

Treasury Committee

Oral evidence: The Work of the Chancellor of the Exchequer, HC 424

Wednesday 11 October 2017

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Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Mr Alister Jack; Kit Malthouse; John Mann; Alison McGovern; Catherine McKinnell; Wes Streeting.

Questions 1-106

Witnesses

I: The Rt Hon. Mr Philip Hammond MP, Chancellor of the Exchequer, and Katharine Braddick, Director General, Financial Services, HM Treasury.

Examination of witnesses

Witnesses: Mr Philip Hammond and Katharine Braddick.

Q1 Chair: Good morning, Chancellor and Katharine Braddick. Thank you very much indeed for coming in this morning. I hope this is the start of a long and fruitful relationship between the Committee and the Treasury over the course of this Parliament.

We have a number of questions for you. I know that we are going to be seeing you later on this Session—before Christmas, around the Budget—so we are going to avoid Budget questions for now. We will return to those later.

Mr Hammond, can I start with the IMF figures that were published yesterday—the growth forecasts for the world economy but also for the UK? Growth is forecast to slow in the UK; the figures were revised slightly downwards for 2017 and 2018. I wonder what your view is on those figures.

Mr Philip Hammond: The IMF report yesterday showed the UK figures for '17 and '18 unchanged from its July report. It is true that that is against a backdrop of increases that were posted for many other countries around the world. I think it reflects the sense that, while the UK's economy is fundamentally strong and in good shape, we are being affected by uncertainty around the negotiation process that we are engaged in at the moment. There is plenty of anecdotal evidence that business and consumers are waiting to see what the outcome is, or at least what the direction of travel is, before firming up investment and consumption decisions.

My general view of our economy is that it is fundamentally robust. We have some very positive things going for us, so there is a strong outlook for the future, but the cloud of uncertainty is acting as a temporary damper, and we need to remove it as soon as possible by making progress with the negotiation process.

Q2 Chair: What about productivity? UK productivity has grown by an average of 0.4% a year since the recovery began in 2009, which is a fraction of the 2.2% a year norm that prevailed before the financial crisis. Why do you think that productivity has consistently failed to recover in the last eight years?

Mr Philip Hammond: Well, that is a conundrum that many people have addressed, and I do not think that I have the magic-bullet answer. The OBR obviously has spent a number of years hoping and predicting that we will return to trend at a point, and it appeared to signal in its report yesterday that it thinks that we may have to look at a different path back to productivity growth.

Obviously, the UK is an outlier among many of its comparator economies, in terms of its jobs performance since 2010; we have had enormous



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increases in employment and we have seen very low rates of unemployment. There will almost certainly be a productivity price to pay for that, and of course there are persistent questions about measurement around productivity in an economy that is dominated by services in the way that the UK economy is, but I do not think that either of those things are going to prove to be the whole of the answer.

We do have a fundamental underlying problem about productivity growth in the UK economy. There are a number of drivers of this. Our public sector infrastructure is less developed than many of our comparator economies. Private business is not forming capital at a fast enough rate. We would like to see much higher levels of private sector capital formation, and hopefully we shall address the availability of long-term capital for the growth of businesses through the patient capital review, which will report back before the Budget.

We have got a skills gap in the UK, which I think we have started to tackle with the significant growth in apprenticeships and hopefully a rebalancing of the way that people look at the opportunities for post-16 education, so that apprenticeships and vocational routes are increasingly seen as having parity of esteem with traditional higher education routes.

The changes I announced in the Budget in the spring around technical education included a big increase in the number of teaching and contact hours, bringing us into line with the practice in the US and Germany, two countries where, I think we would acknowledge, technical education has been superior to our own performance for many years. So, I think we are getting to grips with some of these things.

The UK-distinctive issue is regional disparity. I have no doubt in my mind that the staggering disparity between regional productivity performance is a major drag on the UK economy overall. It is also a major social issue for us in the UK. There is no other developed economy that has such a large productivity performance gap between its capital city and its second and third cities. Clearly, harnessing the potential of the extended urban conurbations in the north, the midlands and potentially elsewhere in the country is going to be key to driving up productivity performance and closing the gap between the regions.

Again, I don't think there is a single silver bullet. I would say this about productivity: it is a double-edged sword. Of course, we need to improve our productivity performance. Once we have identified the key that will do that, the fact that we have a big gap in productivity can become a source of strength for our economy and source of potential growth over the many years that it will take to close the gap with our competitors, as we move resources from less productive activities to more productive activities across our economy.

Q3 Chair: Lots to think about there. We could talk about productivity, and I'm sure the Committee will return to that, but you mentioned at the start of your first response the Brexit negotiations, and I want to turn to that now, and, in particular, the Prime Minister's signal in responses to



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her statement on Monday about the no-deal preparations; the coverage in the newspapers today; and your article in the *The Times*. In it, you say that you “need to ensure that we are prepared for all outcomes, including a no-deal scenario. The Government and the Treasury are prepared. We are planning for every outcome and we will find any necessary funding and we will only spend it when it is responsible to do so.”

I would like to understand more about the Treasury’s preparations. I would like to know how the Treasury is preparing, how it considers it is prepared and at what point it is going to disclose to the public and this sovereign Parliament how it is preparing for something such as a no-deal scenario.

Mr Philip Hammond: First of all, I am glad you have asked me this question, because I wrote the piece in *The Times* this morning to emphasise that we are prepared to spend when we need to spend against the contingency of a no-deal outcome. I am rather surprised to see it written up as the opposite.

The point I make in the article is that we do have planning for all scenarios, including a no-deal scenario. I am committed to funding Departments for the work they need to do in preparation, and we have already allocated £250 million to Departments from the reserve. But there will be points of decision where it will be necessary to make go or no go decisions around future programme spending to be ready on day one. I am clear that we have to be prepared for a no-deal scenario, unless and until we have clear evidence that that is not where we will end up. At the moment, although we of course hope for a different outcome, we cannot be certain of it.

