



Select Committee on Economic Affairs

Corrected oral evidence: Chancellor of the Exchequer

Tuesday 19 May 2020

3 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Virtual Proceeding

Questions 1 - 15

Witness

I: The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, HM Treasury.

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Examination of witness

Rishi Sunak MP.

Q1 **The Chair:** Chancellor, welcome to the Economic Affairs Committee. The Committee very much appreciates your taking the time to join us. We know you have quite a lot on your plate at the present time. I declare my interests on the register as chairman of Secure Trust Bank and a director of J & J Denholm Ltd and the Denholm Logistics Group.

What do you anticipate will be the level of unemployment in the fourth quarter of this year?

Rishi Sunak MP: I do not have a precise estimate. There is a range out there from the Bank of England and the OBR, most of which point to around a double-digit percentage unemployment rate. The numbers you will have seen today showed just under 1 million new claims in the past month—over 800,000—taking the total number of claims to 2 million. I think the OBR estimate has that tapping out at about 3 million.

The impact will be severe. We are seeing that already in the universal credit claims data. Currently, 8 million people are furloughed. That demonstrates the degree of stress in the labour market and corporate health. We hope that, over time, as many of those people as possible can return to the jobs they have. That is very much our ambition and why we put the scheme in place.

The Chair: But quite a lot of the people who are currently being furloughed are already unemployed, are they not?

Rishi Sunak MP: No, they are furloughed. The point of the scheme was to prevent mass unemployment immediately as a result of the lockdown and the restrictions on businesses operating, which was why I took the decision to introduce the furlough scheme—I wanted to protect people's jobs and livelihood. It was no fault of their own that their businesses were closed to avert a public health crisis, and that was why we implemented the scheme. It allows employees to remain attached to their employers. We know that that attachment is critical, and hopefully it enables companies to hibernate for the short term, and as restrictions are eased progressively and our economy returns to normal it allows as many of those jobs to be protected as possible.

You are absolutely right in the sense that I have said very clearly that, although we have put unprecedented mitigating actions in place, I certainly will not be able to protect every job and every business. We are already seeing that in the data. No doubt there will be more hardship to come. This lockdown is having a very significant impact on our economy. We are likely to face a severe recession, the likes of which we have not seen, and that will have an impact on employment.

The Chair: I was making the point that they were probably unemployed because the OBR and others have changed their view and we will not be having a V-shaped recovery but more of a U-shaped recovery, but do you

accept that the length and depth of the recession you refer to will be related very much to the length of the lockdown?

Rishi Sunak MP: That is self-evident; indeed, it is what the OBR and the Bank of England have specifically said. There are two things to distinguish: the immediacy of the economic impact and the depth of recession, which we are currently passing through. There is a range of estimates from the Bank of England and the OBR on that of between 25% and 35%, but the question that occupies my mind and in the long term is probably more relevant is: what is the degree of long-term scarring of the economy as a result of this recession? What is the loss of productive capacity?

Ultimately, once we recover from this crisis—by the nature of it, I believe it will be temporary, and we will suppress the virus and progressively lift the restrictions—the question is: what do we return to? On that question, the jury is out. As you said, the OBR in its reference scenario forecast essentially 0% scarring; the Bank of England has indicated it might be about 1%; the IMF has said it might be 3% or 4%. We are dealing with something that is unprecedented, so economic forecasting is less precise than it would be, but you are right: all economic forecasters and economists agree that it is likely that the longer the recession, the greater the degree of scarring.

The Chair: Have you done any analysis on the point at which the lockdown measures cause more harm than good?

Rishi Sunak MP: In what sense? You are describing harm. I completely echo what the Prime Minister and we said publicly in our document. The current lockdown arrangements do not provide an enduring solution. It is evident that the price paid is too heavy for our way of life, society, economy and long-term public health. It was necessary in the short term to put in place the measures that we did to suppress the virus and to allow the NHS time to build up capacity to make sure it was not overwhelmed. So far, that has been the case. The NHS has not been overwhelmed, there is considerable spare capacity in our intensive care units in particular, and the NHS has done an extraordinarily good job of coping.

We have set out a plan for progressively lifting those restrictions to try to return to normal life as much as we can. You are right: there are impacts from the lockdown. As the Chief Medical Officer says, there are health impacts, not least because we know that people are not going for treatment that they otherwise would have sought. We see that in cancer referrals, treatment and screening, which the Chief Medical Officer has talked about. That is happening right now.

People are not showing up in A&E when otherwise they might have, but in the longer term the economic impacts of the lockdown have an effect on our health as well because of the impact on our ability to finance the NHS and the impact of unemployment on people's chronic health conditions. Some very good work by the IFS has talked about a rise of

approximately 2% in unemployment leading to about 1 million more chronic health conditions, for example.

We know there are impacts, such as on children's learning. It is probably difficult to simplify it to a single date, but we are trying to balance all those things. This is not an enduring solution, which is why we have a road map to progressively ease the restrictions and put better surveillance and test, track and trace in place to help us manage the virus long term.

The Chair: I can see how difficult this is, but how comfortable are you with the range of models and the fact that there is such uncertainty about the data to put into models? You will be familiar with the expression "garbage in, garbage out". In 1996 we had to deal with the BSE crisis. I was struck by the fact that some of the projections of the number of people who would die from CJD were up to 100,000 and more. In the end, because of the uncertainty and the lack of models, it was fewer than 200. You are having to take decisions to spend hundreds of billions of pounds on uncertain modelling with very limited data. Are you comfortable with that?

Rishi Sunak MP: I am not an epidemiologist and probably have more familiarity with economic and certainly financial models. I completely agree about "garbage in, garbage out". Economic models right now have less value than they would normally. I think that both the OBR and the Bank of England talked about the unprecedented uncertainty we are facing, which makes the job of economic forecasting in particular more difficult, so we should have humility about the value of the models and the precision of the results they generate.

I am not an epidemiologist. I am presented with the conclusions of our scientific advisers. They draw on a range of different models, within which, I understand, there are different modelling groups, and they come to a scientific consensus that we use to make our decisions.

The Chair: In 1996 the models suggested we should slaughter the entire national herd. Extreme suggestions were put forward, but Ministers had to take a view and operate with a wider view of what was in the interests of the economy and agriculture overall.

Q2 **Baroness Bowles of Berkhamsted:** I am conscious of the fact that the government support schemes are still work in progress and are being added to, but will you give us your latest estimate of how much they will cost, and when do the schemes become too expensive?

Rishi Sunak MP: Probably the best estimate is the OBR reference scenario, which has been updated and points to a direct fiscal cost of over £100 billion, but I want to make sure that I answer your question completely. There are buckets of cost. There is the direct cost of spending on various schemes—for example, our business rates grants of £10,000 and £25,000 going to up to 1 million eligible businesses. That costs about £12 billion.

