



Treasury Committee

Oral evidence: Summer Budget 2015, HC 313

Tuesday 21 July 2015

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Members present: Andrew Tyrie (Chair); Mr Steve Baker, Bill Esterson, Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Wes Streeting

Questions 149-264

Witnesses: **Rt Hon George Osborne MP**, Chancellor of the Exchequer, Sir Nicholas Macpherson, Permanent Secretary, and James Bowler, Director General, Welfare and Tax, gave evidence.

Q149 Chair: Good afternoon, Chancellor, Sir Nicholas and Mr Bowler. Thank you very much for coming to give evidence to us this afternoon. There is quite a lot to get through. Could I begin by asking you, Chancellor, whether you are going to appoint Robert Chote back into his job or whether you have someone else in mind? As you know, this Committee has a measure of joint responsibility with you for this appointment, so we would like to get some clarity.

Mr Osborne: I think Robert has done an excellent job at the OBR. I will make the decision on who to propose for reappointment in good time and I think I have until 7 September to let you have that name. I do not want to pre-empt the process today but I do not want anyone to interpret that as anything other than me having very high regard for the way Robert has done the job.

Q150 Chair: I am not going to press this point for a long time. You have said that you have a high regard for him. We need high quality people but if you look at it from the point of view of applicants and people who might want to do this job and be considered for reappointment subsequently, they are going to watch to see how they are treated and how Robert is treated. It looks as if Robert might be faced with a *fait accompli* very suddenly on 7 September and I think it would be the opinion of this Committee that this would be unacceptable, so the decision has to be taken well before 7 September, hasn't it?

Mr Osborne: There is a timetable set out and of course the Treasury Select Committee has a unique role in this appointment, which reflects the fact it is very important not just for the Government but Parliament that we get the appointment right. I can promise you that it will be done in good time.

Q151 Chair: Could you just tell us what good time is?

Mr Osborne: Well, by 7 September.

Chair: We are just arguing, and I have just pointed out to you, that that is not good time. That is no time at all.

Mr Osborne: That is the timeframe, I think, that was broadly agreed by Parliament at the time. But normally, Mr Tyrie, you don't like me making announcements before your Committee, so I didn't come with any.

Chair: You did not have to do it right in front of us now. You could have done it yesterday or you could do it tomorrow, Chancellor.

Mr Osborne: Tomorrow is always another day.

Chair: We will leave it there for now but I think you have heard an expression of concern.

Mr Osborne: Yes.

Q152 Chair: Could I take you to the distributional analysis that the Treasury publishes? As you know, the Committee has greatly appreciated the work that both the Treasury and you have done to produce high quality distributional analysis, which no Chancellor before you was ever prepared to publish. This is a great step forward and was a request of this Committee some years ago—four or five years ago. Why have you changed the basis on which it is drawn up? Why have you altered the construction of the distributional analysis?

Mr Osborne: I think distributional analysis is helpful. It helps inform the debate, and of course the clue is in the title: it is about the distribution. There is a specific reason to this Parliament and there is a more general reason for the change we have made. The specific reason to this Parliament is that in the previous Parliament we were operating off an assumed public expenditure path inherited from the last Labour Government. They had a Budget in 2010 that set out five-year forecasts. However realistic or unrealistic you thought those spending totals were—I thought they were quite unrealistic—nevertheless we had that baseline and then the distribution we produced was off that baseline. Now we are five years later and there is no baseline from the previous Labour Government five years ago. That is the first reason.

The second is a more generic reason. A weakness of the distribution we published in the last Parliament was that it assumed that every pound borrowed was an unequivocal good thing, in other words everyone was a winner from an extra pound borrowed, or certain sections of the population would be a winner from a pound borrowed, depending on how you spent it. But of course that is not the case. There are things you can buy with borrowing but there are also debts you incur with borrowing, and so I did not think that was as robust as it could have been. I think the distribution we are producing now shows how money is allocated by Government around the different income quintiles of society.

Q153 Chair: You are changing the basis on which you are doing this analysis. When you came before the Committee last year, I raised this very point with you and the importance of maintaining the same approach. I asked you would you confirm you are intending to stick with it and that you are intending to stick with the same type of analysis, with the same tools, so we can get a good time series for the evidence you are producing, to which you replied, “Yes. The short answer is yes”. There must be some concern that you have now done exactly what you said you would not do, Chancellor. Indeed, you reaffirmed exactly the point that I am certainly concerned about; I have not yet had a chance to discuss it extensively with the Committee. You said, “I want a continuous data series”. Well, we do not have one now, do we?

Mr Osborne: There is a basic problem we have, which is what would a Labour Government have been spending in 2016, 2017. We were operating so that people could understand the decisions we had made for the consolidation we launched in 2010. We were operating off the baseline of that last Labour Government and Alistair Darling’s spending reviews: what is your assumed baseline for this Parliament?

Q154 Chair: All of these analyses are imperfect, and indeed we have had a discussion in another session about the fact that it will necessarily never fully capture distributional effects, but we both have been agreed, everyone has been agreed, on the merit of a continuous data series. Would you undertake to publish the changes that you have put in the Budget, using the pre-existing data series, so that we can see what it would have looked like alongside the new data series that you published?

Mr Osborne: I can’t give that commitment today. I am happy to go away and reflect on it, because a huge amount of work and resource is required to produce these distributional tables. I clearly think there is merit in the approach we are taking now. The poorest 40% of our population continues to receive the same share of state resources as they did five years ago. The one significant change is that the richest fifth are paying a higher proportion of tax than they did five years ago.

Chair: When you come back to us, having undertaken to look at it, I would be grateful also if you could tell the Committee the cost, since cost is obviously having a bearing on the production of that data series.

Q155 Steve Baker: Chancellor, on monetary policy, page 17 of the Red Book, paragraph 137, begins by explaining that we should not confuse falling prices with deflation, which I am a bit puzzled about. It then goes on, “The Chancellor has welcomed that the MPC remains vigilant to both upside and downside risks to its forecast and stands ready to act if these risks materialise to ensure inflation remains likely to return to target in a timely fashion”. Given that rates are on the floor and that QE has not yet been unwound, are you concerned that the Bank will struggle to respond if deflation does become a problem?

Mr Osborne: No. Obviously deflation would be a challenge in any economy but I am confident that our monetary policy framework is robust and can deal with whatever is thrown at it. It is worth paying attention to the comments that Governor Carney has given

to this Committee, and indeed in various public speeches over the last year or two, on why he does not think falling prices equate to damaging deflation, and I think David Miles said something similar to this Committee last week. They both point out that inflation expectations are pretty well anchored and I certainly think it would be a mistake to come off a symmetric inflation target.

Q156 Steve Baker: On the point of symmetry, the Committee has been warned, in fact it was Michael Saunders who warned us, that the MPC should fear deflation more than inflation and he said it was because the tools for getting out of deflation are probably less effective. Do you think in practice economists and business people are more concerned about deflation than inflation and that actually we have a de facto asymmetry in the inflation target?

Mr Osborne: I don't accept that. I think what business people, and indeed citizens, want is economic stability and price stability. Damaging high inflation, as we know from our country's history, can have a big impact on personal household incomes and wealth and the like, and impact on savings. Equally damaging deflation, which we have not experienced for a very long time in our history, would also have an impact, and you see that on the Continent. But I don't think we face that challenge today. It is ultimately, of course, a judgment for the Monetary Policy Committee. I think they have the tools and naturally David Miles made the point that he has never seen a central bank, certainly not in the UK, run out of ammunition if it needed to find more ammunition.

Q157 Steve Baker: Just on that very point, not running out of ammunition at this present point must surely mean more QE, does it not?

Mr Osborne: These are judgments for the Monetary Policy Committee. The QE framework is the one that was set out by Alistair Darling, which I have continued to operate. But if one listened to the Governor's speech in the last few days in Lincoln, I think he was pretty clear about where he saw the future direction of interest rates.

Q158 Steve Baker: When I hear the Governor say that the Bank is ready to act if inflation falls further, what I hear him saying is that they would be prepared to engage in more QE to get prices to rise. Is that what you understand them to be saying?

Mr Osborne: The Monetary Policy Committee is independent. They have not asked for any additional tools that they do not already have. As I say, if one listens to the Governor, listens to the debates in UK and US circles at the moment, it is about timing of future interest rate rises rather than quantitative easing, but the good thing about our system is this is not a judgment call for me.

Q159 Steve Baker: No. Chancellor, how would you expect them to return inflation to target if not by QE?

Mr Osborne: As I say, it is not for me to second guess or give them advice or anything like. I am a big respecter of their independence.

Q160 Steve Baker: The remit is for you, Chancellor, and we have also been advised that because of this problem of the ability of the Bank to respond to low inflation or deflation, that a higher inflation target should be selected. Have you considered raising the inflation target?

Mr Osborne: Of course, every year I have to provide the Bank with a new inflation target, which I did in the March Budget, but in the judgment I have made—and I also receive very good advice from my colleagues in the Treasury—we have decided not to change the target.

Q161 Steve Baker: Just moving the conversation forward, are you concerned about secular stagnation and, if you are, what does it mean to you?

Mr Osborne: Secular stagnation is really a US debate, initiated by Larry Summers and picking up on a phrase used in the 1930s. I do not think you can look at the UK at the moment and argue that we are experiencing secular stagnation. We have growth of 2.5% a year, a low unemployment rate, although of course we want to continue to get people into work, and productivity on the OBR forecast is set to rise. Inasmuch as the debate spills over into the UK context, and I did hear a bit of this a couple of years ago, I think it was misplaced.

Q162 Steve Baker: In the inflation report the Bank confesses that low interest rates might be promoting what Ben Broadbent has described as zombie companies. Are you concerned that this might be a material phenomenon in the factors inhibiting UK productivity?

Mr Osborne: I think there is no doubt that one of the reasons why recovery from financial crises is so difficult, and one of the reasons it has been a big challenge for the UK and others, is that of misallocated credit in an impaired banking system. Growth companies do not get the investment that you would want them to see. There are a number of things you can do about that. There are Government interventions of various kinds to support enterprise investment and venture capital and so on, but in the productivity plan we produced in the same week as the Budget, we asked the Bank of England specifically now to go away and look at a measure of productive investment precisely to assess whether credit was being well allocated.