I am not proposing to allocate funds to Departments in advance of the need to spend. We should look in each area at the last point at which spending can begin to ensure that we are ready for day one of a no-deal scenario. That is when we should start spending hard-earned taxpayers’ money. Every pound we spend on contingent preparations for a hard customs border is a pound that we can’t spend on the NHS, social care, education or deficit reduction. I don’t believe that we should be in the business of making potentially nugatory expenditure until the very last moment, when we need to do so. We will be ready—we will spend the money in a timely fashion to ensure that we are ready—but we will not spend it earlier than necessary just to make some demonstration point.

Q4 **Chair:** You mentioned a figure of £250 million that has already been allocated. Has the Treasury done a broader assessment of how much it would have to spend in the event of a no-deal scenario, and how much money could not be spent on other things, as you have already identified? Are you saying that the Treasury is expecting to have to reopen the 2015 Departmental spending reviews?

Mr Philip Hammond: On the last point, no, because the money that is required to be expended against the contingency of a no-deal scenario will come from the reserve, so we will not reopen departmental spending settlements. In terms of quantum, it is a moveable feast. Obviously, one



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can plan for the most extreme scenario. Let me give you an example: it is theoretically conceivable that, in a no-deal scenario, no air traffic will move between the UK and the European Union on 29 March 2019. However, I don't think anybody seriously believes that that is where we will get to.

There are a range of outcomes, and at a point in time we will need to determine what a realistic worst-case scenario that we need to plan and invest for is. On that specific point, it is very clear that mutual self-interest means that, even if talks break down and there is no deal, there will be a strong compulsion on both sides to reach agreement on an air traffic services arrangement.

- Q5 **Chair:** Has the Treasury conducted assessments, and are there copies of documents that set out the numbers that, in different scenarios, could have to be spent by Government Departments? If so, when does the Treasury plan to publish those assessments, and will they publish them to the Committee?

Mr Philip Hammond: The Treasury has no plans to publish any documents at the moment. The Treasury is directly responsible for the work that is going on in HMRC's field: the customs border, preparation for management of the customs border, infrastructure, IT systems, recruitment and training, and engagement with the logistics and freight forwarding industry to work with them and update their systems. However, it is too early at the moment to put a specific figure on the investments that would need to be made. Obviously, this is a process of refinement that is going on all the time.

- Q6 **Chair:** Thank you. I know colleagues are going to come back on other Europe issues, which will not surprise you. I want to ask you about something very specific on a different topic before we get there, which is economic crime. The Thames Valley police and crime commissioner, Anthony Stansfeld, has expressed concern following the recent HBOS Reading fraud trial that such investigations are too large for local police forces; the £7 million cost to that force has not been repaid. Does the Treasury have plans to work with the Home Office to consider how better to fund complex fraud cases that may be too large for individual police forces to investigate, but too small for the SFO to take on?

Mr Philip Hammond: Yes. In fact, I do not think I am giving away state secrets by saying that we are having a cross-Government meeting this afternoon to talk about economic crime. There is an issue here that we need to look at. Of course, it involves not only the SFO but the National Crime Agency, as well as the Home Office and the Treasury. There are two points here: one is scale and the other is jurisdiction, because economic crime is often conducted in the ether, and it is not necessarily obvious which police authority should lead on dealing with it. There are a series of perfectly sensible questions here that need to be addressed, and we are addressing them.

- Q7 **Chair:** In that case, when a specific amount of money has been incurred



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by a police force, could FCA fines be used to reimburse that police force for the amount that they have had to spend?

Mr Philip Hammond: Not directly, I think; the route of reimbursement would be via the Home Office, and I don't think the Home Office has access to FCA fine income. However, we are acutely aware that economic crime is a growing area, and an area—like so many others, such as digital and online crime—that challenges our conventional structures, and the sort of silo system that we have in place for dealing not just with crime but with many aspects of government and everyday life that don't neatly accommodate the digital age.

Q8 **Chair:** Would you write to the Committee after the meeting this afternoon, when some decisions have been taken about the tackling of economic crime?

Mr Philip Hammond: Yes. I am not clear that the meeting this afternoon will reach a definitive decision, but I am certainly happy to write to you to update you after the meeting.

Chair: Thank you very much. I am going to turn to Stewart, who will talk about the Financial Policy Committee.

Q9 **Stewart Hosie:** Good morning, Chancellor. It is now 10 years since Northern Rock collapsed, which marked the start of the financial crisis. A number of structural changes were made to the way that regulation and supervision take place, one of which was the introduction of the FPC. How important do you see the role of the FPC being in ensuring that we don't have another systemic, macro-prudential crisis as a result of something like Northern Rock?

Mr Philip Hammond: It is obviously an important part of the architecture that has been put in place, post-crisis. I think all of us would have to acknowledge that the history of the world is that we always put in place structures that are very good at avoiding the last crisis that we faced. The challenge is to try to make them flexible enough to be able to spot and deal with emerging areas of risk that are not similar to those we have seen in previous stress periods.

Q10 **Stewart Hosie:** Obviously, depending on how Brexit pans out and how good or how bad the outcome is, it would also be sensible, I hope you would expect, for the FPC to keep a weather eye on any macro-prudential systemic risk that could emanate.

Mr Philip Hammond: Yes, indeed. That would be part of the FPC's role.

Q11 **Stewart Hosie:** In which case, we would obviously expect it to function properly, so why has an external position on that committee been allowed to be vacant for almost a year?

Mr Philip Hammond: I think the answer to that question is that the original process of seeking to appoint did not yield a candidate of the appropriate calibre who met all the requirements of the committee. The nature of the committee requires candidates who have no other outside financial interests, which somewhat limits the field. We are looking for

people of international calibre. The process of appointment is now ongoing, and we hope that there will be an announcement in due course.

Q12 Stewart Hosie: Do you think that the criteria are too onerous?

Mr Philip Hammond: No, I do not think the criteria are too robust. It is clear that, in a role like this, it would be very difficult for somebody who had another active role in the financial services industry to perform this role properly, so I think it is right that we have rigorous criteria around conflict of interest. But let's be honest, we pay a public sector-type remuneration, we require people to have no other interests in this area and we are looking for people of international calibre. That is quite a challenging set of selection criteria. We do have candidates who, on the face of it, meet those criteria in the current process, so I am optimistic that we will be able to appoint.