The provision of business rates holidays, or cancellation of business rates, for the entire retail, hospitality and leisure sector costs about another £12 billion. The statutory sick pay rebate scheme, which is going live shortly, could cost between £1 billion and £2 billion. The job retention programme and self-employed scheme are likely to cost several tens of billions of pounds by the time they are wound down, with the furlough scheme recently being extended through to the autumn. Those are the costs this year.

On top of that, we have already invested about £14 billion in public services, which one might argue is a direct cost, but it is not a support scheme. We have made welfare changes of several billion pounds to strengthen the safety net this year.

There are direct costs that we will know only down the line—the tax deferrals and loan guarantees. We have provided considerable flexibility for people to make tax deferrals on VAT and income tax self-assessment. Those total north of £30 billion. There are also tens of billions of pounds in loan guarantees. Depending on what happens to those guarantees, loans and deferrals, there will be a fiscal cost from those as well, but it is likely that we will not know that until some point in the future.

Baroness Bowles of Berkhamsted: Therefore, you are not envisaging changing their direction. You have to stop them at some point; you cannot go on for ever.

Rishi Sunak MP: Of the things I mentioned, most of them already have a finite time. For example, the business rates holidays are for this year; the cash grants are a one-off; the loan programmes run through to the autumn, when they will no longer be available. It is the same for the future fund that is to be launched tomorrow.

In one sense, the only moving part is the furlough scheme, on which we have now set a time limit. We have extended it for four more months, so it will run until October. At that point, all the schemes will have wound down, or there will be things that have lasted for the full year but are knowable costs today—for example, business rates.

Baroness Bowles of Berkhamsted: What do you think this means for the budget deficit this year? A leaked Treasury document suggested it might be as high as £337 billion in the most likely scenario, compared with the £55 billion hoped for in the Budget, but obviously times have changed since. It will be what it will be. I do not think there is anything wrong in having these support measures, but what is the best estimate, because that is substantially more than suggested by the OBR?

Rishi Sunak MP: I point you to the fact that the OBR recently updated its numbers. It will be significant by historic standards. The unknowable is on the tax side. When we start to see the next month or two of public finance and the tax collection coming in, we will have a clearer sense. We have talked about the spending side, where we know what we are doing, give or take, but we do not know fully yet how significant the hit will be

on the tax revenue side, and that picture will become clearer only in the weeks and months ahead.

This is unprecedented action fiscally, given the scale of what we are talking about and the numbers we have talked through together. I genuinely believe that the situation in the short, medium and long term would have been considerably worse had we not taken this action. Indeed, that was the conclusion of both the Bank of England and the Office for Budget Responsibility.

Baroness Bowles of Berkhamsted: Your attitude is that you are continuing to do what it takes and we will have to deal with the cost in due course.

Rishi Sunak MP: That is right. What has guided me goes back to the conversation we had at the beginning with the Chair. There is an immediate hit to the economy. There is not a lot of that which we can mitigate, because ultimately it is a function of our closing down the economy. If you close down the economy, there is a pretty significant impact that we cannot do very much about. The whole point of the exercise was to try to stop that economic activity to help to control public health.

What I have been trying to do with the interventions is preserve as much of our productive capacity as we can, and keep as many companies in a viable state and as many people attached to those companies as possible, so that when the restrictions are removed and the economy can function as normal we have not lost a considerable number of those jobs and businesses, because that is what causes permanent medium-term damage and a significant impact on our public finances.

We will have increased debt as a result of the interventions this year, but in the medium term what will matter is the size of our economy. What kind of structural deficit, or not, are we looking at as a result of any scarring that might have happened? The actions I have taken over the past weeks and months will, I hope, limit that scarring and the impact on our medium-term public finances.

Baroness Bowles of Berkhamsted: Therefore, it is your best shot, as it were, to try to get a V-shaped or U-shaped recovery rather than a miserable L-shaped recovery.

Rishi Sunak MP: It is an alphabet soup of things. The speed and sharpness of the recovery is one thing; the scarring part is how far you recover. You will remember that in the OBR reference scenario there was essentially a full recovery where output reached where it was before the crisis. As the Chair mentioned, the OBR suggested that that may no longer be its base case. It was not the Bank of England's or the IMF's. Once we recover, hopefully relatively swiftly, what is the degree of that scarring and medium and long-term impact on our economy as a result of what has happened over the past few months?

Baroness Bowles of Berkhamsted: Therefore, you hope for a relatively quick uptick, as it were.

Rishi Sunak MP: We all hope that it is as swift and strong as it can be. As we are seeing now, we are getting data from around Europe and the world as countries progressively ease and lift restrictions. It is not obvious that there will be an immediate bounce-back. It takes time for people to get back to former habits. There are still restrictions in place. Even if we can reopen retail, which we would very much like to be able to do on 1 June, there will still be restrictions on how people can shop, which will have a likely impact on how much they spend and how many people go out.

All those things will take time. I think that in all cases it will take a little bit of time for things to get back to normal, even once we have reopened currently closed sectors.

Q3 **Baroness Kingsmill:** Chancellor, you have a tough task ahead and you are dealing with it as well as can be expected, but how much are you balancing the pressures on you with those that are likely to come when Brexit happens?

Rishi Sunak MP: They are somewhat separate things. Right now, we have taken a set of specific measures to contain a health crisis, and that has implications for our economy, which we have tried to mitigate in both the short and medium term. Our negotiations with the European Union continue. I forget which round David Frost is in currently, but the talks are ongoing. We have been very clear with our partners that we have no intention of extending. We believe we have put forward a highly reasonable set of proposals based almost entirely on precedent and things the EU has already agreed with other partners. In that vein, we hope we can have a constructive discussion, but the negotiations are ongoing.

Baroness Kingsmill: I was not really asking about Brexit itself; I was wondering how you balance what you have to do in this crisis with the potential for another crisis in future. I was interested not in Brexit but in whether there is a balancing act to be performed.

Rishi Sunak MP: I am not sure to what future crisis you might be referring, but I certainly would not see our trading relationship and the degree to which we negotiate a tariff schedule as being anywhere near in magnitude what we are currently dealing with.

Q4 **Lord Burns:** I declare an interest as a trustee of two arts organisations that have used the job retention scheme.

You, Chancellor, have said that the job retention scheme will be extended until October. From your remarks in response to an earlier question, do I infer that you do not have plans to extend the support to the self-employed at the same time?

Rishi Sunak MP: I have said that they are two different schemes and have two different purposes, which I know you and other members of the

Committee will appreciate. A job retention scheme, based on the economic theory behind it, is designed to keep people attached to their employer. Given that there are redundancy periods in place for 45 days, that influences some of the timing around providing people with certainty and clarity about the future. However, especially as sectors that are closed but now have a timetable for reopening—we hope—can plan in advance, it was important to provide that degree of timetable to all those sectors.

The self-employment scheme is by nature different. As has been well documented, we do not have information to know the individual circumstances of those who are self-employed. They do not have the same attachment to an employer; ultimately, they are their own employer. As we speak, they could still be working and be in receipt of a self-employment grant, so it is a very different scheme in that regard. I think about it differently and continue to review it, as I do all other schemes.

