recently issued its first sovereign green gilt. I think the initial issuance was £10 billion and then a secondary sale of £6 billion. Can you just talk us through and outline the rationale for issuing a green gilt and your assessment of how it has gone?

***Sir Tom Scholar*:** It is something we have had in our minds for several years. A number of other sovereigns, most of them within the last couple of years, have undertaken similar issuance. There are two main reasons. First of all, there is increasing demand from the investor base for vehicles with good climate credentials. That is partly corporates, but also Governments. People want to invest in things that are going to be used to tackle climate change. There was therefore a strong value-for-money proposition for the Exchequer, which we wanted to test. We were not sure, but the experience of other sovereigns suggested that could work and the experience so far has been very positive. In the market jargon, there has been a so-called "greenium". In other words, people have paid more for the privilege of lending us money for these projects than they would for a general gilt. The cost of financing to the Government has been lower.

Secondly, associated with that, it is clear that green finance will be a big growth area in the financial sector in the years to come, which London, as a major global financial sector, should be very well placed to exploit. That should be a good line of business for the UK. We thought that establishing a green gilt programme could be part of a building block to support that. The original decision was to start the programme of issuance this year, which we have done. The gilt remit gets set year by year so, later in the year, you will be asking, "What is in the programme for the next year?" But the experience so far has been positive.

Q85 **Gareth Davies:** Have you quantified the amount of greenium or the amount it has saved the Treasury?

***Sir Tom Scholar*:** We have. It was something like 1 to 1.5 basis points. I think that is the right figure, in terms of the rate. I can cover this in my letter to the Committee, if that would be helpful.

Q86 **Gareth Davies:** That would be great.

I recall an interview with the chief executive of the DMO, in 2020, where he said that he thought issuing a green gilt would be symbolic, and only symbolic. Was he wrong about that?

***Sir Tom Scholar*:** I do not recall that interview, I have to say. Going back to my previous answer, this has been value for money for the Exchequer and part of the Government's green finance programme.

Q87 **Gareth Davies:** I will take it that he was wrong about that. It was not just symbolic; it was more than that. It has actually tangibly benefited the Treasury.

***Sir Tom Scholar*:** There is possibly something in the timing. As I say, it is a market that has developed fairly recently, not just in the UK, but in other countries too. Things change over time and a market that was in its infancy, possibly, when those remarks were made has changed since then.

Q88 **Gareth Davies:** Can you tell us where the proceeds are likely to go?

***Sir Tom Scholar*:** They are all allocated to projects, Government expenditure, which is certified through a process, which I now cannot remember the details of, but can again cover in the letter. It is very important that investors have confidence that the money they are lending is indeed going to be used for proper climate change reducing or net-zero- advancing projects, and we have set up a mechanism for doing that. Perhaps I can cover that in the letter.

Q89 **Gareth Davies:** That is fine. What do you envisage is the total amount you are going to raise in the next couple of years? Do you have a plan for how much you are likely to issue?

***Sir Tom Scholar*:** I do not have an answer for that yet. We will set the gilt remit for 2022-23 in March and, through that process, we will be answering that question.

Q90 **Gareth Davies:** Can I just ask about the UK Infrastructure Bank? I understand it has just made its first investment this week. I understand that the purpose of it is to crowd in private capital for new infrastructure investment. To what extent will the Treasury be overseeing its activities?

***Sir Tom Scholar*:** It is an arm's-length body of the Treasury. It is consolidated into the Treasury group and will be consolidated into our accounts as well. It is something that we are very closely overseeing, although, at the same time, it has its operational independence, which is very important to its business model. Maybe Charles would like to add to that.

***Charles Roxburgh*:** As you know, the bank was announced last November and opened for business this summer, and has now done two deals. It did one that was a loan in the public sector. Today's announcement was its first private sector deal. We have been very heavily involved in setting it up and hiring what we think is a genuinely world class leadership team, which we are very pleased with. Chris Grigg is the chair and John Flint is the chief executive. They are now putting in place the full, permanent team, but they have a team up and running already. They are open for business in Leeds.