Q13 Stewart Hosie: For the sake of completeness, it might be worth reminding ourselves that that public sector-type pay is £93,000 a year for 23 days a quarter of work—a full-time equivalent salary of approaching £400,000. It is not as though we are expecting someone to do this for a few thousand pounds—

Mr Philip Hammond: No, but to be clear, the point is that we cannot appoint someone who works 23 days in this field and then earns a large amount in a financial services role somewhere else. That would not be appropriate, and that's our challenge.

Q14 Stewart Hosie: I agree 100%. Moving on, but still on the FPC, in evidence to this Committee in 2015, Alex Brazier from the Bank of England, who has responsibility for financial stability, said that, "General public knowledge of the FPC and its role is not high. And yet the FPC's actions can have direct and indirect consequences for the public. I believe it to be vital for the long-term legitimacy of the Committee that public understanding" of its work "be increased." Are you content with the FPC's public profile and the public's understanding of its work?

Mr Philip Hammond: I have to say that I do not think the public has a high understanding of the FPC's role. In fact, I suspect that many of our parliamentary colleagues do not necessarily have a deep understanding of the FPC's role. So I agree that that has not been addressed since 2015.

Q15 Stewart Hosie: Indeed, and I would agree with that. One of the key ways in which public understanding of the FPC's work would be enhanced, in the same way as happens with the MPC, is for the external members of the committee to make more speeches. But in recent times there have only been two speeches by any external member, both by Don Kohn, compared with substantially more from the fewer independent members of the MPC. What can be done to encourage the FPC to say more and to explain their important role?

Mr Philip Hammond: FPC is in a slightly different role from MPC. We do not in any way control speeches that are made by members of those committees, so I do not think that it is properly a role for the Treasury to



seek either to stimulate or to suppress comment by independent members of the committees.

- Q16 **Stewart Hosie:** At face value that sounds fine, but in the remit and recommendations for the FPC on 8 March this year the Treasury said that recognising the requirement imposed by various bits of legislation “to achieve consensus wherever possible, communication by individual members regarding FPC decisions needs to be co-ordinated and consistent where decisions are reached by consensus.” Given the FPC can reach decisions by vote, and not by consensus, that appears to be an explicit instruction not to speak out unless a decision was reached by consensus or by unanimity.

Mr Philip Hammond: That’s talking specifically about FPC decisions.

Stewart Hosie: Yes indeed.

Mr Philip Hammond: And I think that what it is doing is announcing a doctrine of collective responsibility for the decisions made by the committee. Clearly, if committee members were to speak out separately against decisions made by the committee, that would put those decisions in a different context.

- Q17 **Stewart Hosie:** I don’t think anyone would suggest they should speak out against decisions once they are taken, but certainly their assessment of the potential risks that the economy faces and how they see that, in the way that MPC members do, is something that I hope and expect you and the Treasury would support.

Mr Philip Hammond: I interpret the words that you have just read out from the remit to refer to decisions that have been taken by the FPC. That was how I interpreted those words.

Stewart Hosie: Then perhaps, hopefully, what you have said today might open the door and allow a flourishing of communication from the FPC.

- Q18 **Wes Streeting:** Good morning, Chancellor. In recent weeks, there has been no shortage, in the newspapers or on the airwaves, of different—often competing—views among parliamentarians about what we want to see from the Brexit process. However, I thought this morning we might begin by talking about what business needs from the process in order to protect jobs and strengthen our economy.

I have been very struck, when talking to a wide variety of sector leaders about what they need, by the fact that although they have different priorities and concerns, there is one overriding message: the importance of certainty, and the importance of certainty through transition. Multi-channel broadcasting, worth £5 billion a year, relies on certainty around country-of-origin principles for licensing. In aviation, concerns have been expressed by airlines and by places like Heathrow, our biggest freight port. The hospitality industry is concerned about the labour market consequences and the chilling effect that we are already seeing, with staff returning to the continent. There is a double impact on businesses who source ingredients in the UK and therefore face workforce challenges at



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both the farm and the tills. There is a real demand for certainty, as soon as possible, about what a transitional period would look like.

The secondary message that comes across is the importance not just of certainty through transition, but of certainty very soon. I have been struck by concerns from the manufacturing industry, particularly those with cross-border supply chains, that they have to start making pretty important decisions by the end of 2017. Banks and financial services institutions will be making similarly important and irreversible decisions in the first quarter of 2018. Are those concerns and messages that you think are well understood across Government? What reassurances are you able to offer this morning that a deal on transition can be agreed before firms start making irreversible decisions in preparation for a no-deal scenario?

Mr Philip Hammond: First, I think you have correctly identified the key concern of business, which is for certainty. Obviously, what business would prefer to have is certainty about a future arrangement that meets its long-term requirements, but the very strong message I get is that certainty itself is of enormous value. Probably more important than getting the perfect outcome is getting certainty about the future environment in which firms will trade. Firms trading goods and components through supply chains with the European Union have one set of challenges. Firms in the service sector, where international norms for trade practice are less well developed, have a different set of concerns, but all of them want certainty as soon as possible.

A lot of the focus has been on financial services and the possible needs of financial service businesses to establish locations within the EU 27, but you are right also to point out that in many industrial sectors, supply chain contracts typically operate on a three-year forward basis. As those contracts fall for renewal, businesses need to know what the environment will be for cross-border trading and for cross-border supply chains.

I absolutely agree with your analysis. There is a complete understanding of that across Government. There is also a lot of discussion across Government of the merits of having an interim period during which the existing arrangements will continue, in order to give business a longer period to adjust and to avoid people having to make worst-case assumptions and acting on them in a way that would be damaging to their businesses, damaging to the UK economy, damaging to their business partners in other countries of the European Union and damaging to the EU's economy as a whole. We think an interim period is in everybody's interest. It will also, potentially, avoid very large amounts of public spending, both in the UK and in neighbouring countries, around investment that might prove to be nugatory, depending on the eventual outcome of the discussions.