Lord Burns: When you announced support for the self-employed in March, you said that, “If we all want to benefit equally from state support, we must all pay in equally in future”. This was interpreted by a number of people as implying that there was possibly some equalisation in various taxes or contributions made by the self-employed and the employed. I do not wish to press you on actions in forthcoming Budgets, as I know how sensitive that is, but, in general terms, was the interpretation that people put on that phrase accurate?

Rishi Sunak MP: As you well appreciate, it would not be right for me to comment on future budgets or tax policy on anything, and that is the reasonably standard answer I give to all these types of questions so that there can be no overinterpretation of what I say. I refer people to the comments I made. The comments I made at the time are the comments I would make again.

Lord Burns: Those of us like you who have followed the problems of monetary and fiscal policy over decades know the hazards of taking actions when there are long lags between those actions and the outcome. We have often seen the charge that a policy is too little, too late, and at a larger stage it is too much, too late. Are you concerned that we are steering decisions on relaxing the lockdown by monitoring the death figures, which quite clearly are a lagging indicator? Are we in danger of not relaxing the lockdown soon enough by following a lagging indicator?

Rishi Sunak MP: You make a factual observation on all the various indicators one can track. Obviously, mortality is the one that happens last. Scientists measure the R rate, a measure of transmission in the community at the moment and a more real-time indicator, although, as discussed previously, like everything else it is subject to judgment, models and assumptions. That is now buttressed by the survey data we are collecting at an increasingly large scale, which improves the accuracy of those estimates, but also by the overall infection rate in the

community, which obviously impacts the effectiveness of a test, track and trace operation and having a pool of people you can handle.

All those things are relevant in the conversation, and I believe they are relevant in the minds of scientists as they provide this advice.

The Chair: You may not have had a chance to read the sub-committee's report on IR35. One of the points made was that the policy of trying to equalise the tax rules for the self-employed and contractors leads to more zero-rights employees—those who pay the same tax but have fewer rights and less security than those on PAYE. The Taylor report recommended the creation of a new employment status, which the Government said they accepted, but nothing has happened. Is that one of the things on your agenda?

Rishi Sunak MP: That would be a question primarily for the Secretary of State for Business, Enterprise and Industrial Strategy, who is responsible for employment law. I remember the Taylor report well. Currently, there exists an inconsistency between, if I am getting this right from memory, how the rules are applied for tax purposes and how they are applied for employment purposes. I think the report said that that inconsistency deserved to be looked at, which seems eminently reasonable.

With regard to changes in status, the big change was to the eligibility of the self-employed to the state pension, which in financial terms is a very significant improvement in state support and represents thousands of pounds annually. That was the most significant change that had happened previously.

Your broader point is right. People choose to work in different ways. Those different ways come with different benefits and costs, and individuals can choose whether they prefer one mode of working over another.

Q5 **Lord Fox:** I declare an interest as set out in the register, including being director of a company that has invoked the job retention scheme.

We have talked about the economy in a rather homogeneous way and about recoveries being J, V or whatever, but there will be a variety of different types of recovery by sector and by region and country within the United Kingdom. Has the Treasury looked at the potential disparity that already exists but is being driven by the devolved Governments taking different policies in unlocking their economies? Schools, for example, are an important element in unlocking the economy, not just for teaching children but letting parents back into the economy. That will happen at different rates in different countries, so what is the Treasury's thinking on the effect of the different decisions being made in the devolved authorities on the rate of recovery in the nations of the United Kingdom?

Rishi Sunak MP: It will be for the devolved authorities to make decisions in their own areas on things over which they have competence. I am sure they will be making their own estimates of all those things. I would not disagree that children being back at school is not just good primarily and

importantly for children and their education and social development, but it obviously has a beneficial impact on freeing up working parents to return to work. We know from the survey data that that has been an issue for many parents. I agree that that may well have an impact.

Lord Fox: There is also potentially a fiscal impact. For example, the Scottish Government could take a different view on how they unwind the furlough scheme. That would have a financial effect, which at the moment is coming out of HMT. What is the Treasury's view if Scotland takes a divergent view on furlough?

Rishi Sunak MP: To be clear, the furlough scheme is a UK scheme and will apply nationwide to all sectors, all devolved authorities and all regions equally. I have set out a very generous timetable all the way through to the end of October that provides considerable runway for companies to start back up and for people to get back to work, while making sure that the scheme is affordable overall. It is not differentiated. I have made the decision for the United Kingdom as it is a United Kingdom policy.

Lord Fox: Leaving that to one side and going back to the discrepancy in recovery in different places, what plans are the Government making to support those areas where recovery will be harder versus those areas where perhaps it might be more straightforward?

Rishi Sunak MP: The areas where it will be most challenging are the sectors that have been closed and their ability to open again. The most important thing when talking about recovery is reopening the sectors that are closed. First and foremost, we should be focused on that, which was why I thought it important to set out a timetable: 1 June for non-essential retail and 4 July for leisure and hospitality.

Across those two industries, 3 million or 4 million people are employed, depending on the exact estimate. They are disproportionately younger and lower paid. It is critical for economic and social justice reasons that we try to find a way to get all those people back to their places of work. That will have to be done in a different way. That work is ongoing with various industry task forces to find secure ways to reopen those businesses. We are seeing that happen already across Europe and the world, so there is much international precedent from which we can learn, but the single best way to help all those places is to get them open in the first place.

Lord Fox: Sectors such as hospitality are concentrated in coastal towns. What support are you going to give to local authorities, which are best placed to help to rekindle the economies in those communities?

Rishi Sunak MP: I am not sure that fiscally they would be in the best place to help if one thought there was something the entire sector needed help with. I would not say they are necessarily concentrated in coastal communities. I represent a very rural inland seat with two national parks that is particularly impacted by all this.

We have already given direct considerable support to that sector in particular: cash grants of up to £25,000 specifically for businesses in this sector in recognition of the difficulty they face. That has been quite considerable relative to their fixed costs. We did that grant scheme based on business rates and their rateable value. That is proxy for what rental payments might have been as a significant fixed cost to them. That was distributed through local authorities, but ultimately it was a scheme we put in place at national level.

The Chair: On Lord Fox's point about regional differences, we read in the newspapers that the R factor, on which the Government have placed so much emphasis, is very much lower in London and that the number of new cases in London is lower. As London and the south-east are the dynamo for the economy as a whole, are you not tempted, at least for London and the south-east if these figures are correct, to move more swiftly with unlocking the lockdown?

Rishi Sunak MP: On something like that, we are also guided a little bit by the advice of the scientists, who have the best understanding of how the virus spreads and what difference that would make. That is currently not their advice, as I understand it. What we have said in a reactive fashion is that once things are reopened—in an ideal world it would be nice to reopen things everywhere, and we would prefer to try to get as many people as possible in as many parts of the country as possible back to normal life—because we will have a much better surveillance operation that can look at every part of the country and understand at a much more granular level what is happening, if there are isolated regional or geographic flare-ups or things that need intervention we could then intervene on a more specific basis. That has been developed and will be part of the future mix, which the Prime Minister, the Chief Medical Officer and chief scientific advisers have also talked about.