We will be heavily involved. There is a board member to represent the shareholders' interest, and that role is performed for us by UK Government Investments. UK Government Investments has a representative on the board, and we will have regular meetings with the management team, to see how they are doing. We will not get involved in individual investment or lending decisions. It is critical that those are taken by professionals in the bank and not influenced by political considerations, so it is operationally independent.

Q91 **Gareth Davies:** Do you ever envisage it being so independent that it could issue its own debt, for example, like some development banks across Europe can do?

***Charles Roxburgh*:** We have set it up so that it could do that, but it would have to meet a value-for-money test. As it can draw on the resources of the Debt Management Office to get the funding, although it could, in theory, issue that, I think near term it will realise that borrowing money via the Debt Management Office on the full faith and credit of the UK Government is very good value for money for it. It has that flexibility, should in time that emerge.

Q92 **Gareth Davies:** My last question on the UK Infrastructure Bank is slightly technical, based on a bit of history. We used to have the UK Guarantees scheme. I understand that £10 billion has been set aside for the UK Infrastructure Bank to issue guarantees. Does it include the UK Guarantees scheme within that £10 million? Are the two operating independently or is it combined?

***Charles Roxburgh*:** The legacy UK Guarantees scheme loans continue to sit on our balance sheet, and the UK Infrastructure Bank provides help and support to us in managing those. That is the legacy. Going forward, there will not be a competing UK Guarantees scheme. The UK Infrastructure Bank will have the capability and mandate to issue those guarantees, to manage them and to do so, we are confident, very professionally.

Q93 **Gareth Davies:** Does the £12 billion that was announced for the UK Infrastructure Bank take account of what you just said?

***Charles Roxburgh*:** The UK Infrastructure Bank has £12 billion of paid-up capital, £5 billion in equity, £7 billion in debt, and £10 billion of guarantee capacity. In total, it has £22 billion of, loosely put, financial firepower. It will make a decision as to whether to issue, invest, lend or issue a guarantee, and it can do so at any point in the project it is lending to, at any point in the capital structure. It can take equity, mezzanine, debt or guarantees.

Q94 **Gareth Davies:** I understand. Thank you very much. Can I ask you about the future regulatory framework? The Treasury has proposed a secondary objective for the FCA and PRA, covering competitiveness and economic growth, as you know. Why was the Bank of England not given a similar objective? Why was it not treated like the PRA?

***Charles Roxburgh*:** The future regulatory framework considered the PRA in terms of the prudential regulator, and the FCA in terms of the conduct and markets regulator. You are probably referring to the financial markets infrastructure regulation function, which is handled in a different part of the Bank. We will be consulting on that soon. It has a different set of requirements, so we will be consulting on the appropriate regulatory objectives for that.

Q95 **Gareth Davies:** I see. It will be considered. It is in play in the future, potentially.

***Charles Roxburgh*:** The PRA handles all the systemically important firms, but a different part of the Bank, under what is called the Financial Markets Infrastructure Board, in Sir Jon Cunliffe's part of the Bank, handles financial markets infrastructure. The big CCPs and systemic payment systems are very important functions. They are just not handled by the PRA; they are handled by a different part of the Bank. We have said that we will be consulting shortly on how the framework will apply to that part of the Bank.

Q96 **Gareth Davies:** I understand that the guidance says, or it has been issued as part of the announcement, that that second objective for the FCA and PRA will not require or authorise them to take any action inconsistent with the primary objectives. Given this, and given that they do not necessarily have to execute on that second objective, how confident are you that we will see competitiveness improve as a result of this objective?

***Charles Roxburgh*:** We are very confident that this is a good structure to have that secondary objective framed around. That language is taken directly from the legislation that established the Financial Policy Committee, which has a secondary objective to support the Government's economic policy. We have seen in practice that that works well. The work that is currently being done on the so-called productive finance agenda has flowed directly out of the Financial Policy Committee's interest in how, in support of the Government's economic policy, it can do things that are both good for financial stability and good for economic growth. We have seen that work well there.