What chance do I ascribe to achieving an interim period agreement? In my discussions with counterparts across the European Union, I find a high degree of consensus that it is a sensible and practical thing to do. The Prime Minister made a very clear proposal in the Florence speech—the first



time that the British Government had officially set out an interim period transition process as being official UK Government policy—and we expect a response from our European Union partners. As I said in the piece I wrote in *The Times* this morning, we have set out a fair and generous proposal to the European Union. What we want to do now—we don't want them to immediately jump up and say, "We agree with everything you're proposing"; we simply want them to say, "Yes, let's sit round a table and let's look at the issues that we will need to debate in order to get to a future partnership agreement via a transition or interim period." In many areas, like financial services and future financial services frameworks, the only work that has been done so far has come from the UK. We need our European partners to engage with us, look at our proposals and—as I said this morning—by all means challenge them, kick the tyres, but this is a shared problem and if we don't talk about it, we are not going to get to a solution on a timescale that allows that future partnership that I believe the vast majority of our European partners want to achieve.

- Q19 **Wes Streeting:** On timescale, how quickly do you think we can achieve the outlines of a transitional deal, bearing in mind that some people will be making decisions before Christmas?

Mr Philip Hammond: The proposal that we have put to the European Union calls for a rapid response. It means breaking out of the structure of the negotiation that has been imposed by the European Commission and allowing at least exploratory discussions around what a transition might look like, what a future partnership agreement might look like, because we believe—and I think it is the case that the EU 27 negotiating team also now believes—that the only way we will settle the so-called phase 1 issues is to set them in a broader context of the UK's future relationship with the European Union. I will say one further thing. It is self-evident to me, and I think it will be to members of the Committee, that a transition arrangement is a wasting asset. It has a value today; it will still have a very high value at Christmas and early in the New Year. But as we move through 2018, its value to everybody will diminish significantly. Our European partners need to think very carefully about the need for speed in order to protect the potential value to all of us of having an interim period that protects our businesses and our citizens and allows investment and normal business activity, contracting and so on, to carry on.

Wes Streeting: I am not sure how reassuring people listening to this exchange, or reading it back afterwards, will find that, in terms of those people having to make real-time decisions between now and Christmas and into the first quarter of next year. To get some sense of the synergy between the Government's position and the position set out by the Council's negotiating directives, the Prime Minister said on Monday that the framework for transition "would be the existing structure of EU rules and regulations". The Council's negotiating directives make reference to a "time-limited prolongation of Union acquis", which is the continuation of all the existing rules. Are these positions one and the same?

Mr Philip Hammond: I think they are broadly the same. The Prime Minister is clear that in order to do this, and do it on the timescale



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required, the starting point has to be the existing structure. There will be some areas where we want to explore with the European Union how we can create flexibility to allow us during the interim period to do some of the things we need to be doing in order to be prepared for what follows, including, for example, ensuring that we have the ability to negotiate, agree but not implement, potential trade deals with other parties. But I would like to assure you that I think we have a quite refined understanding of where the decision points are for industry, particularly in financial services, where Katharine is in literally daily contact with key players in the industry and where we maintain a pretty comprehensive record of decision points that are upcoming and work with players in the industry to try to avoid decisions that are predicated on a worst-case scenario being made earlier than they need to. We are actively managing that. I don't know if you want to say something about that, Katharine.

Katharine Braddick: In the financial services sector, the firms that are progressing their relocation planning most urgently, as I'm sure you know, are international banks that use the UK to serve their EU clients. Those firms have been planning for some time and have a timescale. They have had a number of decision points about progressing those plans, but they harden or become more certain at the point at which they start to alter contractual paperwork with clients.

For most of the firms that we talk to, that will fall at some point in the first quarter of next year. As you will be aware, the industry has been talking in public and to the Government for most of the past year about a transition period. Apart from anything else, what they want is to have longer to see where the deal is likely to emerge, so that they can understand that they are planning for a likely outcome and not spending money and inconveniencing clients in a way that turns out to be unnecessary.

Q20 Wes Streeting: Finally—because I am conscious of time and Stephen Hammond is going to come in on financial services—I think it is fair to ask, Chancellor, the extent to which you are speaking for the Government on some of these key issues.

Particularly on financial services, the message we receive is that they have a great deal of confidence in the Treasury and, no doubt based on the interactions they have on a daily basis, that the Treasury understands these issues and that its position is sensible. But they read the newspapers and find a whole series of contradictory statements, not made by members of the governing party but made by members of the Cabinet.

Is it the Government's position to aim for status quo or for a bespoke arrangement around transition? We have heard contradictory things. Is it the Government's position that we want the transition to function under the existing structure of EU rules and regulations or not? Because we have heard contradictory statements within the Cabinet.

Is it the case that we do not want to see, effectively, two rounds of changes to a bespoke arrangement? I think you and the Prime Minister have said one thing, but senior members of the Government have said



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something else. In the context of these contradictory statements, do you think it is helpful or harmful to the UK's national interests to have contradictory and competing statements made by members of the Cabinet around issues that are fundamental to securing a good transition and long-term deal?

Mr Philip Hammond: I am not sure I recognise the picture you are painting.

Wes Streeting: People say you're gloomy—I don't understand why.

Mr Philip Hammond: Clearly, there has been a debate and a discussion but we have come to a clear position. It was set out in the Florence speech. All members of the Cabinet agreed the text of the Florence speech before it was delivered. All members of the Cabinet agree with what the Prime Minister set out there.

As the Prime Minister made clear in her statement on Monday, we accept that, during an interim period, the framework that governs that period will be the existing framework—necessarily so. That does not mean that we cannot seek to negotiate individual and specific flexibilities around that. I would expect, from informal discussions, that our EU partners would be flexible around pragmatic issues such as our need to be able to get on with negotiating third-country trade deals.

That is not something that in any way will impinge upon the operation of our arrangements with the European Union during the interim period. So I am confident that we will be able to have a perfectly pragmatic discussion about that. But the Prime Minister answered on Monday all of the questions that you posed there. She speaks for the Cabinet and the Government and we are all supportive of that position.