The Chair: On Lord Fox's point about people in restaurants and those involved in tourism and so on, you said that you would extend the furlough scheme from August, but you have not said what percentage should be met by the employer. Why are you delaying telling employers that so that they can plan? How will restaurants, if we are still subject to social distancing, have the revenue to be able to do so? Were you not tempted to take a more sectoral approach to furloughing?

Rishi Sunak MP: No. We are talking about something that does not happen until August. I said I would publish the details by the end of this month. I think that will give plenty of time to plan. I made the announcement of the extension earlier because of the 45-day redundancy notice; I wanted to make sure that we provided time ahead of that. I think that provides ample time for people to prepare, because they will have between the end of this month and August to think about it.

I thought about a separate approach. I think that in practice it would be very difficult to implement it. It is one thing if your business was closed down. That might be something you could look at, but trying to understand an entire supply chain for that industry and whether all those

businesses should be eligible would in practice be very difficult to evidence and enforce. Therefore, we had a much more generous approach to everybody that lasted longer. It is right for people to make a contribution. Not only does that mean that we can afford to run the scheme for longer, which benefits more people and is a good thing for everybody, but it makes sure the incentives are right. We want to incentivise businesses to reopen, to make the most of that and to be as productive as possible.

That has been recognised by business groups and unions. In my conversations with them, they understand and accept the principle of an employer contribution. I take the point that it should not be set at a level that ultimately undermines the purpose of the scheme by accelerating redundancies in otherwise viable businesses, but once the business is open, can ramp up and has a sense of its future, I think that is a reasonable thing to ask.

The Chair: Are you saying that if a business is closed and cannot reopen—for example, a restaurant—it might not have to make a contribution?

Rishi Sunak MP: No. I am saying that the sectoral approach is very difficult to implement in practice. People suggested that sectors that were closed and then reopen could have a different scheme. My point is that there is an entire supply chain for those companies and that in practice it is very hard to distinguish between businesses.

Q6 **Viscount Chandos:** I should like to declare interests as set down in the register as a director of two companies and one higher education institution that are both beneficiaries of the job retention scheme and have been or may be applicants for loan schemes.

The Economic Secretary announced this morning an extension to the coronavirus large business interruption loan scheme, raising the limit from £50 million to £200 million, which is very welcome. What other thoughts do you have about extending the loan scheme, perhaps particularly for smaller companies where you have identified gaps in the existing schemes?

Rishi Sunak MP: Now, we have the coverage that we want across all our loan schemes, so that there is not the need for any changes. I will recap on the various schemes: we have the bounce-back loan scheme; the coronavirus business interruption loan scheme; the larger version of that scheme, an extension to which was announced today; and the CCFF facility which the Bank of England operates for us. Across those four schemes, we are covering 90% or more of UK turnover and profit.

As for the companies we would not be covering at that point, it is not because of a size constraint or anything else; it is probably because of their leverage and credit position. It would not be appropriate for them to receive blanket loan guarantees from the Government in that way.

The last bit that we took some time to get right, partly because it is complicated and partly because it is less pressing, related to companies that needed more than £50 million. We were trying to figure out what the right solution was in conversation with business groups and the finance sector. There were opportunities or ideas that we could create a CLO structure or use the CCFF. In the end, after going through all the options, we settled on an extension to CLBILS as the best way to achieve that. I think that has been warmly welcomed, but across all schemes I think we now have the coverage we want and need.

Viscount Chandos: From what I see and hear, there seems to be quite a significant gap between potential applicants for bounce-back loans and companies that may be eligible for the future fund, because clearly the future fund is very much aimed at the tech, high-end of the start-up sector. A lot of companies will not fit within that; for one reason or another, the bounce-back loan scheme is either inappropriate or insufficient for them.

Rishi Sunak MP: I think the bounce-back loan scheme has been enormously successful and popular. Close to half a million loans have gone out in just two weeks. It is very simple and easy to use, and the feedback has been incredibly positive. I think it works for most people. The eligibility criteria are pretty straightforward. It is hard not to be eligible if you are any kind of basic operating business in that sense. I would say that is working very well and provides the coverage we want.

The future fund is designed to do something else. The structure is deliberate. These are companies that are highly risky because they are at an early stage. Many will not be profitable—they may not have revenues yet—so putting taxpayer money at risk in those companies is very different. We have designed the scheme to work by having a standardised product, or convertible loan note instrument, that provides protection for the taxpayer but crucially is match funded. Essentially, we are using the private sector and private investor to make the credit or investment decision for us, investing alongside to help fill a financing gap that may exist at the moment because of the conditions. That is a perfectly appropriate approach for companies that otherwise would not qualify for loans and therefore loan guarantees, and they should not, because the taxpayer should not be lending money to companies like that.

Lord Fox: You mentioned CBILS and the success, in your terms, of bounce-back. One of the reasons for that seems to be that a large number of unsuccessful CBILS applicants were quickly pushed through the bounce-back system by the banks. The uncharitable would say that the banks were very keen to do that when none of their money was at stake. Are you 100% happy with the way the banks have performed on CBILS?

Rishi Sunak MP: I think the CBILS programme is very different. Off the top of my head, the last time I checked the average loan size—these figures are approximate because I do not have them to hand—was

£150,000, maybe more, for CBILS and more like £30,000 for bounce-back. Those numbers are about a week out of date; I do not have this week's in front of me, but that is the order of magnitude. They are two very different products. I do not think you can say that it is simply because they have shunted one to the other, because CBILS started at £25,000, so it was actually designed for a lot of the small lending. We also had to work through some consumer protection issues to make it possible.

As for the CBILS programme now, over 40,000 loans have been granted and tens of thousands more are being worked through. The approval rates were in the mid to high 80,000s the last time I checked, so that does seem to be working.

We have not done this before in the UK. Was it a bit slower to get going than I would have liked? Yes. We have all learned as we have gone through this. We have not done this, unlike some countries across Europe that have done this before. They had systems set up to do it, we did not, so we had to design as we went along and we learned. There were some elements of the guarantee schemes that we had off the shelf that we had to adapt for the current situation, but we made those changes as soon as the feedback came, and that helped. To have across two schemes over half a million loans in this space of time ranks very favourably compared with almost anyone else that is doing this.

Lord Fox: You are happy with the banks.

Rishi Sunak MP: I think they deserve praise for operationalising things at speed that were not straightforward. I am grateful to their staff for doing that. It is easy for people in my position to make negative comments about banks, but teams of people in their call centres over the first couple of weekends made sure they could take people's calls and help get money to them. That was not always straightforward with a brand new loan scheme. People worked very hard to try to make that possible, and I am grateful for the fact that they did.