Q163 Steve Baker: What would you say are the long-term effects of sustained low interest rates on business, consumers and savers?

Mr Osborne: We have experienced quite a long period of low interest rates already. I think if there are risks, then the risks are around price bubbles and the like. They can be addressed by the Financial Policy Committee, another innovation of this Government. We have created specifically a separate part of the Bank of England to look at the risks in the

financial system so you are not asking your Monetary Policy Committee to both try to target price stability and keep an eye on what is happening in the credit markets and the like. I would say the absence of that analysis in 2006-07 was pretty damaging for the British economy.

Q164 Steve Baker: Over the course of my brief political career, I have always been most encouraged when I have heard you talk about the need to have an economy based on save and invest. It is something you said often before the 2010 election and it is something I think you have returned to more frequently now. I am concerned, when I look at ultra low interest rates, that what we are actually living through is Keynes' euthanasia of the rentiers. Would you agree with me that there is cause for concern that with such low interest rates we can't meet your very wise objective of having an economy built on save and interest, on productive capital and in raising productivity so that we can all enjoy higher real wages?

Mr Osborne: I think like lots of MPs, I am signing quite a lot of assisted dying letters at the moment, but that is for a different reason. I would say—and this is an observation made across the western world at the moment—that we are in a lower interest rate environment generally than many of us would have been used to 15 or 20 years ago. That is not to prejudge where the Bank of England might take rates but even Governor Carney has indicated this rate cycle would peak at a considerably lower point than previous rate cycles. I think that just forces Government to work harder to try to improve credit allocation, improve competition in the banking system and the like.

Q165 Chair: Chancellor, while we are on the subject of productivity and investment and the Bank's work, of course Sir Charlie Bean has been asked to go away and take a look at the quality of statistics. This has been a problem for some time now. There has been a lot of concern expressed about the ONS's statistics. I wonder whether the Treasury should take a greater interest in this and maybe you should share responsibility for this with the Cabinet Office in order to try to help improve the quality of statistics.

Mr Osborne: We are conducting a review of the quality of our national statistics, and Charlie Bean is a highly distinguished British economist, experienced in working in Government circles. Bluntly, my judgment was you can't really complain about the quality of statistics or ask for an investigation into them, first, when your economy is not doing as well as you had hoped and, secondly, when you are just before a general election, or else people might question your motives. It seemed to me after a general election when the economy is doing reasonably well, this is not a bad time to look at the quality of UK statistics. This is not in any way to cast aspersions on the incredibly good and hard work of many of our statisticians.

Q166 Chair: I am not challenging the reasons for having done the inquiry. On the contrary, we welcome the inquiry. I am asking you whether as part of that, the Treasury might consider suggesting that you take a greater role departmentally and responsibility for the quality of statistics.

Mr Osborne: It is fair to say, Mr Tyrie, the decision to take the Treasury out of the business of supervising our national statistics was one that has been questioned by quite a lot of people. I think this was taken around 2007. This is a moment when we could look at whether the Treasury should have at least some role, either alongside the Cabinet Office or, I don't know, we could ask our distinguished Permanent Secretary for his observations.

Chair: So you are going to put this on the agenda. We will not do that now. It is very kind of you, Sir Nicholas, but we have so much to get through. I am sure it would be an excellent disposition on the history of the role of statistics, particularly economic statistics in the UK, but instead of which we are going to go to Bill Esterson.

Q167 Bill Esterson: You can be relieved about that, Chairman. Good afternoon. Steve Baker described you as wise, Chancellor, Is it the action of a wise Chancellor to increase the amount borrowed by poorer students from £40,000 to £53,000?

Mr Osborne: I think what is sensible for our country is to have a well-funded, excellent university system and we all acknowledge across the different parties that Britain has brilliant universities and that is one of the jewels in the crown of the British economy. In order to keep them brilliant, you have to make difficult decisions on student funding. The last Labour Government took two difficult decisions, which was to introduce fees and abolish grants and then to introduce top-up fees. This Government, in the form of a coalition in the last Parliament, further increased fees and as a result we have more people from low income backgrounds going to university than ever before and we also have well-funded higher education in this country. The cost of maintenance grants going forward is one that I think is unsustainable. It is going to increase to £3 billion by the end of this decade. It makes it incredibly difficult for any government of any colour to lift the cap on the number of students who can go to university, and that is why the Treasury has exercised control through the cap. Therefore, I think moving to the loan system that was first proposed by Tony Blair's Government and implemented for a period by that Labour Government is the right one.

Q168 Bill Esterson: How is this going to make life easier for people who want to get on?

Mr Osborne: For a start, we are going to have a well-funded university system. The alternative is that the Treasury, in other words the person doing my job, decides how many people go to university every year. This is not a question whether they have the right grades. We are talking about people who have the right grades who can't go to university because the Chancellor of the Exchequer says we are imposing a cap in order to exert public expenditure control. First of all, I think by removing the cap you are helping plenty of people who otherwise would have that opportunity taken away from them. Secondly, the actual loan we would be making is higher than the grants currently available and so they would have more support during that period.

Q169 Bill Esterson: You have also announced that the repayments for middle income graduates will go up by £6,000. Why weren't these measures in the manifesto?

Mr Osborne: We said that we are consulting on freezing the £21,000 repayment threshold. Once you are earning £21,000 you can make a contribution to the loan that you secured from the Government for your education. I think that is perfectly reasonable.

Q170 Bill Esterson: You accept that you are putting up debts for students. Do you also accept that you are also putting up debt long term for the economy?

Mr Osborne: No, I do not accept that because I think if you invest in people's education you are likely to have a more productive economy. But this was a decision taken by the last Labour Government. Indeed, many of the Labour MPs—

Bill Esterson: We are talking about your Government now.

Mr Osborne: But if you listen to the arguments made by quite a lot of people who were on the Front Bench of the Labour Party at the time, and indeed voted for it at the time, I thought they were sensible arguments. I am just drawing your attention to them.

Q171 Bill Esterson: Is the IFS wrong to say that over the longer term national debt will go up as a result of these changes?

Mr Osborne: I think if you have a more productive economy where people are better educated and you can make the best use of their talents, you are going to have an economy that is less dependent on consumer booms and the like because you are going to have a more productive workforce. It is always worth, in all these cases, examining the counterfactual. If you do not support this measure, we can see the projections for the public expenditure on grants going up; it is pretty clear that neither a Labour Chancellor nor a Conservative Chancellor could have that system indefinitely. You would probably retain the Treasury cap on numbers, so you would be saying to an individual, "You may have got good A level grades but, I'm sorry, you're not allowed to go to university in our system because my public expenditure totals don't allow you to do so". I want to move away from that to a system where people who have got the grades and the ability, want to go to university and get all the opportunities that that brings can do so, and indeed increase the financial support available to them while they at university. They only have to repay this loan, which is in effect made from the rest of the taxpaying public—by the way, people probably on lower incomes than they will be—when they are starting to earn more than £21,000.

Q172 Bill Esterson: So, why wasn't it in the manifesto?

Mr Osborne: We said in the manifesto we were going to support a well-funded university system and that we wanted to remove the cap on student numbers. We also said in the manifesto we would conduct a spending review and make sure that our public finances were sustainable. We have taken the opportunity the British people have given us to look at all the options available and this seems to me a fair one.

Q173 Bill Esterson: You mentioned your productivity plan earlier. Can I ask about your changes to brownfield? There are already 200,000 homes with planning consent in brownfield sites that developers do not want to build because they want to build in greenfield sites. Why will the changes to remove the need for planning consent help to increase the amount of building in the brownfields?

Mr Osborne: I think our planning system is too complex, too bureaucratic, too costly. Almost every study made of the UK economy points to the problems of the planning system. Rather than open up the highly contentious issue of green belt development, where people feel very strongly about this, let us at least try to solve the brownfield challenge. Even getting development on—

Q174 Bill Esterson: Why don't you target the developers who already have all these planning permissions and get them to build where they have the permission?

Mr Osborne: They are building. They build when they have confidence that there is a country where people are going to want to buy houses and there is economic security. As economic security has returned, housing development has picked up. It went off a cliff, of course, in 2009.

Q175 Bill Esterson: So they are not building on the 200,000 consents they already have.

Mr Osborne: They are building out those plans as they—

Bill Esterson: Well, they aren't, are they? That is the problem at the moment. Why aren't they building ones with planning consents already?

Mr Osborne: Housing starts are rapidly increasing. Housing completions are rapidly increasing. If you push the stop button on house building and have an economic crash the likes of which we had not seen the 1930s, understandably it takes a few years for people to have the confidence to say, "You know what, I'm going to build a house because I think someone is going to buy it". That confidence is returning.

Q176 Bill Esterson: This is going to solve our house building problems. Who is going to make sure the infrastructure is put in place without having to go through planning permission?

Mr Osborne: The planning permission, by the way, comes from it being in the local plan. I am talking about land that has been zoned for development in the local plan. I am saying once you have gone through that process of creating a local plan you have presumably—and certainly speaking for my own authority and others, they try to do this—taken into account what the infrastructure needs might be. Of course, one of the features of the devolution that is now taking place to the various metro areas is that devolution of control over things like transport budgets, so Greater Manchester will get greater controls over planning but also greater controls over transport budgets, and that enables a more joined-up approach.

Q177 Bill Esterson: You still need detailed planning consent to build infrastructure, don't you? There is a big difference between a local plan and planning permission.

Mr Osborne: I would dearly love to speed up planning for infrastructure and we are making some important reforms to compulsory purchase as well. I am sure you have had the same experience that I have, which is long-wanted and long-needed infrastructure projects take an inordinate amount of time to get off the ground.

Q178 Bill Esterson: So at the moment you don't know how the infrastructure is going to be built, because there is no planning permission and there is no process for it to get built?

Mr Osborne: In a local plan you have to provide—

Bill Esterson: You have already accepted there is a difference between a local plan and detailed planning permission.

Mr Osborne: Again, we can think of the counterfactual. If you want to stick with the current system—and of course the Labour Party voted against all the planning reforms in the last Parliament as well on the grounds that they didn't want to see all this development—

Bill Esterson: We are talking about your plans, aren't we, Chancellor?