Chair: Charlie, is there anything else you want to add on transition before we go to financial services?

Q21 **Charlie Elphicke:** Yes. Good morning, Chancellor. You have written in *The Times* today about how uncertainty is our enemy. Wes has been making the point that businesses need certainty and clarity. What is your message to business in terms of the start date and end date of the transitional arrangements?

Mr Philip Hammond: The start date of the transition period will be 29 March 2019; that is clear. What the Prime Minister said at Florence is that we believe that the appropriate period of time for an interim period would be around two years. That will be a subject of negotiation, of course, with the European Union. It will also be a subject of further analysis on our part relating to the technical requirements to put in place appropriate arrangements during that interim period. Clearly, it cannot be flexible in any sense at the point at which it is agreed. Around two years gives us some flex. At the point at which an arrangement is agreed with the European Union, I would expect it to have a specific and fixed end date.

Q22 **Charlie Elphicke:** What do you think the end state looks like? Is it as

close to the status quo as possible, or is it something else?

Mr Philip Hammond: Beyond the interim period?

Charlie Elphicke: Yes.

Mr Philip Hammond: That is the point of the negotiations, which we have not yet been able to begin. Astonishingly, the most important question—what is our long-term relationship with the European Union going to look like?—has not yet even begun to be discussed.

The state of play is that the United Kingdom set out in the Lancaster House speech, our article 50 letter and the Florence speech our ambitions for a deep and comprehensive partnership across security and economic relations with the European Union, and we have published 14 detailed papers in support of that position. We are working on financial services frameworks to allow our most important services industry to continue to trade across borders, while recognising the legitimate concerns that eurozone governance organisations will have about a large part of their financial services market being outside their legal jurisdiction.

We have made the running in this, and we really need our European Union partners to engage. It is quite a small ask, really. All we are saying is, “Let’s sit down round a table and have a chat.” We are not asking them to sign up or to write blank cheques; we are simply asking them to start talking to us. We are friends, and we hope to remain so in a comprehensive partnership arrangement, but when friends have an issue to resolve, they sit down and talk about it. I think people in this country are finding it increasingly difficult to understand why we can’t start talking about the substance of our future relationship.

Q23 **Charlie Elphicke:** In *The Times* today, you write that you will release funding only when it is responsible to do so. You said earlier that it is not a demonstration point. Can you explain further what you mean by that? In what circumstances do you envisage that it would be responsible to spend funds preparing for a no deal?

Mr Philip Hammond: The point I was making is that some are urging me to spend money simply to send a message to the EU that we mean business. I think the EU knows that we mean business. It knows that we are planning for a no-deal scenario, and that we have to do that.

In terms of when we start spending money on programme expenditure relating to a no-deal exit, where that is uniquely required in a no-deal scenario—some of it will need to be spent anyway—we need to work backwards from 29 March 2019 and identify where we need to make the commitment decision in order to deliver on time, but not commit public funds on a potentially abortive basis before we need to do so. By the way, that is the same principle we use in all public spending decisions. When we are at a point at which we need new infrastructure or new facilities to be in place, we would expect not to make the commitment of public funds any earlier than is absolutely necessary, because to do so risks wasting precious public money.



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- Q24 **Charlie Elphicke:** Can I put it to you, then, that uncertainty is our enemy but resilience is our friend? Why wouldn't we want to have world-class, cutting edge—the best possible—customs systems, border systems, infrastructure and roads to the border, particularly as so much of that investment has been needed for many years? I know that, as I represent Dover, which is a major port. Why don't we make that investment, which we need anyway? That would put us in a really great position, deal or no deal.

Mr Philip Hammond: It's not investment that we need anyway. That is the point. The investment we are talking about is not generic; it is specific to the outcome. For example, if we agree with the European Union what we described in our customs discussion paper as the maximum facilitation model for the customs border, that will require a certain type of infrastructure and certain IT investments. If we have no agreement with the European Union and we operate a WTO-terms, terms, hard customs border of the type that we would expect to operate with a third country, we will need different facilities and arrangements in place.

Chair: Let's come back to customs in a moment.

- Q25 **Charlie Elphicke:** There is one final question on this section, and then we will come back to customs. How do you think Britain will be better off after Brexit?

Mr Philip Hammond: Once we are no longer inside the European Union, we will be free, obviously, from the constraints of compliance with European Union law; we will be free to make our own decisions.

No country in the modern world—unless you are North Korea—is entirely immune from what is going on in other countries around it. Clearly, all decisions we make will have consequences for our relationships with other countries, so it is not as simple as saying that the UK will be completely free to make its own decisions; of course it will, but all of those decisions will have consequences. I would hope that once we have that freedom to make our own decisions, we will exercise that freedom in a way that maximises the interests of the British people and protects our jobs, our businesses and our prosperity for the future.

Chair: Stephen.

Stephen Hammond: Chancellor, good morning.

Mr Philip Hammond: Good morning.

- Q26 **Stephen Hammond:** On several occasions—including, most recently, in June and last month—you have made the case that protectionist agendas in the EU are being disguised as arguments about financial stability. Were you thinking particularly about what the Governor of the Bank of France said about euro clearing, or were there other things that came to your mind?

Mr Philip Hammond: I would not want to single out any individual. I think I was trying to make two points. First of all, in relation to financial



services, we do accept that for the eurozone, its predominant financial services centre being outside its legal jurisdiction presents some challenges, and we will have to work with our EU partners to construct governance supervision frameworks that allow them to be comfortable about those arrangements, to demonstrate that it is possible to protect financial stability and protect their sovereign interests in the operation of the financial services system while still allowing the critical mass of financial services business in London to operate cross-border. We are prepared to engage on that basis and to work with the EU 27 to construct a framework that can allow that to happen, but what we cannot do is allow the blanket rubric of financial stability to act as a cover for what are blatantly protectionist proposals that are simply designed to grab bits of business from London and relocate them elsewhere because people think they would rather like the jobs and the tax yield.

- Q27 **Stephen Hammond:** Directly following on from that, you and the Governor have both made the case that fragmentation of financial services will be a cost not only to the City of London but to the EU. Is there any recognition of that across the capitals of Europe?