Like many other aspects of government, whether it is DWP or elsewhere, we are all dealing with people being away or off sick. There is a challenge in operationally delivering these things. I am grateful that they did that. I think they responded positively to the changes we made to the CBILS scheme.

I continue to look at it. I would like to see the backlog of people with outstanding loan applications cleared. The backlog is there, because applications keep coming in and loans are going out. In a sense, that is a good thing, but I want to make sure that we keep up the pace and volume on that. The bounce-back loan scheme has been very straightforward and people have been getting money in their accounts very quickly. I am very pleased. That was a new loan scheme put together in record time. Touch wood, thus far it has been easy for people to use and has got them the credit they need quickly. That has been a

good experience. Obviously, it is easier when you provide a 100% guarantee and a standardised product.

You are right that the focus should be on CBILS. As I said, 40,000 have gone out, which is very good. There is still more we can do. There are close to 70,000 applications, and we need to work through the rest of those as quickly as possible.

Lord Fox: They are still taking quite a long time—weeks and weeks in many cases.

Rishi Sunak MP: Yes, and I completely agree with you. I would want to have that happen as quickly as possible. It is fair to differentiate. You might suggest that they are holding things up unnecessarily, because they are asking for things that they should not be and going over onerous things. We have now removed all the reasons to ask for forward-looking guidance and cash-flow forecasts—there is no concern about that; there is a generous guarantee. So there is no practical reason why it should be taking that time.

If I was still getting the sense that that was delayed, I would be concerned. Indeed, as you said, the EST is in constant dialogue with them about that. If the delay is just generally an operational one, because there are people in call centres, they are taking calls and there is a lot of demand, I am more sympathetic to that—that is reasonable, and we are all grappling with that. But the EST and I keep a close eye on this and share with you a desire for those remaining loans to be processed as quickly as possible.

Q7 **Lord Monks:** Chancellor, do you agree that, as we emerge from the hibernation that has been enforced on us, it would be highly desirable to have a more resilient and sustainable economy with more resilient and sustainable firms? One problem that has been revealed during the crisis is that of the excessive debts that litter too many balance sheets of prominent British companies—and not just prominent ones, but all the way through the spectrum. Without you giving away budgetary secrets, I am wondering whether you view this as excessive debt on British balance sheets and whether tax policy changes might be considered at some stage to reduce the advantages of debt over equity.

Rishi Sunak MP: Again, my figures may be slightly different from yours, Lord Monks. I would say that UK corporate indebtedness is considerably down on where it was after the financial crisis. When you look at gearing ratios and net debt as a percentage of equity, you can see that it is probably down from about 70% to 40% or in the 30%*s*, so it has almost halved.

The other thing that I look at is the UK's gross corporate debt as a percentage of GDP, relative to OECD peers. Again, on current numbers we are much lower than the median, towards the bottom of the table on that. Again, it has probably halved from the time of the financial crisis.

I am not sure that there is, in general, a corporate indebtedness problem when you look at the stats for the sector as a whole. You will always have individual companies that have taken on too much leverage, but across the board it does not feel to me that that is the case.

Lord Monks: Do you think it is necessary to build a more resilient and sustainable economy in this country, one that can survive crisis rather better than some companies are struggling to do at the moment, despite the very extensive public support that is being offered by you and the Government?

Rishi Sunak MP: That is a fair observation. As it was 10 years ago in the financial crisis and as it is now, when events such as this come along, we look at it all—whether it is government, businesses, organisations, schools or Parliament. We look at how we operate, what we were not prepared for and what we did not have contingency plans for. In all our various ways, we will learn from this, and we will make sure that we are better prepared in future.

Your broader point about resilience is a fair one. All companies need to think about unexpected shocks that may come their way, and plan for those prudently, and balance sheet capacity is certainly one of them.

Q8 **Lord Monks:** Finally, on a different point, do you agree that in the immediate aftermath of the crisis it will be more important to prioritise growth over the repayment of debt? If growth takes place, the debt tends to take care of itself in due course. I am not relaxed about the amount of debt, but I want to press the case for concentrating on economic growth, which can absorb the problems on the red side of our balance sheet.

Rishi Sunak MP: Everyone would agree that more growth is preferable. Historically, when we have deleveraged—plenty of people on this Committee will know this better than I do—it has probably come more from the inflation component than the real component of growth. In that sense, I am not sure that that would necessarily be the best thing, because it would have impacts elsewhere. But more generally, if you are asking whether I believe that more growth is a good thing, absolutely—real growth.

The Chair: Lord Monks reminds me of Ronald Reagan’s famous quote. When asked about the deficit, he said that it was big enough to take care of itself. It is interesting that you are of one mind on that.

Q9 **Lord Livingston of Parkhead:** First, I declare my interests on the register, including chairmanship of Dixons Carphone and a trustee of a social care charity. Both those organisations have utilised some of the available supports.

First, Chancellor, I commend you and the Treasury team for the breadth and speed of the measures that you have taken. These things are not easy at a time of crisis. Of course, they may not be perfect, but the amount of work and thought that went into it is to be hugely commended.

As we move, we hope, out of the crisis to recovery, in businesses in particular the first thing that tends to be dropped is investment. There are plenty of reasons for businesses not to invest and not a lot of reasons to invest. Have you and the Treasury given thought to mechanisms that could encourage people to bring investment forward—for example, in the area of capital allowances—by expanding the width and increasing the rate for larger companies, but only for a shorter period? That would give them a reason to bring forward expenditure that might otherwise wait until things were perhaps more certain.

Rishi Sunak MP: First, thank you for your kind words, which I appreciate. It is very nice of you to say that.

I broadly agree. There has been a long-standing issue with investment in this country; the stats on that are clear, and I am sure that you as a Committee have discussed them in the past. So there is a general reason why one might want to try to encourage more corporate investment, and there is obviously a more timely one now, if it might help to fuel a recovery.

It is tricky for me to get drawn, because I do not want to get drawn into writing future Budgets, so I cannot answer specifically. What I would say is that, in the last Budget we had, which I delivered in March, there were a couple of significant changes in this direction. The structures and buildings allowance went from 2% to 3%. That had been asked for, and it will improve the incentive to invest.

We retained the annual investment allowance of £1 million until the end of this year. That was extended, and it benefits about 90% of businesses, although it does not cover 90% of all investment, which is done by a small number of larger firms. For smaller companies, it works well. Essentially, it is what you are asking for—it is full expensing for all the small companies.

We increased the R&D tax credit rate, which provides several thousand firms with north of £10,000 or £13,000—I forget the exact number. That is a different type of investment, but none the less it is important.

So you have seen some directions of travel from me on that question already. As I said, we have a long-standing issue, and there might well be an argument for looking at things in the shorter term to help to drive the recovery. As with anything else, I cannot get drawn on future Budgets.

Lord Livingston of Parkhead: Thank you. I understand that. I would add that looking at credits as well as mere tax deductions for a lot of companies that will not have any taxable profits to offset will be a particular case.