Mr Osborne: Well, I know, but we are in a Parliament where these are real choices people face in this legislature and if you oppose planning reform, as your questions imply, that means there are not going to be enough homes built.

Q179 Bill Esterson: We had a plan for brownfield first policy, but we are talking about your plan. Who is going to make sure social housing is built in these development sites without planning permission? Remember, there is a difference between the local plan and planning permission.

Mr Osborne: There is a difference. Our argument is that once an area is zoned for development, a brownfield site, then the council should not require further detailed planning permission. There are issues around design and the like of the building, and they do need permission for that, but there should not be four stages to get planning permission for building a house in our country, or indeed a warehouse or whatever. It is one of the reasons why we have this productivity challenge in our country.

Q180 Bill Esterson: To sum up, you are just going to let developers build what they want on brownfield, where they want it and nobody else will have a say. Is that what you are saying?

Mr Osborne: No. Local councils, elected by local people, submit the plans. I will tell you what we are going to do: we are going to build the homes that people want to buy.

Q181 John Mann: Chancellor, good afternoon and I hope to have success. You will recall in the last Parliament on the very subject you just talked about you agreed to my proposal to reverse your tax on self-build, which was a big victory for development in the country, so I hope you are going to be conceding something today. Let me start with in your Mansion House speech you echoed Bob Diamond's previous call for an end to banker bashing and then sneaked through the sacking of Martin Wheatley, the regulator. Did you talk to the banks before sacking Mr Wheatley?

Mr Osborne: First of all, I chose not to renew Mr Wheatley's contract, so I don't accept the way you describe it and I think he did a very good job in difficult circumstances with the creation of this new consumer regulator. I don't accept the way you describe our relationship with the banking industry. We have introduced tough new regulation, introduced a tough new banking tax, which we might come on and talk about, and, thanks to the work that Mr Tyrie did on the Banking Standards Commission of this House, made sure that there is now a tough code of conduct for people in the financial services sector, all a massive difference from the situation we inherited. For the FCA going forward, my judgment is we can find new leadership to strengthen that institution so it is a powerful consumer champion.

Q182 John Mann: Obviously the banks were not happy with the fines that would be levied. On the banking tax, you have spread it with an extra £615 million taxes on the building societies who have not been fined for fraud and misconduct. Is this you listening to the big banks again and spreading the load, leaving it easier for the big banks?

Mr Osborne: No. I have introduced a substantial, 8%, additional rate of corporation tax on banks. I don't think anyone could describe that as letting the banks off. In every year over the next few years we are raising more money from the banks in taxation than we were in the last Parliament and than I forecast in the March Budget. But what we are doing is making sure that the bank levy, again a new tax that didn't exist before I came into the Treasury, is sustainable for the long term and in particular we are looking at this issue of the levy on worldwide assets so that we have a competitive international banking sector.

Chair: We are going to come back to this later on in the questioning.

Q183 John Mann: Just looking at what you have done on infrastructure, Network Rail is pausing, they say, £2 billion of infrastructure spending, but in fact they have now confirmed that it is not a delay, it is a cancellation, including shovel-ready projects such as the removal in my own constituency and elsewhere of all the level crossings that would spread up the East Coast Main Line to London to the north. Why are you cutting infrastructure so much?

Mr Osborne: Infrastructure spending is increasing but I share your—

John Mann: Not on Network Rail.

Mr Osborne: I completely share your frustration with the failures of Network Rail and its former management. They miscalculated the cost of various projects, they miscalculated the engineering requirements of various projects, all of which I would say are things you would expect Network Rail to get right. We have a new person in charge, Peter Hendy, who has done a very good job here in London and we have got in the person who runs HS1, the line to the Channel Tunnel, to review the future of how we operate this organisation.

Q184 John Mann: It is the money that I was worried about. Let me turn to immigration. Your tax receipts and your deficit reduction plan are predicated on a net inward migration of an extra 1,020,000 people into this country during this Parliament. Where are those 1,020,000 additional people going to be living?

Mr Osborne: The OBR make use of the Office for National Statistics projections on immigration and changed the forecasts they used in the March Budget. They have not changed it in this Budget. What we want to see is managed migration. We want to have people come to this country who are talented, who want to study and the like, but we want to make sure that we have the incentives right, we have controls on the numbers, and for those coming from the European Union make sure that they don't receive immediate benefits like tax credits and that is why we are renegotiating—

Q185 John Mann: Chancellor, with respect, you are not answering the question. Your tax receipts and your budget deficit plan is predicated on an extra 1,020,000 new people in this country and I am merely asking: where are they going to live?

Mr Osborne: I am pointing out that what you call the predication is in fact the Office for National Statistics and I do not think it is any surprise to this Committee that this Government has made it very clear, and the Prime Minister has made it very clear, that we want to reduce net migration to the tens of thousands. We can do that a number of different ways, all of which we are deploying at the moment. Ultimately what we want to see is people in this country with the right skills to take these jobs, which is why we are reforming education, making sure we have an apprenticeship levy, and investing in higher education as per my previous answers.

Q186 John Mann: On the question of young people, how much are you increasing the insurance premium and consequential tax on car insurance for a driver under the age of 25?

Mr Osborne: The insurance premium tax is not levied on individuals. It is levied on companies.

Q187 John Mann: The insurance premium tax will result, will it not, in an increase in insurance premiums, both home premiums and on car insurance premiums?

Mr Osborne: The tax is levied on businesses, so it is a bit like saying the banking tax, which you were just asking about, leads to higher bank charges. That is not the case if the bank does not pass on the tax increase.

Q188 John Mann: So you are saying that there will not be an increase in home insurance premiums and car insurance premiums as a consequence of this change?

Mr Osborne: I am saying that insurance companies have a decision to make about the taxes that are levied on them and whether they pass them on, but of course I have also cut corporation tax in this Budget. If you look at the reforms we are making to some of the issues around injuries in car accidents and the like, actually insurance premiums have come down quite dramatically in the last couple of years. There was also a measure in the Budget, since you are concerned, Mr Mann, as always about the cost for drivers of things, that we are now consulting on that we could move the MOT required for a new car to four years and that would save people one year's MOT.

Q189 John Mann: I am suggesting to you that for young drivers the car insurance premium will rise from £90 to £142.50 per driver and therefore that there will be more young drivers under 25 not being able to afford it and some foolishly choosing not to be insured. I am asking you what your projection is, both for them and home insurance, of how much extra the consumer will have to be paying, but you do seem a little reluctant to answer.

Mr Osborne: Only because I am pointing out that the insurance premium tax is levied on businesses, on insurance companies, not on individuals.

Q190 John Mann: Am I wrong in my prediction of 1,020,000 net inward migration, which is the OBR figure that your tax receipts are predicated on and wrong in my prediction that insurance premiums, both home and car, will go up? Am I wrong in both those?

Mr Osborne: I am confident the insurance sector can absorb the insurance premium tax changes, not least because I have cut the corporation tax and we have made other changes to the way insurance is levied and the way that, for example, accidents in motor insurance are properly accounted for, that are actually putting a downward pressure on premiums.

Q191 Stephen Hammond: Chancellor, good afternoon. The Committee will be quite interested to hear your response to some of the evidence we heard last week. I think it was the IEA, but I may be doing them a disservice, were suggesting that the fact that the pace of debt reduction has been slowed by you and that fiscal surplus is now forecast to be a year later reflects some concerns inside the Treasury about how growth is entrenched and growth forecast. Can you say what were the factors behind the decision to slow the pace of debt reduction?

Mr Osborne: I can assure you that that was not the concern, as you put it. There was an opportunity here to smooth the path of deficit reduction and we could end up at a point

where the debt was lower than I forecast in the March Budget, the surplus was higher, and that seemed to be a sensible approach to take. We could do that partly because tax receipts were considerably stronger than we had forecast in March, partly because we had made an earlier start in making in-year savings in this financial year, which was not an option in the coalition Government before the general election.

Q192 Stephen Hammond: Can you give some view on the scale of those in-year savings that have been made, the size?

Mr Osborne: The size was around £3 billion.

Q193 Stephen Hammond: You obviously will have read also that Jonathan Portes was quite critical, broadly saying the balance between how you achieve a deficit reduction is unimportant for macroeconomics. There are others who clearly take a very different view in terms of the implications for distributional analysis growth and some of the philosophical arguments. Can you run us through your view on the balance between spending cuts, tax increases, what caused you to strike that balance? We can see some of the impacts you are expecting by the policy you have set out, but can you run us through what struck that balance?

Mr Osborne: Fundamentally, I think if you are in a country with a high budget deficit—and although our budget deficit is not what it was it is still high by international comparisons—there is a great economic boost that comes from increased confidence levels that the country can pay its way, and I would argue that is what we have seen in this country over the last five years. That is not an analysis shared by Mr Portes, who I don't think has agreed with anything I have done over the last five years but it is for him to explain himself. I took a judgment, coming back to my earlier point, particularly with an economy growing at 2.5%, with unemployment relatively low, that we could continue the same pace of deficit reduction as we achieved in the last Parliament and that is what I set out in this Budget.

Q194 Stephen Hammond: The overall scale of welfare savings you were able to achieve in the last Parliament was lower than forecast at the beginning of the Parliament. What is giving you the confidence that the scale of welfare reform and savings you are going to achieve in this Parliament will be achievable?

Mr Osborne: It is only lower because we took decisions like introducing a triple lock on the state pension. I would not say that is something that was a problem for the last Government. It was a deliberate policy decision. Parliament voted on £20 billion worth of savings to principally working age benefits and I think that has helped make our welfare system more sustainable but clearly there is more work to do and I was very pleased to see a significant majority last night for the Welfare Bill that will make further savings.

Q195 Stephen Hammond: Can I move briefly to the fiscal rule? You will have also seen from the evidence that I think it was Professor Booth described it as a very, very, very bad one. Would you like to state the case for your fiscal rule? Particularly what we are interested in is how you would counter that criticism?