Mr Philip Hammond: A growing recognition. What you have to remember is that some of the sectors that we are talking about in wholesale financial services are quite esoteric and not necessarily well understood here, where financial services are a very major part of our economy. I can assure you that they are even less well understood by politicians and commentators in countries where financial services play a much smaller role in the economy.

An example is the issues around the location of CCPs. Very large numbers of people, certainly in the UK and across Europe, will not even be aware of the existence of CCPs. I think there has been a process over the last six months or so of gaining or growing awareness among political decision makers in Europe of some of these issues and of the impact of the financial services sector on the real economy. When we talk about transactions in the financial services sector, it does not ring many bells with people. When we remind them that there are real-world equivalents to all these derivative contracts, traded in the trillions of euros—they are about people's car loans, fixed-rate mortgages and crop insurance, and currency hedging risk for actual, real-world firms—they become rather more interested in them.

- Q28 **Stephen Hammond:** On people's cars, 70% of German metals are hedged through London, for instance, for car making. You have just said to Mr Elphicke that we will be free to make our own decisions, but with limitations. Do you accept that access to financial markets is going to be based on a regime of regulatory equivalence and mutual recognition?

Mr Philip Hammond: Bearing in mind that we have not yet had any negotiating sessions around this issue, most people in the sector accept that passporting is not going to be the future route—that some form of enhanced equivalence, within a framework that recognises international standards and gives businesses appropriate levels of certainty, is going to



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be the way forward. I make that last point because, as you will be well aware, the equivalence that the European Union offers to US financial services business is an asymmetric and unilaterally granted equivalence that can be withdrawn on very short notice and would not be a basis on which to operate a serious cross-border financial services business.

- Q29 **Stephen Hammond:** You bring me directly to my next two points. First, Chairman Giancarlo of the CFTC was in London recently making the exact point that at the moment, all the US regulatory authorities are looking to strip, descale and pull down the rule book in America. Would it be in our interests to have mutual recognition with America or the EU, in terms of an equivalence regime?

Mr Philip Hammond: Sorry, with—

- Q30 **Stephen Hammond:** The point is the Americans are potentially about to enter a period of regulatory arbitrage. Would we do better to align ourselves with the Americans, rather than the EU?

Mr Philip Hammond: If I may say so, that is speculation about what is going on in America. There is a debate.

- Q31 **Stephen Hammond:** The chairman said it widely and openly in London, including to your officials.

Mr Philip Hammond: I think there is a debate going on about the extent of deregulation in the US. I am going to the US later on today and look forward to a catch-up on that issue. Clearly, if the US gets out of alignment, that will be an additional complication for us to consider as we go forward.

- Q32 **Stephen Hammond:** On the basis of the evidence you have in front of you, would you prefer regulatory equivalence with the EU?

Mr Philip Hammond: I do not think the UK should sign up in principle to regulatory equivalence with country x, knowing that country x may change its regulatory framework in a way that is currently unpredictable. We would need to look at the regulatory environment.

What I would say is this. The UK taxpayer learned quite a hard lesson in 2008-09. In the name of competitiveness, or anything else, we are not going to expose the UK taxpayer to the kind of risks they were exposed to in 2008-09. A regulatory system is to be seen in not just the competitive context, but the protective context as well. Having a large financial services sector in the UK does require us to have a proper level of regulation that protects our taxpayers.

- Q33 **Stephen Hammond:** Indeed. That point is absolutely right, and it is obviously the primary objective of the PRA and FCA, but you have said that you accept that, in a post-Brexit world, we will need to look at whether some form of competition objective and oversight needs to be put into the objectives of the PRA and the FCA. Do you see any movement on that, and would it be necessary to put it in primary legislation?

Mr Philip Hammond: I think the FCA already has an obligation—

Stephen Hammond: It is secondary.

Mr Philip Hammond—to have regard to competitiveness, and to ensure that the regulatory system does not stifle competitors, particularly new businesses entering the sector, but of course financial stability must be the paramount consideration. There is a world of difference between ensuring that the regulatory environment allows a new, innovative small player to get into the market, and allowing large incumbent players to engage in risky behaviour.

Q34 **Stephen Hammond:** I am being told by the Chair that I have one minute left. Two quick questions. First, you made a point about passporting that I think is true, but you also made the point about London writing esoteric products. We could unilaterally offer an inbound passport for esoteric products, particularly in insurance, which would allow jobs to be protected—potentially 4,000 in London. Has the Treasury given any thought to that?

Mr Philip Hammond: The Treasury is looking at a wide range of options. Obviously, there are some things that we may be able to do unilaterally, and some things that will need to be part of a discussion with the European Union, assuming that our preferred outcome, which I believe it is, is to have an agreed framework with the European Union that allows cross-border financial services, particularly wholesale financial services, to continue.

Q35 **Stephen Hammond:** So you would accept that no deal is a sub-optimal end position for financial services?

Mr Philip Hammond: Absolutely, yes. No deal is a sub-optimal outcome. That doesn't mean that we don't have to plan and prepare for it.

Stephen Hammond: No, but it is a recognition that it is a sub-optimal outcome.

Chair: I am conscious of getting you on the Bench for 11.45, Chancellor. That means that everyone has to be short and pithy. Alison.

Q36 **Alison McGovern:** Thank you, Chair. You mentioned, Chancellor, that you think there is a low level of awareness of some of the issues that Stephen was just asking you about, but in your response to Charlie, I did not get a clear sense of how you think we will be better off. I put it to you that one way to get the public's attention on these issues might be to explain to them how the financial services sector, for example, will be better off after Brexit. How will financial services be better off after Brexit?

Mr Philip Hammond: It is a slightly hypothetical question, because of course we don't know what kind of deal we are going to negotiate with the European Union, and what the trade-offs will be between continued market access to the EU 27 and restrictions that we agree, because obviously there will need to be some regulatory alignment, particularly in a



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highly regulated area like financial services, in order to make that continued access possible. That will, in turn, determine the extent of our ambition elsewhere, beyond the European Union.