Is anything else being considered by the Treasury across business in supporting future investment? The UK has had some lack of equity capital in the past for growth. It did not have the support from government investment that Germany had, for instance—I believe it was

grandfathered under state aid rules. Perhaps the Government could take a more activist role in supporting the equity gap or, indeed, any other forms of supporting investment that are not directly in the form of the taxation system.

Rishi Sunak MP: Where there are market failures, clearly there is an argument for our being involved. You have seen that with the work that went on well before my time with British Patient Capital—the review, and implementing that.

In the Budget, I talked about having an extra £200 million to do exactly what you are suggesting in the life sciences space, one of our globally most competitive industries, the importance of which has only been enhanced by what we are all going through. That was to provide that equity capital, as you said, at a fund rather than a firm level, which to me feels more appropriate, in that space where we thought there was an issue where we could help nudge things along. We have also done that more broadly elsewhere. We have a record of doing that.

The future fund that is launching tomorrow will be interesting; we will see what the take-up is, and what it is like. That is a slightly different way in which to provide quasi-equity capital. We will create a portfolio there, and it will be interesting from a policy-making perspective to see how that performs, as a guide also to what might be worth while in future.

Lord Tugendhat: As the Government have very ambitious infrastructure plans, in the light of what has happened has further thought been given to how one might promote a greater degree of private finance from abroad in our big infrastructure projects? Certainly, we should have private finance at home too, but to what extent is thought being given to encouraging private finance from abroad in infrastructure projects?

Rishi Sunak MP: That is an excellent question. An infrastructure financing review is being conducted, we are due to respond to the national infrastructure strategy, or the National Infrastructure Commission, and those questions will be considered as part of that when we respond.

I cannot get into it now, but I think you are right: we have enormous needs, and the Government will do an enormous amount, which we talked about at the Budget, but there will always be a need to attract capital. Historically, as a country we have done that very well, and we want to make sure that we continue to be a place where people have the confidence to invest, to help to fund some of the things that we would like to see.

It is also important, as we know, and as all the research tells us, that foreign direct investment also brings with it productivity-enhancing know-how, and R&D, which has spillover benefits for the rest of the economy.

So, yes, we are looking at that, and we will talk about it in more detail when we publish the national infrastructure strategy later this year.

Q10 Baroness Bowles of Berkhamsted: Chancellor, what further thought has HMT given to local authority finances, if the extra money that has already been given does not, as it almost certainly will not, cover the full cost and losses to local government finances due to the pandemic? Are you prepared to see some local authorities declare themselves insolvent? If they do, what is the contingency plan?

Rishi Sunak MP: As a former Local Government Minister, I care very deeply about local government, which has done a heroic job, being on the front line of helping to respond to the crisis that we are all going through.

My colleague, the Secretary of State responsible for local government, is in constant dialogue with the sector about what is going on, which is why we have provided considerable direct cash support, in two tranches of about £1.6 billion over the past couple of months. We have also brought forward payments of about £850 million in adult social care grant payments and allowed councils to defer business rates of over £2.5 billion to help with any cash-flow issues. So there has been quite considerable support already, but, of course, my colleague is in close touch with the sector.

Baroness Bowles of Berkhamsted: That does not quite tell me what the contingency plan is, but perhaps you are telling me that it is not your problem.

Rishi Sunak MP: It is not a problem—there is a well-worked framework for that, which you will be familiar with and which is operated by MHCLG.

Baroness Bowles of Berkhamsted: But, looking further forward, we can see that there are still a lot of expenses that local authorities will come up against. The business rates review has been delayed, but town centres still need major restructuring, and changes will be needed following the effect of the virus on the retail and hospitality sectors. Are you going to provide financial and administrative tools to help local authorities to succeed with those projects?

Rishi Sunak MP: We have already put in place the towns fund, which does exactly what you have described and provides support through local authorities for high streets. The high streets fund works with it to get money into communities for projects to revitalise their high streets and ensure strong local economies. So that support is there and is in various tranches of being deployed.

On the business rates side, in one sense because we have provided a lot of support to local authorities by covering or cancelling the business rates for many of these companies this year, when we do that in the retail, hospitality and leisure sector we provide the equivalent amount to local authorities so that they are not out of pocket, and those are obviously the most exposed sectors.

Lord Fox: You have pushed the role to the MHCLG, but you hold the purse strings. Local authorities do not have any money to spend if you do not let them have it, so there must be a sense of you either planning to

give them money to do this or not.

Secondly, you mentioned schemes that were in existence already, but this is on a scale that is far higher than pre-existing schemes. Many shopping concerns are going to the wall, and town centres will be transformed with empty shops unless councils are able to work with the communities and change these things. What money is the Treasury going to make available to go out and do that?

Rishi Sunak MP: The towns fund and high streets fund are of quite considerable quantum in order to do exactly that. We have already provided, as I have said, over £3 billion of direct support for the services that they are providing.

I would slightly respond by saying that I do not think that the answer to everything is money: sometimes money cannot solve the problem of shops going out of business or high streets changing. It might be a change in shopping patterns and how people consume; if we are living with a virus and people cannot shop in the same way, money cannot solve that problem.

Maybe the answer is to look at what we are already doing, which is about changing change of use planning regulations on high streets to make sure that we can rejig our high streets to be places where communities come together but do slightly different things. Actually, as has been mentioned in various reviews of high streets, the answer could well be flexibility around planning, for example. We might want to have more offices or more residential on top of fewer shops on a high street to create a vibrant community and do it that way. There is a range of different things that one can do; money is not the only solution or, indeed, the first solution that we turn to.

Q11 **Lord Tugendhat:** Chancellor, I am sure that your officials have briefed you on the report that this Committee produced in 2019 on social care. First, do the Government have it in mind to expedite social care reforms in the light of the recommendations that this Committee made? In particular, to what extent are you considering a social insurance tax to contribute to the cost of social care?

Rishi Sunak MP: Our plans remain as the Health and Social Care Secretary has outlined. We committed in the election to three things. One is to commence cross-party talks to try to find a sustainable solution to social care. That process started, but obviously right now everyone is focused, rightly, on dealing with the coronavirus—but that is the plan.

We also committed to maintaining extra investment of £1 billion a year in social care, which we stand by.

Thirdly, with regard to whatever long-term reform emerges from that process, we thought it was important to ensure that people do not have to sell their house immediately to fund care in the short term.

Those were some of the principles that we set out. As I said, the Health and Social Care Secretary started that process. We said that we wanted to see it to a conclusion, and that remains—but, as with many other things at the moment, we are, rightly, focused on dealing with the pandemic and impacts of that.

Lord Tugendhat: I quite understand that everybody has a lot on their plate, not least the Secretary of State for Health, and that focusing on the immediate crisis must be the principal priority. However, it can be said that the pandemic has highlighted issues to which we were drawing attention last year. One key lesson that has surely come out of the pandemic is the need to raise both the status and the financing of the social care sector. It has been a poor relation to the NHS. “Save our NHS” is very good, absolutely, but “Save our social care” would get its priority raised a bit as well.