Mr Osborne: I may have misremembered this, but I was reading his evidence and I think, when pressed, he was asked whether there were any fiscal rules since the Second World War he had approved of and he said no, so it is quite a hard audience to please. What I have tried to do with these fiscal rules is come up with something that is simple and easy to understand, which is basically in normal times—and we can come on and discuss the definition of that—when the economy is growing reasonably well you should be running an overall surplus and using that money to largely pay down your national debt. I think people can understand what that means. It is pretty simple to measure. If you are not in normal times, and we have defined that in these rules as 1% growth on an annualised four-quarter basis, if your economy dips—and by the way the analysis the Treasury did before producing these rules shows that broadly speaking the UK economy is either in shock and recession or growing at around 2.5%, it very rarely hovers around 1%—then the Chancellor of the Exchequer has to come to the House of Commons, present a plan to restore the public finances to health and seek Parliament's support for that.

Q196 Stephen Hammond: Given your contentions about the definition of normal times and that the UK is either in shock or in 2.5% growth, that presumably meant that the Treasury decided that the balance either side of 1% did not need any consideration of trying to incorporate into the rule a cyclical factor?

Mr Osborne: The problem with a cycle is you have to measure it and the truth is that, despite very good intentions from the OBR, the Bank of England and many private sector economists, it has proved incredibly difficult to measure the cycle. I would say, looking back on the fiscal rules we had in the last Parliament, the current Budget balance rule was fine but was not a huge constraint on the Government. The hard debt target, which we did hit in the end in 2015-16, definitely was a constraint. It had an inflexibility to it because it was a hard target and did not rely on some judgment about the cycle. In the internal discussions we had before budgets and fiscal events like the autumn statement, that was the thing we thought hard about. By the way, in the middle of the Parliament when it looked like we were not going to achieve it, I was held to account for that. I was asked by Members of Parliament why it looked like I was not going to hit my rule; in other words it was doing its job. It was forcing decision-making in the Treasury and holding the Chancellor to account in a way that was transparent and clear. There have been lots of manifestations of cyclical rules in this country in the last 20 years. I don't think any of them has really proved as effective as I think this more straightforward rule will prove to be.

Q197 Stephen Hammond: In terms of the consideration of the straightforward rule, do you think it could in any way and should in any way distinguish between capital and current spending?

Mr Osborne: I think if you try to separate capital from current you are not keeping your eye on your overall budget balance and you are not running that overall surplus that is going to, in a sustained way, get your debt down. You do get into questions about the definition of capital spending. We are all Members of Parliament. Do we think training a teacher is inherently less good spending than building a classroom? They are both investments in the future in one sense. There are clearly very good capital projects—we were talking about infrastructure with Mr Mann earlier—and I have increased road spending, we have increased rail spending and we want to see it properly delivered. That kind of infrastructure is going ahead, but I have separated that out from the fiscal rules because otherwise I think you get into a rule that says “current bad, capital good”, and I do not think that is a fair way to divide public spending.

Q198 Stephen Hammond: We understand the ring-fencing of the banks was done for varying reasons, but are you concerned that one of the byproducts of that is a liquidity crisis in some areas of lending and a misallocation of capital? The current numbers for net lending to small and medium enterprises, non-financial, would suggest that the ringfencing of the banks has caused a liquidity in that area and potentially some implications for the overall growth of the economy?

Mr Osborne: SME lending is improving at the moment, up by 23% I think. The ringfencing of the banks is an important step that Parliament has taken—it is being implemented now—to make sure that the person doing my job has a better set of options than Alistair Darling had when he was told the Royal Bank of Scotland was collapsing. The report by John Vickers, which of course was heavily interrogated by Parliament, gives the Chancellor options to try to protect the retail bank in that situation. That is all being implemented and I think is being faithfully implemented as per the recommendations of Vickers as interpreted by Parliament.

Q199 Chair: Do you think, Chancellor, that the time has come now to let that ring-fencing legislation settle down, or are you intending any further statutory change to the framework?

Mr Osborne: Broadly speaking, I think we should let a lot of this banking regulation now settle down.

Chair: I am asking you specifically speaking on the ring-fencing legislation.

Mr Osborne: I would include the ringfencing legislation.

Chair: Okay. So the answer is yes?

Mr Osborne: Yes, but Mark Carney made an interesting observation in his speech at the Mansion House—and he explicitly said he was speaking there in his role as head of the Financial Stability Board, the global organisation—that we did have to look at the multiple impact of all this different international legislation. I am not talking about our domestic ringfencing regime, which I think is a good one, but he is conducting that review with the FSB of international legislation.

Q200 Chair: Were you concerned by reports in this weekend's *Sunday Times*, and I am quoting from the article, "Treasury officials were plotting to soften the ringfence by weakening governance rules for ringfenced entities"? Is that anything you recognise?

Mr Osborne: I did not see the article you refer to, but that is not the case.

Q201 Chair: So there is not going to be any relaxation of the ring-fencing regime during this Parliament?

Mr Osborne: These are decisions now for the regulators.

Q202 Chair: There are no discussions taking place between Treasury officials and the regulators trying to influence them in how they implement these statutory requirements?

Mr Osborne: I think, Mr Tyrie, you know Mark Carney, you know Andrew Bailey. These are not people who would welcome being lent upon by anyone.

Q203 Chair: Well, we will see, but you are giving me an assurance that this is not taking place?

Mr Osborne: Certainly I am not aware of that and certainly if—

Chair: Nothing that you are aware of? That is a very helpful full rebuttal of any suggestion of that type and it is valuable. Thank you.

Q204 Wes Streeting: I want to start off with some common ground, Chancellor, and return to the issue of students. What are we going to do about the Home Secretary? The policies of her department in relation to visas and the restrictions on international students represent a real risk to the ability of this country to attract the best and the brightest talent from overseas and universities are really expressing concern about how they are going to continue to compete in an incredibly competitive market. What pressure or influence can you bring to bear?

Mr Osborne: She is doing an excellent job and part of her job is to make sure that we have legitimate student immigration, in other words people coming into this country because they want to access our higher education, and there are no restrictions on that. But she has been, rightly, very tough on so-called bogus colleges and institutions that clearly have existed primarily for the purpose of giving people student visas so they come and work in this country. I think if you don't do that then you lose public confidence in your student visa system and, you are absolutely right, international students are a very important part of supporting our university sector.

Q205 Wes Streeting: Let's try another area of potential common ground, and that is the Mayor of London. I think there is a risk, and it is a cross-party risk incidentally, that Heathrow is held up because of political factors, and I think you said earlier in this session that big infrastructure projects need time to lift off. When are you going to come off the fence and get behind Heathrow, which will bring enormous benefits, not just to my constituency in terms of jobs but to the city and to the country?

Mr Osborne: The common ground is this, that we want to see new runway capacity in the south-east of England. Where that runway capacity is was something that we asked Howard Davies to look at. He has come forward with recommendations, which focus on both Heathrow and Gatwick, and now we are consulting and examining that report. You would know that if we try to pre-empt that, this is going to be an area fraught with the risk of judicial review, because there are people who feel very strongly about it in many different communities in London, both for and against the different options. If we get the Government process wrong, then it will delay a decision. I know that is not easy to communicate or convenient for the political debate but it is the truth. There is a reason why you have seen no runway capacity added in decades in the south-east and that is because Governments have tripped over process and the like, and we are trying to make sure that we get that right this time.

Q206 Wes Streeting: You are confident a decision will be made early in the autumn?

Mr Osborne: I am confident a decision will be made.

Wes Streeting: Early in the autumn?

Mr Osborne: I am not going to give you a timeframe.

Q207 Wes Streeting: All right. Let me turn to a different issue, which is the sale of RBS shares where we stand to make a loss. Why is now the right time to sell those shares?

Mr Osborne: When you say make a loss, this was never, let's be clear, an investment in the sense that the Royal Bank of Scotland was collapsing and Alistair Darling chose to put a lot of taxpayers' money into it. It would be the easiest thing in the world for me, bluntly, to say I am not going to attract bad headlines because I am not going to try to sell the RBS shares, I am going to wait until they get above the in price that Alistair Darling paid for them, but that is not the right thing for our country. What our country needs is the state out of the banking system and particularly out of this very large holding in this very important bank for our country. I sought the advice of the Governor of the Bank of England and he was absolutely clear, "In my judgment, it is in the public interest for the Government to begin now to return RBS to private ownership" and he makes the point that it would promote financial stability, a more competitive banking sector and the interests of the wider economy. Part of being paid to do this job is to try to make those judgment calls when it is not particularly politically convenient because people will say, "You didn't get what your predecessor paid for it". But I don't think this country is going to get what my predecessor paid for, at least in the short term, so we need to get on and try to build a stronger economy.

Q208 Wes Streeting: I do not think you will find anyone around here arguing that the state should remain entrenched in the banking system in that way in the longer term. I think the concern is about the short-term decision-making. Lots of people will understand that the Government of the day quite rightly intervened, stopped the complete collapse of RBS, which would have been a disaster for the economy, but I think they will find it hard to understand how it is that the taxpayer will effectively sustain such a big loss. Is it more to do with the fact that the receipts you will gain from selling off are contributing to reducing the level of debts that you racked up by missing lots of your targets in the last five years?

Mr Osborne: There is a debate, which I have not gone into about it because I respect the fact that Alistair Darling, with my colleagues who were working in the Treasury at the time and in 10 Downing Street, faced incredibly difficult decisions that no Chancellor would want to face. But there is a debate about the rate, the level we paid for those RBS shares at the time. I have not opened that debate up; I have just accepted that as a decision. The choice we have now is what do we do going forward. We are making money, in other words making more than the in price paid, on our Lloyds shares, on some of the Northern Rock holdings and the like. We sold the Northern Rock branches to Virgin Money. But on the RBS shares, we are still considerably below the in price paid in 2008, 2009. Again on the advice of the Governor of the Bank of England, and independent advice we commissioned, it seems like the right thing to do, both for reasons of financial stability, a competitive banking system and indeed value for money. The Permanent Secretary has to sign off on value for money and would require a direction if he felt it was not value for money. There is an argument that by starting to sell now you might create more of a market for RBS shares and lift the price but I am not banking on that.