Q37 **Alison McGovern:** Okay. Just yes or no to this question—

Mr Philip Hammond: That's ambitious, if I may say so.

Chair: Short and pithy, given the tight timescale.

Alison McGovern: Has the Treasury conducted a full assessment of the costs and benefits?

Mr Philip Hammond: Of?

Alison McGovern: Of Brexit. Yes or no?

Mr Philip Hammond: The Treasury has conducted lots of assessments, lots of scenario plans—

Alison McGovern: So that's yes, in relation to financial services?

Mr Philip Hammond—but you have to make assumptions about what you mean by Brexit. Brexit can embrace a very wide range of outcomes, and obviously the economic analysis of those outcomes will depend on what assumptions you make about them.

Q38 **Alison McGovern:** Okay. That was a good economist's answer. You said that the only way we can tackle the initial issues that the European Union wants to deal with is to set them in the frame of the long-term plan. Again, a simple answer is all that's required: you disagree with the current structure of the negotiations that we are working to?

Mr Philip Hammond: The current structure was imposed by the European Union. We have never thought that it was going to be the best structure to get to a deal. I think the negotiators now recognise that, particularly in relation to budget and in relation to Ireland, we can only get to a final solution in the context of knowing what our future relationship will be, because it is intrinsically bound up with the solutions to the phase 1 questions.

Q39 **Alison McGovern:** Okay. We will come to Ireland properly in a second, but do you think the British Government could have done more to address those initial issues, to enable us to move on to the long-term future?

Mr Philip Hammond: We have made quite a lot of progress on Ireland, but the key issue in Ireland is around the operation of the border. We have made lots of progress on citizens' rights, the common travel area, the continuation of the peace programme, and so on, but on the key question of the operation of the border, this clearly has to be set in the context of knowing how the wider EU-UK border will operate in the future.

Q40 **Alison McGovern:** One final question, if I may, Chancellor: in response to colleagues, you discussed the challenge of getting future regulation



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right if we are to get any benefits from Brexit, or where we will need regulatory divergence from some of our competitors. Again, simple question, simple answer.

Mr Philip Hammond: There are few things that are simple in this process, I have to say.

Q41 **Alison McGovern:** Would you agree that there is a pay-off between potential risks in a future regulatory system and any potential benefits?

Mr Philip Hammond: There are always trade-offs. If you are prepared to take more risks, you can potentially harvest more benefits; I think that is generally true in any regulatory system. The challenge for regulators and legislators is to get the right point on the curve that adequately protects our interests through smart regulation but captures as many of the competitive opportunities as possible. Things go wrong when you move to the wrong point on the curve. You are either over-regulating, and your economy is suffering, or you are under-regulating, and you are taking risks that are unwise and inappropriate, of the type that we discovered in 2008.

Chair: Alister.

Q42 **Mr Jack:** Thank you, Chairman. Chancellor, you have mentioned the key issue being the border with Ireland, and the fact that the common travel area is probably not an issue; I would agree with that. The Government's stated objective is no physical infrastructure. How much importance do you attach to that?

Mr Philip Hammond: A great deal of importance. We have said that it is our clear objective—and it is shared with the EU and the Irish Government—to maintain the border broadly as it is now, with no physical infrastructure at all at the border. This is obviously in the context of Ireland's history, and the troubled history of the border region in particular.

Q43 **Mr Jack:** I think Ireland is the Achilles heel to no deal, if that makes sense, and moving forward on WTO terms. HMRC did tell this Committee that even number plate recognition systems would be a breach of the Government's objective. If you take the small business exemptions, and vehicles that are part of that crossing the border backwards and forwards, how does number plate recognition fit with no physical border?

Mr Philip Hammond: Number plate recognition requires cameras—not necessarily at the border, but it will certainly require cameras to be installed, and, as you know, the challenge in Ireland is that those who do not recognise the border will see any physical manifestation of the border as a legitimate target, and that infrastructure will need protecting. What we do not want to do is go back to the days when we had hard, protected infrastructure at the border, because that would undo much of the progress that has been made since the Good Friday agreement.

Ireland has a great deal of interest in the outcome of this, of course, because Ireland is not only affected by the operation of the border



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between Northern Ireland and the Republic of Ireland, but also the operation of the EU-UK border—the east-west border—because most Irish goods reach their export destination via two crossings of the UK border, not one. Therefore anything that imposes delay, bureaucracy and cost at the UK-EU border is going to have a very serious negative impact on the operation of the Irish economy.

- Q44 **Mr Jack:** I agree with that. So in the event that we have no deal and we are on WTO terms—I declare an interest here, in as much as the port of Cairnryan is in my constituency, but I also have farming interests. We do, from Dumfries and Galloway, move a lot of livestock through to Northern Ireland, and the Northern Irish have a big business sending meat to southern Ireland. Under WTO terms, there are two options, but the tariffs are, broadly, somewhere between 40% and 100%. I just wonder what consideration has been given to that by the Treasury in the Brexit negotiations.

Mr Philip Hammond: You are identifying the problem. On the island of Ireland, an integrated agri-food business has developed, which is extremely important for the economies of both Northern Ireland and the Republic. An integrated energy market has developed, which is not just important but literally essential for both Northern Ireland and the Republic of Ireland. The challenge is protecting this extensive pan-Ireland economy against the potential of a different regime operating in the north from the south as a result of Brexit. Put simply, that is our challenge.

Now, it is very easy to identify the difficulties in creating a solution to that. The point I have been making this morning is that, dependent on the context of our future relationship with the European Union as a whole, that problem becomes more or less difficult to resolve. There will be some challenges anyway, but if we, for example, agree structures with the European Union that allow a highly streamlined border to operate between the UK and the European Union, our starting point for dealing with the specific problems of the Northern Ireland border becomes that much more conducive to finding a positive outcome and solution.

Chair: Alison, you have a couple of questions on Ireland before we move to customs.

- Q45 **Alison McGovern:** I do. On this specific point, Chancellor, you said earlier that dealing with these initial issues needs to be seen in the context of the long-term plan. On that, the Government want no physical infrastructure at the border, correct?