We have also seen the PRA's secondary objective on competition work well, without in any way compromising the safety and soundness of banks. The PRA has done a good job of making it easier for new bank start-ups. Seven or eight years ago, you will remember there was a lot of concern about the lack of competition in the banking market and how difficult it was for some of the challenger banks to get authorised for the PRA. That competition objective has done a good job of having a new bank start-up unit, not to lower standards, but just to make it easier for new banks to navigate the regulatory system and help them get authorised, and then to regulate them in a way that is completely consistent with high standards of safety and soundness, and improves competition and choice in the market.

We have seen this structure work well. We are confident that it will work well in the new framework and will help encourage things like we have already seen. The regulators are already doing things like this, as we saw with the listings review, where the UK was not attracting the tech listings that we wanted to attract here. The Chancellor asked Lord Hill to look at this and then the FCA responded well. That is a very good example of the sort of things we would expect to see more of, which are good for competitiveness but do not in any way compromise the primary objectives.

The Government do not want, and I am sure this Committee would not want, the PRA to be doing anything that compromised safety and soundness or policyholder protection. Nor would you want us to be doing anything that would mean that the FCA did not deliver on market integrity, consumer protection and its competition objectives. While delivering on that, it can also do more to improve competitiveness.

Q97 **Gareth Davies:** I have one last question on competitiveness, which is a broader question about financial services. One of the big missions of this Government at the moment is to expand our trade with countries around the world and one of the main drivers of our economy is financial services. How comfortable or confident are you in our regulator's ability to have regulator-to-regulator discussions about expanding financial services trade?

***Charles Roxburgh*:** It is not for our regulators to be having trade discussions. We have trade discussions if they are part of a broader trade negotiation by DIT, but we would be very heavily involved with it. We have discussions directly through the Treasury with other jurisdictions, as we are having with Switzerland at the moment. We do that very closely with the regulators, but the regulators are not trade negotiators. They have extremely good relationships regulator to regulator, and our regulators are genuinely world class and respected on the world stage. They are extremely influential in global forums like the financial stability board. A lot of that international trade in financial services is dependent on good regulatory co-operation and trust between regulators.

Q98 **Gareth Davies:** This is my point. There is a lot of activity going on to sign trade agreements around the world. Most of the trade agreements have been on goods, not so much on services. When you speak to the trade Department about financial services, it rightly points out that it is important, if not dependent on our regulator having very strong alignment and discussions with other regulators around the world. That is why I was asking if you are confident and comfortable that those discussions are going on to complement the trade activity that is going on in the Government.

***Charles Roxburgh*:** As I say, it is not the PRA's job to go out and negotiate trade agreements on banking. We would have discussions with other jurisdictions. If we were having a trade negotiation that had financial services elements, that would be DIT, but we would have a very close link in with the DIT negotiating team. We would be, in effect, shaping the financial services chapter on it. We co-ordinate very closely with our regulators on that, to make sure that we get the right balance between allowing it to deliver its primary objectives while capturing the opportunities for our firms in exporting financial services. That is working well at the moment and I have complete confidence that we have the right structure.

Chair: That brings us to the end. Can I thank you, Tom, Charles, Anna and Cat, very much indeed for appearing before us this afternoon? It has been a very useful session, inevitably focusing on the Treasury as a Department. We have roamed fairly widely in the subjects. We have touched on everything from staffing and departmental budgets to levelling up, the fiscal consequences of unwinding QE, pre-briefing of Budget announcements and fraud on loans. I could go on and on. You have had a lot to chew on there with us, and we are grateful for the informative answers that you have provided to us.

There are a few matters on which you are going to write to us, and we look forward to receiving your letter. We will also be writing to you on a few other points that have arisen today.

Could I perhaps just finish by thanking you again and your Department? We are not through this crisis yet, and we have been through an awful lot over the last 18 months or so. It is only fair to recognise that you have moved at considerable pace, with a number of initiatives that have been extremely important to our businesses and the people we represent up and down the country. Thank you for that.