Q209 Wes Streeting: Can I turn to the so-called national living wage? Again you will get lots of support across the House of Commons for increasing the national minimum wage, so why was it not simply presented as an increase in the national minimum wage rather than something that it is not, which is a living wage?

Mr Osborne: I think it is a living wage and we have based our work on the report of the Resolution Foundation. Of course, there are a number of different organisations out there. There is the Living Wage Foundation, which has done good work in this space, there are the London Citizens, and they fell out with various different rates. I think even the Scottish national Government proposed a different rate. What we have done is gone for what I think is a deliverable and measurable measure, which is 60% of median earnings, based on the work of George Bain, and that is a very significant increase in the minimum wage. It applies to over 25s. Therefore, I think it is appropriate to call it, and it will be called, a national living wage.

Q210 Wes Streeting: But what you have actually done is distract from a real debate about what a living wage is. Your £9 minimum wage in 2020 is less than the London living wage is today, so what you have done is effectively mess up a whole load of progress that was being made, quite voluntarily and through the good work of the organisations you already

mentioned, to encourage businesses to voluntarily pay a living wage by being really clear about what a living wage is and how it is defined. For political reasons, you have completely diluted that debate. On top of that, you have your tax credit changes that not only mean that people will be losing out, even taking into account the higher minimum wage, but your argument, a bit like “Gatwick obviously”, you can say it again and again it doesn’t make it true, and I am afraid that is the category I put your living wage in. You can describe it as a living wage but it is not a genuine living wage.

Mr Osborne: The Living Wage Foundation said this, “The announcement will see over 2.5 million workers receive a much needed pay rise. This is a massive victory for those who have campaigned for a living wage.”

Q211 Wes Streeting: Sure, but it does not help the debate about what a living wage is and the IFS have been very clear that, taking into account your budget measures, it is arithmetically impossible that the impact of the welfare changes you are putting through, the minimum wage increase just does not compensate for it. Are you comfortable with the fact that in-work poverty will rise as a result of your Budget measures?

Mr Osborne: In-work poverty has actually fallen, of course, by 200,000 since I have been Chancellor, despite many predictions by your predecessors who sat in that seat. I have made this point. We are offering a new contract with the country where we say, yes, there will be lower welfare but there will be higher wages and less tax with this national living wage. We are saying to businesses you are going to have pay higher wages but there will be lower business taxes. I can only observe that a large number of Labour former Ministers have come out, not least David Blunkett this morning on the radio, saying that essentially it is a coherent and cogent approach and, as I say, I was pleased that it received significant support in Parliament last night.

Q212 Jacob Rees-Mogg: Chancellor, may I ask one follow-on question on the living wage? My concern is that employers’ national insurance contributions still continue on it and that increases the burden that they have to bear. It is not only the increase in the wage; it is then the Government are taking a stake on top of that. You have increased the allowance for that by £1,000 a year the allowance but there seems to be quite a big additional burden on employers. Shouldn’t the Government be taking a bit of their share and beginning to look at where national insurance contributions kick in?

Mr Osborne: I have taken a number of steps to try to reduce national insurance in the five years I have been doing this job. I increased the threshold when I first became Chancellor, I have taken apprentices and under 21s out of employer national insurance. As you say, in this Budget, to help with the additional cost of the new national living wage, we are increasing the employment allowance. On top of that, of course, the reduction in corporation tax to 18%, now it is aligned with the small companies rate, is also a reduction for smaller businesses and one of the good things is the Budget has been pretty warmly welcomed by business organisations.

Q213 Jacob Rees-Mogg: I want to move now on to another form of ringfencing, the ringfencing of public expenditure, which now seems to include quite a lot of public expenditure: defence, counter-terrorism, health, schools, overseas aid, pensioner benefits and child benefit. With a spending review looming, can it be comprehensive when so many areas are ringfenced?

Mr Osborne: The spending review is actually underway since I launched it this morning. We have had discussion in this Committee before about ringfencing. I would say that it is right for a Government to make a judgment about its priorities and our priorities are clear: investment in the National Health Service, national security, pupil funding in schools, our commitment to the world's poorest. We have made those commitments that obviously increase pressures elsewhere in government, but government is ultimately about making these choices. I think we have made the right choices and it will be for others to judge whether we have.

Q214 Jacob Rees-Mogg: There are two different types of ringfence, aren't there? There is the National Health style ringfence, where you say spending will be protected and will stay that way in real terms, and there is the triple lock for pensioners. But the ringfences that relate to GDP are in a different category because you do not know what the GDP figure will be until a period after which the money has been spent, which can lead to peculiar spending decisions.

Mr Osborne: There are two, of course. One is the aid commitment at 0.7% of national income and the other is the NATO commitment on defence at 2%. The first was a commitment made by all of the developed countries to the world's poorest, some time ago, long before you or I were in Parliament, and I am very proud that this country, almost alone among western democracies, honours that commitment. We want to make sure that money is effectively spent, and indeed in this document is a commitment to review the effectiveness of ODA spending, in other words development spending that qualifies, and we want to make sure that we are saving lives. If you look at the impact that British aid has had, for example, in dramatically reducing malaria deaths, I for one think we are helping those most in need in our world. The NATO commitment is something that the NATO countries again have aspired to and we are meeting and will continue to meet. I do not think you can be too purist about the way these international commitments are arrived at, but the UK is meeting them and long may it continue to do so.

Q215 Jacob Rees-Mogg: Do you think they are the right way of doing it? Isn't it perfectly reasonable to make a commitment to increase and grow expenditure and broadly over the long term to achieve a certain level of expenditure, but to try to do it particularly on the law on overseas aid that requires a calendar year GDP target to be met in a system of financial year accounting is particularly difficult?

Mr Osborne: In the end we can miss the wood for the trees. These commitments exist because well-off countries should help the world's poorest. Well-off western democracies should support western defence, and so therefore GDP is the best measure we have of the wealth of the country.

Q216 Jacob Rees-Mogg: Are you willing to allow yourself some leeway plus and minus, that is to say that if you miss it by a little that isn't a terrible thing to do if it leads to better control of public expenditure but equally, in a year when the economy is not growing as fast as you anticipate, if you overshoot slightly that is not a great failure either?

Mr Osborne: Thankfully that challenge does not arise because we are—

Q217 Jacob Rees-Mogg: Doing well, which I accept. We all sing paeans of praise to you for this great achievement. To go back to the level of constraint you need for the non-ring-fenced departments, are you comfortable with the pressure you now feel in those areas and do you come under further pressure to add other things to the ringfence by constraining your future room for manoeuvre?

Mr Osborne: Ringfencing is a phrase that has developed over recent years but what it really is is an expression of our political priorities, the priorities of the Government, to invest in our health service, invest in our schools and the like, and protect our country. Of course saving money is always a challenge for a government, but I think we demonstrated in the last Parliament we could do it while in fact satisfaction with local and national government services rose, a crucial victory for those of us who argue you do not have to bankrupt a country to provide decent public services. We are going to go about this in the same way we have done in recent years, driving for efficiency, always conscious that this is not our money or the Government's money; it is the taxpayers' money. I think we can achieve further substantial savings, we can look at making Government much more adept at using the latest digital technology to communicate with its citizens, we can look at how much land the Government hold at the moment. The MoD owns 1% of the entire landmass of this country; is that really necessary? So there are lots of things we can do.

The other reforming opportunity of this spending review is going to be to look at further radical devolution within England, alongside the important devolutions taking place in Scotland and Wales, what we can do to further empower city areas and counties. In the last year you have seen the very important deal we have done with Greater Manchester, as part of building a northern powerhouse. The Prime Minister also announced an important deal with Cornwall last week, showing that we can adopt a model that is flexible for counties as well.

Jacob Rees-Mogg: Those of us with constituencies near ambitious cities hope you will be reasonably cautious, but I will leave that.

Mr Osborne: This is done with the consent of local people in local areas through their elected representatives.

Q218 Jacob Rees-Mogg: Sir Nicholas, may I ask you a question on hypothecation, with the vehicle excess duty being hypothecated? I thought that pretty much since it was founded the Treasury had thought that hypothecation was heresy, so what is the Treasury's view now?

Sir Nicholas Macpherson: I think the Treasury's view is immaterial.

Jacob Rees-Mogg: It is quite interesting.

Sir Nicholas Macpherson: It is interesting. The point I would simply make is that over time there has been hypothecation. There was a road fund in the 1920s and 1930s; because of the Great Depression, it had to be bailed out. We have had the National Insurance Fund. I think the critical thing is to have hypothecation in reasonable moderation. I think if all taxes were hypothecated you could get into all sorts of difficulties, which is why the Chancellor has chosen not to do that.

Q219 Jacob Rees-Mogg: The risk of hypothecation is that in good times you end up with too much money and in bad times you end up with too little and therefore you have to raid other funds to do it.

Sir Nicholas Macpherson: Fortunately in the case of the road fund, I don't anticipate that sort of problem any time soon.

Q220 Jacob Rees-Mogg: Therefore, I can take it you are not expecting any other areas of hypothecation to be brought forward?

Sir Nicholas Macpherson: As a humble official, it would be very foolish to speculate on these matters.

Jacob Rees-Mogg: Thank you for illuminating answers.

Chair: The performance of a high class mandarin, if I may say so.

Q221 Mark Garnier: Chancellor, I want to talk about bank taxes, but just a quick question following on from Mr Rees-Mogg regarding the defence budget at 2% of GDP and the international development at 0.7% of GDP. Is it not the case that there is quite a bit of overlap, not a huge amount of overlap but a little bit of overlap where you may have the British military going in to do some hurricane relief, disaster relief and that kind of stuff. There is, on the fringes, an element of possible flexibility in this so that although MoD is definitely 2% and DfID is definitely 0.7%, together they may come to something slightly less than 2.7%. Is that possible?