Rishi Sunak MP: You are right to say that the people working in social care are doing a heroic job in difficult circumstances, on the front line of this. The Secretary of State for Health and Social Care talks about this every day, and today in Parliament he talked about exactly this. They have been uppermost in his mind, and in this Government’s mind, and we are doing everything we can to give them the security they need to do their job.

It is not for me to repeat all that, but we remain committed to what we said in our manifesto and campaign: we want to find a long-term solution for the system, and I do not think that is straightforward. We would like to do it on a cross-party basis to ensure that whatever solution we reach has the best chance of being sustainable for the long term, and has common buy-in from everybody, as much as possible. As soon as is practical and we can, no doubt the Health and Social Care Secretary will get on with that.

Plenty of work has happened already, so it is not as if, when that process starts, it starts with a blank sheet of paper. I noted your report, and there is a report from the House of Commons Select Committee, which came together. There are things that we looked at previously that were commissioned by various Governments—Andrew Dilnot’s being the obvious one. There are lots of different ideas floating around, so when we start it will not be from a blank sheet of paper.

The Chair: On that point, the Secretary of State should have responded to our report within eight weeks of its publication, and he asked for more time. We have been told privately that the problem—this is not a problem with our report; there have been endless reports and promises of Green Papers—really is with the Treasury, which does not want to face up to the fact that the shortage of funding that has accumulated has taken place with increased demand. This is why we are finding social care workers paid so badly and people paying privately at nursing homes being charged an extra 40% to subsidise local authority workers. Is it true that the Treasury has balked at the cost and that this is what has held up the Government coming to a conclusion on this matter?

Rishi Sunak MP: I think that the Treasury and the Government are all one and the same.

The Chair: They were not in my day.

Rishi Sunak MP: I think the reason is that social care reform has not happened under successive Governments for a long time. It is a difficult problem, and there is no clear consensus on how to solve it.

Crucially, any reform would be expensive—that point is acknowledged—and obviously has to be paid for. So there has to be consensus on the reform and on how it is paid for. Those things need to come together. I think the Health and Social Care Secretary has made that point as well, and I would stand by it. In that sense, it is not about anybody balking at anything; we just need to find a reform that people can coalesce around, which we think is sensible and sustainable—and, crucially, that we can afford it. We need to know how we will pay for it, and that has to be part of the same conversation.

The Chair: Perhaps we can send you a copy of our report, and certainly the evidence, where there was enormous consensus and very little division on what the way forward might be.

Q12 **Baroness Kingsmill:** To follow on from that, brutally, the social care market is in dire straits. The events happening in North Tyneside at the moment suggest that it is right on the edge: care providers have given the local authority a five-day ultimatum. I am sure, from what I read and am told, that similar situations are boiling beneath the surface elsewhere. The real truth of the matter is that the social care sector has been seriously underfunded, and continues to be seriously underfunded, and we are relying heavily on the patience of providers and, in particular, the workers.

Will you comment on the dire straits and on the sense that the market may be failing totally? Would you also give consideration to those health workers, who are terribly underpaid? Those working domestically and in care homes are on the front line. Should they not get hazard pay? You could do that very easily—it is in the power of the Treasury, it would not be a huge amount of money compared to the sums that are being paid elsewhere, and it would justify the clapping that we have every Thursday evening.

Rishi Sunak MP: Certainly, in my previous role I saw considerable increases in funding for social care over the last couple of years, which were warmly welcomed at the time by various stakeholders, including the Local Government Association over the past two local government finance settlements, both of which have been record settlements over the past decade, with funds increasing in real terms for core spending power north of 3%, or I think maybe even 4% for the last one—but of that order of magnitude.

That is a pretty considerable pace of increase and far beyond the rate of tax rises or economic growth. So I do not think anyone can say that there

has not been lots of extra resource going into social care. You have seen the results of that, with delayed transfers of care considerably reduced from the peak, as a result of some of that investment, and much better working between the NHS and social care at a local level, through the integrated partnerships that we have set out to do that.

So you are seeing the results of that on the ground, and you have seen extra money go in. Of course, people are working right now in very difficult conditions, under enormous pressure, and they are to be commended for that, which is why we have deployed considerable extra resource to the front line to do exactly that.

Baroness Kingsmill: Is that your answer? Are you not concerned that the market may actually be failing?

Rishi Sunak MP: I think that local authorities in their individual areas have statutory responsibility. I cannot remember the exact phrasing, but you are asking me about something that is not my specific brief. My recollection is that local authorities have a statutory undertaking to make sure that they can provide the care that is required in their communities. Obviously, they will make decisions for themselves individually on how best to do that.

Baroness Kingsmill: Do you feel that the work of care workers justifies hazard pay at the moment, as an interim payment before pay can be properly considered?

Rishi Sunak MP: We have set up a life assurance scheme specifically for front-line health and social care staff, which the sector wanted and we were keen to put in place, recognising the risk that those staff are bearing during the course of the incredibly important and life-saving work that they are doing. That has been put in place, and there is probably not much more beyond that that I can speak to.

Baroness Kingsmill: Perhaps you could take it away with you and give it further consideration, because there are a lot of deserving front-line staff who are suffering shortages and having to rely on things like universal credit. It seems a great shame that, with the amount of money that is going elsewhere, we cannot find it in our hearts and pockets to dig out, say, £1,000 each for hazard pay.

The Chair: Lord Skidelsky, we cannot hear your question. Will you start again?

Rishi Sunak MP: Before we move off social care, if I may, you said there was overwhelming consensus. I would be really interested to know what the overwhelming consensus was on how the reforms would be funded.

The Chair: I think what we can do is send you a copy of our report, which sets out some of the funding problems and deals with Dilnot and other issues. It was overwhelmingly supported in the House of Lords debates.

Rishi Sunak MP: The summary that I saw suggested, I think, an incremental cost of about £15 billion annually. I was just wondering what the consensus was among members of the Committee on how that ought to be funded, because it is quite a significant sum.

The Chair: It is a significant sum, but it is relative to the money that has gone into the health service, which is a point made in the report, and the costs that fall on the health service, because of bed blocking, and so on. So it needs to be looked at in a rather broader context. That was the essence of the report.

Rishi Sunak MP: I would be interested. As we discussed, that is generally the issue: how you fund the incremental resources. If there is consensus on that, I would be interested in knowing what the consensus was. At that level, it would presumably be just general taxation, which would be two to three points on the basic rate of income tax.

The Chair: The problem, Chancellor, is that the demand has gone up at the same time as the resources available have gone down, and the result has been that care workers are being treated very badly. Nursing and care homes are able to continue only because those who pay for their own care are being charged—I think from memory—up to 40% more in fees to subsidise people who do not have resources. So it is a fundamental duty, is it not, to provide a net and ladder to catch the people who are in need? It is the basis of the welfare system.