Mr Osborne: You have given an example where military spending is deployed in order to help with overseas development in disaster relief, but both these numbers are policed, so the 0.7% is policed by the OECD and the 2% is policed by NATO, so the scope for creative accounting is not—

Q222 Mark Garnier: No, fair enough. I was just curious. Going back to the bank levy and the surcharge, can I start off by saying I welcome very much the reduction of the bank levy,

certainly when it comes to those international banks who are placing that levy on their international deposits or liabilities. One of the things that the bank levy did, which was not necessarily a primary objective, given the fact that the bigger banks have an advantage of still benefiting from an implicit guarantee where their funding costs are slightly less and also they have bigger resources to get greater granularity with their risk weightings in terms of reducing the cost of risk weighting, was created a slightly better level playing field between those big banks and the challenger banks. Are you worried that by reducing the bank levy—and I will come to the surcharge in a minute if I may—you may well have removed that level playing field?

Mr Osborne: The bank levy was one of two taxes that the IMF recommended five years ago as ways of improving the taxation of the banking system. If you remember, it replaced a one-off, one-year-only bonus tax, which Alistair Darling had introduced and which he himself said could not be continued for more than a year. The other option was a financial activities tax, but we went for the bank levy and that was in part to try to drive down leverage in the system as well as to raise revenue. Leverage, of course, is greatly reduced in the system, partly because of the levy, partly because of regulation, and the levy now going forward would have a problem of sustainability. We also want the UK to be an international location for banks. We do have a challenge, which is if you tax worldwide balance sheets you are creating incentives that work against that. I am unapologetic about wanting the UK to be a safe and secure home for banking but also a successful home for banking, so I think this balance is better. It is a bank levy on domestic balance sheets but it also has this bank surcharge, because I do not think I could get up in front of the British people and say, “My new idea is to cut the taxes to the banks”. I do not think, when you are making all the other decisions in this Budget, you could have said that with credibility to the British people.

Q223 Mark Garnier: I certainly would agree with all of that. The bank levy is on liabilities of over £20 billion and that affects around 30 banks in the UK, whereas the surcharge is on profits of more than £25 million and that affects more like 200 banks. It does not affect those nascent challenger banks that have not yet got to profit, which are still coming through, but it is to a certain extent going to limit the ability of those smaller banks to be able to grow in the early stages.

Mr Osborne: They will still have at 26%, once corporation tax falls by 2%, one of the lowest corporate tax rates in the western world, so this will still remain a very competitive place to do banking. On top of that, there are lots of other things we are doing to encourage competitor banks: reforming the payment system, breaking up the monopolies that exist there; making sure that our regulators are speedier at giving banking licences to those who pass the checks, and the like.

There is a lot to do, and lots to do more broadly in innovative finance, which was in the Budget but obviously did not hit the headlines, with stuff around VinTech and peer-to-peer lending as well. It is not just about challenger banks; it is about new forms of finance as well.

Q224 Mark Garnier: Clearly, there are an awful lot of banks that are quite obviously banks and they do just banking, but there are a number of other institutions that will be caught within this that have within the banking licensed operation a number of other activities, for example wealth management, sale of insurance products, let us say, which would not necessarily come within what one would define as banking in itself. There is a possibility that again, with some of these slightly less mainstream institutions that this tax may be levied on what amounts to non-banking operations, but only because it is within the banking envelope within that institution. Is there a possibility of a carve-up for that type of thing, or would they be better advised to restructure their organisation to separate the bank from the other client services?

Mr Osborne: I am always happy to look at suggestions, because we produced this just two weeks ago, but I think, broadly speaking, the financial sector does need to make a contribution to the repair of the public finances, and in a period when you are asking the country to make difficult decisions, and indeed just announced a spending review, Government to make difficult decisions, I think it is fair to say to the banking sector, “You are going to have, by international standards, a competitive rate of tax. It is not going to be as low as the non-banking business next to you” but, given all that happened to our country seven or eight years ago I think that is a fair balance.

Q225 Mark Garnier: I would agree with that. One last question, if I may. I take your point about RBS; it is absolutely right that any transaction in RBS shares should be taken on the basis of what it is known now, not all that was known eight years ago, and so it is right that when that decision is made, the sunk cost fallacy should not be allowed to predominate in the decision-making process. But there will come a point in the not too distant future when the country will have been repaid. We have all the debt back now, it is just those last few bits of equity that we need to get back in terms of Lloyds and RBS and all the rest of it. At that point, so once we have the money back as taxpayers, once all of that is cleared, once we have done the final P&L and we know where we are, including levy, and all that, do you think there will ever be a point where, in the future, there will not be a surcharge, there will not be a bank levy in this country, or do you think this is now here to stay?

Mr Osborne: What I have set out I think is a sustainable system for the long term. It is never easy finding people to tax, as previous Finance Ministers over the ages have found, but I think we get the balance right with the financial sector here.

Q226 George Kerevan: Good afternoon. I want to follow up on Mark’s line of questioning. The shift to the bank surcharge, profit surcharge, sweeps into the tax net the challenger banks, but particularly the mutual building societies, who I think are a special case. Can you see any implications for the operations of the mutual building societies with this?

Mr Osborne: None has been brought to my attention. In other words, of course tax increases are not welcome by people, but I think we have the balance right when it comes to banking taxation, and there is a threshold, which means that the smallest mutuals and building societies would be excluded from this tax.

Q227 George Kerevan: Indeed, but there is a potential for mutuals, which retain all of their “profits” and put it back into capital building and into lending, that they will be swept into the tax net, and therefore that will have, to my mind, a negative impact on their ability to lend. Does that worry you?

Mr Osborne: I think, more broadly, the building society sector is in a much better shape than it was a few years ago, so it is able to lend. As I say, at 26%, it is still a lower rate of tax than they were paying four or five years ago, and these would be the larger institutions as well. As I say, tax increases are never welcome.

Q228 George Kerevan: I can vouch for that personally. You can see no difference in how you approach applying the surcharge to mutuals and profit making private concerns?

Mr Osborne: No, I think you have to tax banking institutions as banking institutions. The regulatory regime makes a distinction in part between mutuals, and we have done more to support mutuals, credit unions; there is a whole piece of Treasury work underway on that. But no, I do not feel we can draw a distinction. After all, there are some mutuals that are very large, in size at least similar to big banks.

Q229 George Kerevan: Following on from the point that Mark made, the sales of the residual public holding in Lloyds have been going very successfully in small tranches. Do you intend to continue that, or at some point do you think you will make a major public offering?

Mr Osborne: We will make a major public offering. We committed to do so in our manifesto. I think that is striking a fair balance, and I think it is a real opportunity for a public that, understandably, will have felt that they put in money to bail out the banks, to have an opportunity to buy shares. Our ambition is to get out of Lloyds within the financial year.

George Kerevan: Within the financial year?

Mr Osborne: That public offering will come, assuming nothing dramatic changes in the market conditions.

Q230 George Kerevan: Have you changed your projections for public sector capital spending between the March Budget and the Summer Budget?

Mr Osborne: Sorry, public sector—?

George Kerevan: Departmental capital spending.

Mr Osborne: We have made savings this year to the capital budget. That is reflected in the capital budget, going forward. But if you look at overall investment, the OBR assessed

that some of the other decisions that we have taken on, for example, corporation tax, will boost private investment and offset that reduction.

Q231 George Kerevan: So there will be a reduction over the spending period in capital spending?

Mr Osborne: It is not a reduction, because capital spending is—

George Kerevan: Agreed. A reduction between what you were projecting in March and what you made in the summer.

Mr Osborne: We did make savings this year in capital spending, which was not officially allocated, or indeed was not going to be spent. One of the challenges in Government is that your capital budget is not always spent because of delivery issues, which we were talking about earlier.

Q232 George Kerevan: Just to clarify, the projected capital spend is being reduced?

Mr Osborne: The capital spending, as I say, is growing, but we have made reductions this year in what was forecast in the March Budget, for good reasons of value for money, and that is carried forward in the forecast.

George Kerevan: We are talking over the five-year spending period?

Mr Osborne: Yes, carried forward in the forecast.

George Kerevan: The projected capital spend has been reduced between March and July?

Mr Osborne: As I say, Government capital spending has been reduced this year, and that has been carried forward in the forecast. But capital spending will be allocated on 25 November. I would not assume that—well, the capital in current mix will stay exactly as set out in the Budget.

Q233 Chris Philp: Good afternoon, Chancellor, and thank you very much indeed for joining us this afternoon. I would like to start, if I may, on housing, which we discussed earlier. Over the last five years, the number of housing starts annually has almost doubled, from about 90,000 a year at the end of the last Labour Government to about 180,000 a year this year, which is fantastic progress. Can you explain to the Committee the plan to keep that momentum going over the coming five years?

Mr Osborne: It is extremely important that we continue to build homes, not least in London, and in parts of London that you represent. We have a number of policies to do that: there are the planning reforms that we have already talked about, there is our new starter homes policy, there are the various tax changes we are making to help people buy homes, and of course there is a continuation of Help to Buy, and we also have the social

housing programme alongside that. I would say, in our capital city, this is probably one of the biggest policy challenges we face.

Q234 Chris Philp: Certainly, building on brownfield sites in London will definitely assist housing starts here, creating more consents will certainly help increase the housing supply. I would like to ask about the buy-to-let mortgage provision, if I may? Buy-to-let mortgages now make up about 18% of new mortgage originations. Can you comment on whether you feel that is an appropriate level, or whether you are slightly concerned perhaps that the prevalence of buy-to-let landlords may be slightly crowding out owner-occupiers from the housing market?

Mr Osborne: The first thing I think it is worth saying is that there are many people who save hard through their lives, buy a little property, rent it out, and those are people who we absolutely want to support and help. Sometimes the buy-to-let label can be a bit pejorative. But I think there are concerns we have to address. I think it is, in the current environment, unfair that those on higher incomes get more tax relief, and so therefore we are going to restrict tax relief on buy-to-let mortgages at the basic rate, and phase out the higher rates. That is a decision driven by fairness, but also driven by the growth you see in buy-to-let mortgages, which you alluded to; I think they make up around 17% of mortgages, you said. The Bank of England, a week before the Budget, published a financial stability assessment that identified the growing numbers of buy-to-let mortgages as a potential financial stability concern. I think there is also an economic security element to this policy, as well as a fairness element.

Q235 Chris Philp: I am glad you mentioned the report. I have it in front of me, and it says on page 26, “Looser lending standards in the buy-to-let sector could contribute to general house price increases and a broader increase in household indebtedness”. When the Governor, Mark Carney, came in last week to see us, he seemed to be hinting quite heavily that he felt it would be appropriate for the Bank of England to take over regulatory responsibility for the policy around buy-to-let mortgages in the same way they already have for unoccupied mortgages. In particular, we discussed in this Committee, although Mark Carney did not comment on it, that the lending criteria for buy-to-let mortgages are a little bit softer. For example, they tend to be interest-only mortgages, rather than repayment mortgages. I wonder if you could comment on whether you feel that there is a case for potentially levelling that playing field, first, and then secondly, whether you would be willing to place the buy-to-let mortgage market into the hands of the Bank of England at some point in the near future?

Mr Osborne: Let me take both points. First of all, by reducing the tax relief available, we are moving towards levelling the field, as you put it, levelling the playing field between someone buying a house for their own use and their family’s use, and someone buying it to let. Of course, there are differences in tax treatment; you do not have to pay capital gains tax where the house you are buying is your primary residence, but you do for buy-to-let, so one has to take that into account. But that is part of the thinking behind reducing the tax relief from 40% to 45% that is currently available to those on higher rates of tax. That is the first point.

Secondly, we have created the Financial Policy Committee of the Bank of England. This is the macroprudential committee. It is supposed to identify bubbles and risks in the financial system. They have identified buy-to-let mortgages as something they want to at least have oversight of and be able to make recommendations on, and I agreed that we would pass oversight, or at least give them powers to look at the buy-to-let mortgage market and make recommendations, and that is happening, that is in train.

Q236 Chris Philp: Yes, the Governor said that he acknowledged that they have the power to make recommendations, but he specifically asked to have direct oversight power, as opposed to simply the ability to make recommendations. I think his concern was that if he made a recommendation, it might trigger people's behaviour in the time between making the recommendation and the recommendation being adopted. Are you at all amenable to his request to have direct oversight, rather than just recommendations?

Mr Osborne: Yes, we are looking at directional powers, as well.

Q237 Chris Philp: Is there any intention to make an announcement, at all?

Mr Osborne: Yes. I am trying to remember when, but I think in the next couple of months.

Chris Philp: Very good.

Mr Osborne: I know I have just written to him, but I cannot remember the exact date. I will get back. But it is all imminent. It is happening this year.

Q238 Chris Philp: I will not press you any further for fear of inadvertently pre-empting an official announcement. Changing tack slightly to the European financial stability mechanism, I think the Prime Minister did a very good job in 2011 in getting fellow European leaders to sign something or other, which made sure that the EFSM, to which we contribute, would not be used to bail out eurozone countries who had got into difficulty. There were some reports about a week ago that in fact this now might be used as part of the Greek bailout. Could you update the Committee on that and can you give us an assurance that UK taxpayers' money will not be used in bailing out eurozone countries?

Mr Osborne: I can give the Committee that assurance, because of the agreement we reached within the last week. The EFSM, which is the collective EU fund, is being used to bridge finance Greece while the new ESM deal is done by the eurozone, but I made it an absolute condition of the use of that fund that Britain, and indeed non-euro members, were protected from any potential Greek default, and so before the funds were disbursed from the FSM, a separate account was created, money was put into that account to protect out non-euro members from any liabilities that might arise. That was a legally binding agreement. On top of that, we have achieved commitment to legally binding changes to the regulation on the future use of the FSM, so we have, in effect, turned a political agreement in 2010-11 into a legal agreement now, which bodes well.

Q239 Chris Philp: It bodes very well for our future renegotiation. Turning now to the question of the competitiveness of London as a financial centre—and you touched on this earlier—I know HSBC are considering whether to keep their centre of incorporation in London. Could you comment on what we are doing as a country to try to keep HSBC here in London, here in the UK, and whether there is any specific effort by the Treasury to engage with them and try to encourage them to remain here in the UK?

Mr Osborne: The job of the Chancellor and the Treasury is to try to set a tax regime, a regulatory regime, that is competitive and safe, and to get that balance right. I think we have that balance. I absolutely want the UK to be a home to the international headquarters of banks. We would not have a negotiation with an individual company. My job is to set the broader environment and let any company make a decision about where they want to invest, where they want to locate their headquarters. London, and I would add other financial centres of this country, like Edinburgh, I think are very competitive places to do business, and the best place to locate your financial firm.

Q240 Chris Philp: You mentioned briefly earlier, in the context of insurance premiums, the desire to reduce fraudulent claims by people who claim to have injuries that they do not really have, and you mentioned it very briefly during the Budget statement but it was not really picked up afterwards. I experienced this personally about a year or two ago when my wife and I had a small bump in the car. We got phoned on a weekly basis for about a year afterwards on our personal mobiles by some ambulance-chasing law firm, trying to persuade us that we had suffered an injury, when in fact we had not. No matter how many times you told them there was no claim, they just persisted in trying to induce us to make one. What are the specific measures you have in mind to try to combat this sort of behaviour, which clearly drives up everybody's premium and encourages, frankly, fraudulent behaviour?

Mr Osborne: This particularly arises around whiplash claims, which are sometimes difficult to assess. We brought the insurance companies together in Downing Street. This was an initiative driven by the Prime Minister and the Ministry of Justice. They came up with collective insurance agreements across the industry that saw a reduction in whiplash claims, more rigorous assessments of their medical eligibility, and that has started to see quite a dramatic reduction in some motor insurance premiums.

Q241 Chris Philp: Would you support an outright ban on outbound cold calls to try to induce people to make these claims?

Mr Osborne: I am happy to look at all good policy ideas. I have not studied that one closely, but I am happy to do so.

Q242 Chris Philp: It is always very easy in these sort of forums to focus on things that are going wrong, and even in my limited experience of politics, I know that people very rarely say "Well done" or "Thank you", but I notice Christine Lagarde of the IMF said in April that

what is happening in the UK has actually worked, so I just wanted to reference her comment and hope that that continues for the five years ahead.

Mr Osborne: She is a very good judge.

Chair: Chancellor, are you saying “well done” to her?

Chris Philp: I think she has done—

Q243 Chair: I have a specific question. On Greece, it is widely held that the IMF has made a crass mistake over several years in getting itself far too close to the EU negotiators, rather than offering independent advice to both parties. Now, finally, it has offered some independent advice, as you know, and as a result it has decided that what the EU is demanding of Greece is, frankly, unsustainable and that much more debt relief is going to be required. Do you share the IMF’s view?

Mr Osborne: I do share their view but I think you are being a little bit harsh on the IMF. I think they have actually produced some of the most rigorous analysis in this whole process that has, broadly speaking, not been particularly satisfactory—

Chair: But they produced a wholly unrealistic forecast, which is so unrealistic that everybody at the start said it was inconceivable that Greece could deliver, and have been proved—

Mr Osborne: To have the IMF sitting at the table when these problems in these European economies emerge is a very good thing, because it provides independent rigour, is the first thing. Secondly, it would be very odd to have an IMF that existed but could not intervene in certain economies like Greece because of their particular monetary arrangements that exist for all of its various members. Of course, we would soon see the departure of all those European states if they felt that that was not there for them. Thirdly, if you look at the debates in recent weeks, which have been very fraught, with lots of different views being expressed across the Eurozone, often in contrary distinction to each other, actually it is the IMF who has tried to tell it as it is and has forced the eurozone to actually look at issues around debt relief, which they might not have done otherwise.

Q244 Chair: I agree with the last point, but that is new, is it not? Have you been in contact with your executive director on that point, and perhaps with other non-eurozone members of the IMF, in order to try to secure some more independence of mind from the IMF than they have shown hitherto?

Mr Osborne: Indeed, we were speaking to our executive director yesterday, as it happens, but the Prime Minister made the views of the British Government pretty clear at Prime Minister’s Questions.

Chair: Just remind us what he said, then.

Mr Osborne: He said there needed to be debt relief, which we are looking at. What they are doing at the moment is looking at whether they could change the profile of the

maturities in order to provide effective debt relief without crossing various other countries' red lines on this.

Chair: So, having leapt to the defence of the IMF, you are acknowledging that something quite seriously wrong—

Mr Osborne: To go back to 2010 or 2012 and say that the IMF uniquely got it wrong about the prospects for the Greek economy I think is a bit unfair. After all, they are not in—

Chair: Is it not the other way around? It is just the eurozone that got it uniquely wrong.

Mr Osborne: They are not in charge of the democratic decisions of the Greek people.

Chair: No, on the contrary, it is their job to offer independent advice, independent advice that has been lacking for a long time.

Mr Osborne: As I say, from what I have seen from their role in this—one of the joys of doing this job for five years is that the Greek crisis started before I came into the job and, who knows, it might still be raging after I leave it.

Chair: It is well done from Christine Lagarde to the Chancellor, and well done from the Chancellor to Christine Lagarde.

Mr Osborne: That is why we get on so well.

Q245 Helen Goodman: Chancellor, I want to begin by following up a question that the Chair asked you about the publication of the distribution tables. As a matter of fact, I have some sympathy with the tables that you did publish, because when I was a very, very junior official in 1981 I was asked to do something rather similar myself. But I think the disappointment that people feel is that, alongside those, you did not publish figures showing the impact of the tax and benefit changes on individual households' earnings disaggregated by decile. Did officials prepare those tables and charts and you decided not to publish them?

Mr Osborne: As I say, I took a decision that, going forward, this would be a more helpful distribution for people to look at because it would—the clue is in the title—show how resources were distributed, and that ultimately a set of charts that say, “If you just go on borrowing indefinitely, that is a good thing for everyone”, was inaccurate.

Helen Goodman: Okay, we have been into that before. You did have an inkling. Maybe you even had some charts that showed you what the distributional implications, as commonly understood, would have been, and you just wanted—

Mr Osborne: I could produce a chart, because we looked at how, but I am afraid I do not think it would suit your political purposes. But I am happy to send it to you.

Helen Goodman: I think we are always interested—

Q246 Chair: Please can you answer Ms Goodman's first question? Just to be clear, Chancellor, the first question was: were you supplied by officials with the distributional analysis based by decile on individual households?