As far as social care is concerned, the report concluded that it was a national scandal and that people were falling through the net. I do not want to take up the Committee's time too much on this. We will send you the report, and we would be very interested in your response. Lord Skidelsky, can we hear you now?

Q13 **Lord Skidelsky:** Chancellor, you have talked about money. Have you considered making permanent the increases to universal credit that have been made for the duration of the crisis? A priori, there is no obvious reason to think that the needs of claimants will be less when the lockdown is lifted and normal conditions return.

Rishi Sunak MP: You are right that those were increases made on a temporary basis, for the crisis. Of course, I have to give the same answer as I have given to others: I cannot be drawn on future Budget or, indeed, welfare policy.

Lord Skidelsky: On another matter on which you may not be able to be drawn, we have had quite a lot of evidence of distress and difficulty caused by the waiting period for universal credit. Have you considered, or might you consider, converting the allowances into a gift?

Rishi Sunak MP: I do not have the exact stat in front of me, but I am sure we can send it to you. There is the ability for everybody to receive an advance payment very quickly, and a very large number and percentage of people have successfully been able to do that, and the

Work and Pensions Secretary has worked very hard to make sure that that process was as rapid as possible.

Lord Skidelsky: But there are quite a lot of gaps there. The evidence has been very strong that a sizeable proportion of claimants get into financial difficulties because of the waiting period, and the allowances do not seem to be able to fill that. It is difficult; it gives them a difficult set of claims.

Rishi Sunak MP: As I said, I do not have the figures in front of me for the processing time for advance payments, but everyone is certainly eligible for a very fast advance payment on that. I would be happy to get the figures exactly and send them.

The Chair: Shall we have Lord Stern?

Rishi Sunak MP: Lord Forsyth, I am conscious of time, because I think we are running on an hour and a half. I assume that we are wrapping up, if that is all right.

The Chair: Well, it is the first I have heard that we will be an hour and a half, but I appreciate that you are under a lot of pressure. We are getting towards the end of our questions, but Lord Stern has an important question to ask.

Q14 **Lord Stern of Brentford:** Thank you very much—and thank you, Chancellor, for your strong and effective action. I would appreciate it if you conveyed our recognition to the people at the Treasury and the Civil Service for the tremendous job they are doing under great pressure; it is enormously appreciated.

My question is about the strategy for recovery. We have recognised the importance of growth in investment in the recovery story—the period after the current rescue phase that we are in now, so we are talking about the end of this year and into next. It is the nature of the investment and how you foster it that is at the centre of the policy agenda. If we want an employment-oriented, inclusive recovery, we should be looking at investments that are rapid in implementation, labour intensive and with strong Keynesian-Hicks multipliers.

That is the kind of thing we should be looking for, and here are some examples: retrofitting buildings, EV charging stations, pedestrian and cycling in cities, broadband, trees, land use and so on, on physical capital. There is a whole range of things that satisfy those three criteria: rapid, labour intensive, and with strong multipliers. If that is recognised as a strategy, surely we can see the kinds of policies that would drive that through and the sense of strategic direction that would give confidence for investment. Would you agree on the centrality of those kinds of issues to a strong and sustainable recovery?

Rishi Sunak MP: Thank you, Lord Stern. The team will deeply appreciate your comments about their efforts, which I shall make sure they are aware of—so thank you for that.

Sorry, the sound cut out in the middle, which is why I was trying to fiddle with it, but I think you were talking about stimulating a recovery in a labour-intensive way, with strong multipliers, which I think is all very sensible. I am spending a good amount of time thinking about what the right labour market policies are. We can already see some of the unemployment numbers today and the various scenarios that we started this meeting by talking about—so you are right that it would be a priority of mine to make sure that we can get as many of these people back into work as quickly as possible. Looking at opportunities for creating new employment in areas that also have an economic benefit to us should obviously be a priority.

On the few that you mentioned, I fully agree, and we are already doing them, and arguably should try to do more, although there is a capacity-constrained element to some of them. With cycling, I think you will have seen the recent announcement from the Transport Secretary. I think you mentioned broadband; we have a very ambitious plan to roll out broadband. Again, the capital is there which we have provided to do the work, the £5 billion to fill in the last 20%. You are absolutely right that there is a slight bottleneck, as there is with lots of infrastructure, in the supply chain, with labour. Trying to match those two things together seems eminently sensible.

There is a different constraint on broadband as to how much of your roads you want dug up at one time. But you are right. In trying to match the labour market or unemployment to some of those areas, that is absolutely what we are thinking about at the moment.

The Chair: Lord Stern, I would like to take a final question from Lord Burns.

Lord Stern of Brentford: I just wanted to say something on funding, and Terry, I am sure, will follow up. I think now is the moment to introduce the national investment bank. We touched on that in an earlier conversation, but this is absolutely the moment. We should recognise that if you increase demand through investment in a deeply depressed economy, which it will be in these next months and perhaps a year or so, you get a lot of tax revenue back through the multiplier. That is a very important feature of funding, which does not apply in a fully employed economy but applies in this economy.

Q15 **Lord Burns:** May I also say that I agree with Lord Stern's remarks about the impressive performance of the Treasury during this crisis?

Many of our questions today have centred on suggestions for spending yet more money, a position with which by now you are no doubt very familiar. Of course, your job is to bring together all these demands at a time when revenues will be lower than we had previously hoped. Does that mean that we are facing a longish period when debt will be high and falling only gradually, as it has done after previous periods of wartime?

Rishi Sunak MP: Thank you for your comments as well. I shall make sure that Tom hears them and passes them on to everybody.

You will know better than anyone that we are grappling with exactly what you have described. Where public finance is after this is unclear at this moment. Clearly, debt will be higher. That is obvious, given the scale of borrowing that we have.

We talked at the beginning about the medium-term problem—the long-term damage and scarring, and what it means for our structural deficit going forward.

There is a separate question about aggregate debt levels and which are prudent and sensible to maintain. I have not made firm decisions on that yet. There is a live macroeconomic debate that you will be well aware of—the work of Olivier Blanchard and others. Given where rates are, that has a direct impact on what a sustainable debt level might be. One also has to have a view on the sustainability of that low-rate environment.

Those things are in my head, but it is probably too early to know what the answer is just now because we do not exactly know where we will be, depending on the severity and duration of the current economic crisis. As I said, you have rightly highlighted the things that are on my mind.

The Chair: On that note, Chancellor, as you have heard, the whole Committee has been hugely impressed by what you have been able to achieve, and what the Treasury has been able to achieve, in the face of unprecedented challenges. It must have felt like a bit of a hospital pass when you went into the Treasury, but all of us think that you have performed well before us this afternoon and given us much reassurance. You have answered our questions, even the ones that perhaps you should not have answered, or been asked, and we are very grateful to you for coming to the Committee and sharing with us your thoughts. We wish you well in the weeks and months ahead, which are so crucial to the future of our country. Thank you very much.

Rishi Sunak MP: That is very kind. It has been a pleasure. Thank you very much for all your questions, and I look forward to seeing you again.