Mr Osborne: As part of the preparation of this Budget, we looked at different ways of producing the distributions, in order to inform the decision of where we have come to, of what is the best approach. So, we have different ways of looking at it, including the way that was produced for the last Budget and previous Budgets. On a one-off basis, I am happy to let you have it, but I do not want to go on producing it because it is, I think, first, misleading; secondly, it can only be produced this year because we are in the fifth year of the forecast from the last Labour Government, so you could not do it next year and, as I say, I think this is a better approach. But in the interests of transparency I am happy to let you have it.

Q247 Chair: Why did you begin, Chancellor, by telling me that this was all going to cost a packet and that you would have to consider whether to send it to me at all?

Mr Osborne: To go on producing this distribution in the future. Not only cost in producing two different types of distribution, but also because I do not think it is the right way of making these assessments, going forward. But I am happy to let you have the work that we have done.

Q248 Chair: The disproportionate cost was referring, was it not, to the production of this year's Budget?

Mr Osborne: No. Well—

Chair: We will have a look at the transcript.

Mr Osborne: Certainly if I implied that, that is not what I meant. I mean producing multiple—this is an extremely costly and time consuming process for the Treasury. I want to make sure that it is accurately done and done in a way that is most informative.

Q249 Helen Goodman: We have had this answer before, I think. Could we move on to the next major set of questions I want to ask you? Chancellor, we do not agree politically, but I have always thought of you as an intelligent and rational person, and I just want to check something out with you. Are you a climate change denier?

Mr Osborne: I am not sure I accept that phrase as a general term in British politics, but what I will certainly say is that I think climate change is happening, that it is caused by human beings, in part, and that it is not good for our society, going forward.

Q250 Helen Goodman: Indeed, you just spoke about the importance of the international aid commitments, and obviously climate change is a big problem in the countries that we are trying to support with our international aid programme. Would you agree with that?

Mr Osborne: Yes.

Helen Goodman: You are looking for a good, strong commitment in Paris, internationally agreed, on climate change in the autumn?

Mr Osborne: Yes.

Q251 Helen Goodman: Do you wish to see any changes to the legal frameworks that we have in this country? So, the carbon budgets out to 2027, the target to have 15% of our electricity generated through renewables by 2020, or our target to see carbon dioxide emissions reduced by 80% by 2050; are you looking to change any of those frameworks?

Mr Osborne: No.

Q252 Helen Goodman: Notwithstanding the fact that you are committed to all of those, you have removed the climate change levy exemption for renewables, removed the subsidy for onshore wind, restructured VED, and ended the zero carbon homes commitment. The papers produced by HMRC say that—just with respect to the climate change levy, not with respect to all four measures together—there will not be any impact on climate change. But have you checked that, looking at all those four together, there will not be any reduction in the rate at which we are reducing our carbon emissions from the measures you have taken?

Mr Osborne: We can go through each one individually, but I think for different reasons they are not effective or good value for money, and I think there are better ways to meet these targets. Giving longer term contracts like we do with the levy control framework is a better approach for renewable energy. But we certainly intend to meet our targets and we intend to do it in a way that is as cost-effective as possible for British electricity consumers.

Q253 Helen Goodman: Do you have any forecast or any scenario setting out how you think that the environmental objectives will be achieved on your new policy framework?

Mr Osborne: Yes. I am happy to send you some analysis. If you take the renewable levy, which we scrapped, one-third of the costs of that were going to overseas electricity generators. If you look at the Conservative commitment in the election, it was that we would meet our international obligations, but we do so in the most cost effective way possible, and that is certainly what I am doing.

Q254 Helen Goodman: It seems that shareholders in Drax did not agree with the assessment you made, because the Drax share price fell by 28%. Do you think it would have

fallen by 28% if they felt that the measures that you had taken were not going to impact adversely on the quantity of renewables that they could be producing?

Mr Osborne: Inevitably, when you raise taxes, and we saw this with some of the banking sector, there is the risk of an impact on share prices, but that does not make it the wrong thing to do.

Q255 Helen Goodman: Did you discuss the Budget measures, before you made your announcement, with the Secretary of State?

Mr Osborne: She was certainly aware of the decision we were taking and we worked with the department on that tax.

Q256 Helen Goodman: : It would be very nice to see the scenarios that you have mentioned, and if you could send those to the Committee that would be really excellent.

I just want to flick back with one question, following up on the questions that Bill Esterson was asking about student finance. You have been very strong on rebalancing the British economy, and for you, as far as I understand it, that has an element that is about regional economic growth and development, but it is also about ensuring that we are not so reliant on the city and that we have strong manufacturing. What I have observed in my constituency, which also has quite a lot of manufacturing, is that, increasingly, the people running factories are Europeans who have come, who are extremely well educated, and they often started off in life as engineers and then they have received an MBA. I am wondering how, if a first degree is going to leave people with debt of £50,000, you think that people are going to be able to afford to do these important management jobs in British manufacturing?

Mr Osborne: I think you are right to identify a challenge of how we further improve the quality of management. In the Budget there was a specific commitment to work with industry, with someone called Sir Charlie Mayfield who runs John Lewis, but also people who run British Aerospace and Glaxo, and others, to look at what we can do to improve management practices in the UK. I think a whole range of policies from the support I have given to master's degrees in previous Budgets that were not previously supported by student loans, to the work we are doing now to further build the higher education sector, will all help. But you are right to identify that the skills challenge is one felt across the economy.

Q257 Helen Goodman: Chancellor, what I am asking you is whether, if people end up with very high levels of debt, given also the high cost of housing, they are not ineluctably drawn, one might say forced, into those very highly paid city jobs that are taking a disproportionate quantity of the talent of British young people?

Mr Osborne: I do not accept that. I agree with the broader point that pay levels in the financial sector seem very much higher than pay sectors in other parts of our economy,

and that is a broader challenge, but I think when we are looking at university graduates, all the evidence is that university graduates—and of course we have now had many years of experience of people paying student loans, it is still overwhelmingly the right decision for people if they are able to go to university, if they have the grades to do so and that the system we have is progressive and fair, and—

Q258 Helen Goodman: It is progressive?

Mr Osborne: Yes, absolutely it is progressive.

Helen Goodman: Why do you think it is progressive?

Mr Osborne: Because instead of going to your constituency and taking the lowest paid people in your constituency and asking them to pay taxes so that they can fund the grant of someone going to a university who is going to then earn a lot more than they are, I am saying why not ask that person who is potentially going to earn a lot more to take out a loan? If they do earn a lot more then they will pay back the Government. If they do not, they do not. But I think those who argue for the abolition of student loans—and indeed this argument will now be extended into grants—are proposing one of the most regressive policies, anti-progressive policies, which is why the previous Labour Government and this Conservative Government are continuing in this direction.

Helen Goodman: I think that when you talk about people earning a very great deal, we do need to think about what kind of salaries people are getting in industry when they first join with these large debts. I think it is worth a pause for thought. You have described your view. Thank you very much.

Q259 Chair: Chancellor, just to clarify these earlier exchanges on the distributional analysis, you are saying you are going to provide us with the distributional analysis on the same basis as they were done in the previous Budget, and present them—

Mr Osborne: I have certainly seen distributional analysis in the preparation of the Budget, as you might expect, that was similar to that produced in previous Budgets, which was one of the reasons that, as you might expect, it was not readied for publication but I can get it, I can produce it ready for publication. But what I am not prepared to commit to is going on producing this analysis for future Budgets and future fiscal events. I think this is a much better approach. I also think once we have passed beyond 2015, it is incredibly difficult to make that analysis.

Q260 Chair: That is an issue that we can come back to. I just want clarification on what you are going to provide the Committee with, which is the distributional analysis on the basis set out in the previous Budget for this Budget's changes? Is that correct?

Mr Osborne: The quintile analysis we did is the one I have seen in the advice that was presented.

Q261 Chair: Just to be clear, what this Committee is asking of you is the distributional analysis that you did for the last Budget, applied to this Budget.

Mr Osborne: Yes.

Chair: Good.

Mr Osborne: I have the non-future ones.

Q262 Chair: I think we heard that. I do not know whether anybody missed it, but if they did please remember to pick it up now.

One further area I want to raise with you, Chancellor, is how well do you think the pensions guidance is working as a signpost to regulated advice to those that need it?

Mr Osborne: I think it is working pretty well. The customer feedback has been that there have been very high levels of satisfaction. I think over 90% of people who have used the service have been satisfied. I think the consumer groups who were very involved in designing the guidance have been very appreciative of it and said good things about it. In fact, one of the things we are looking at at the moment is whether we can extend the advice to people of slightly younger ages. We constrained it to begin with because of the surge of people who might make use of the new freedoms, but we can now make the advice more broadly available.

Q263 Chair: Do you think there is enough capacity in the regulated advice industry to deal with the consumers who need this advice?

Mr Osborne: Yes. I think, inevitably, when you have a big piece of deregulation like this there are going to be new products that emerge, new services emerge. One of the great things about believing in free markets is that Government Ministers cannot predict all the things that are going to arise out of the private sector in terms of innovation and good customer service.

Q264 Chair: One last question: why was the Treasury put in the lead for all this work?

Mr Osborne: Because the pensions reforms were essentially tax changes. There were elements of pensions regulation, but they primarily involved the removal of punitive tax charges for exits from pensions. So, it had been a Treasury lead, although I worked with the then Pensions Minister on it. In fact, although it was a Treasury lead, he sat in all the key meetings I had, so it was really a joint effort, but led by the Treasury.

Chair: That is extremely helpful. As you know, the Committee has taken a great interest in the pensions guidance and probably will continue to do so. I did not want you to leave this hearing thinking that—

Mr Osborne: It is possible that we will not remain in the lead in providing this guidance, going forward, but that is one of those issues for—

Chair: That is fine. We might come back to that, as well. Thank you very much for coming this afternoon; it has been extremely interesting, with a lot of subjects covered, and we are very grateful.

Mr Osborne: Can I also take this opportunity? Mr Bowler is no longer going to be the Director of the Budget. He has produced five Budgets and done a fantastic job. He has been promoted to be Director-General for Taxation and Welfare in the Treasury, and I want to put on record my thanks to him.

James Bowler: Thank you very much.

Chair: Well done, Mr Bowler.