Mr Philip Hammond: Yes.

- Q46 **Alison McGovern:** But we are also seeking divergent policies on both the movement of goods and people, which surely requires some sort of checks at the border, correct?

Mr Philip Hammond: On migration controls, that does not necessarily have to be done at the border. The UK operates a migration control regime at the moment. We do that without any hard infrastructure at the



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Northern Ireland-Republic of Ireland border. While we have free movement of nationals within the European Union, a person from a third country coming to the Republic of Ireland and entering the United Kingdom via the Northern Ireland land border is subject to UK immigration controls, but we do not have physical controls at the Northern Ireland border.

Q47 **Alison McGovern:** Okay. On goods, a divergent policy requires checks of some kind. That is correct, is it not?

Mr Philip Hammond: Not necessarily. For example, we have a different excise regime from the Republic of Ireland for cigarettes and alcohol. Those products traverse the border, and there is no physical infrastructure, but there is still a control regime. It does not operate at the border; it operates in a more dispersed way across the two economies.

Q48 **Alison McGovern:** Okay, but currently we have the umbrella of European Union rules and regulations.

Mr Philip Hammond: Yes, we do, so far as European Union regulations apply—so, tariffs on goods and common standards for goods. However, per the example I have just given, alcohol, tobacco and fuel duties are not harmonised between Northern Ireland and the Republic of Ireland, yet the system operates without hard infrastructure at the border. That has not happened by coincidence; it has happened because a huge amount of work and commitment on both sides of the border has gone into allowing us to have our separate policy-making space without the need for a hard infrastructure, and it works pretty well.

Q49 **Alison McGovern:** If that is the case, why have we not been able to resolve this issue, to allow the discussions on the long-term arrangements to move forward?

Mr Philip Hammond: We cannot get to a conclusion about how we will manage the Northern Ireland border until we know the context in which we will do it. If goods generally are able to move freely between the UK and the European Union, through a streamlined customs process, then there we will probably have our answer. We are not saying it is impossible to solve the problem; we are saying that solving this problem in isolation does not make sense. We need to know the context of the broader UK-European Union customs solution before we settle the details of the Northern Ireland-Republic of Ireland solution.

Q50 **Alison McGovern:** To pick up something specifically, you said earlier, when we are thinking about the potential new infrastructure we might require, that it is too early to press the button on spend. In the context of a no-deal situation, however, we would be talking about the end of the next financial year. From the point of view of infrastructure spend, that does not seem to me to be too early at all. Have you asked the National Infrastructure Commission to consider this question?

Mr Philip Hammond: No; it is not an issue for the National Infrastructure Commission. We are looking at it within the individual Departments involved. By the way, I said earlier that the beginning of the transition



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would be 29 March; of course, 30 March 2019 will be the first day of any interim period. The key issue is making sure that we are ready with a minimum effective solution on day one after we leave the European Union, in the case of a no-deal scenario, but making sure that we do not start committing substantial amounts of funds any earlier than we need to, in the hope that that no-deal scenario will become something that we do not have to plan for in the future.

Chair: We will spend a couple of minutes on customs and then move on to trade.

Q51 **Charlie Elphicke:** You say, "Any earlier than we need to". What is the date when we will need to, if there is no deal? What is the cut-off date?

Mr Philip Hammond: It will depend on the particular areas in question, and that is continually being refined. I am clear that at the moment, in the areas where we need to spend money, we are spending money; as I said, I have already authorised £250 million of expenditure. There will be a rolling programme. There will be some areas where we need to start spending money in the new year, if we cannot tell ourselves that we are moving steadily and pretty assuredly towards a transition agreement.

Q52 **Charlie Elphicke:** The customs paper talks about presentation and customs being processed inland. There is already an intention to build the M20 lorry park, which is overdue. Do you think it is time we prioritised this lorry park—which should have been built already—and made sure that it is delivered not only to handle Operation Stack and provide the resilience we already need, but for contingency planning?

Mr Philip Hammond: It is one of the factors that needs to be considered. I am aware that this is an ongoing local issue, and, tempted as I am to plunge into the debate on the M26 lorry park, I will probably avoid that for now, if you do not mind.

Charlie Elphicke: Finally, we are leaving the single market and the customs union on 29 March 2019. How resilient do you believe our border and customs systems are, with regard to handling leaving the single market and the customs union on that date?

Mr Philip Hammond: Obviously, to answer that question, one has to make an assumption about what regime applies on the following day. If it is a WTO regime with no deal, there are then two further potential levels that we have to consider. One is no deal, WTO, but with friendly agreement that we are not going to reach a deal and that we will work together to co-operate to make things run as smoothly as possible; but, bluntly, we also have to consider the possibility of a bad-tempered breakdown in negotiations, where we have non-co-operation. The worst case scenario is even a situation where people are not necessarily acting in their own economic self-interest. We need to prepare for a wide range of scenarios.

The commitment we have made is that we will be ready with the necessary minimum structures to operate the system on day one. Will



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everything that we will ever need be in place on day one? Definitely not. Over time, we will build a more and more refined infrastructure to deal with the situation that we are facing, once we know what that situation is. We cannot start building it now, because we do not know what "it" is at this stage; that is the key point. It is only once the negotiations have reached a point where it is possible to determine the likely outcome that we can know precisely what it is that we need to put in place.

- Q53 Kit Malthouse:** I want to ask a quick follow-up. There is the idea that there is a hard date for us to operate a customs system by, but that would be self-imposed. We have no obligation to operate the system. The lorries will be rolling in unfettered one day, and if they roll in unfettered the next day, it does not really change anything. We do not have to impose this hard date and have lots of headlines saying, "Disaster, disaster! We are not going to hit the date." If we did it a month later, or two months later, it would not make any difference.

Mr Philip Hammond: Of course you are right. We could simply allow unchecked vehicles to flow in through the port of Dover, for example.

- Q54 Kit Malthouse:** Which is what we do now.

Mr Philip Hammond: Which is what we do now, largely, but we do it in the context of extensive data sharing with our EU partners. It is an intelligence-led system that targets vehicles and cargoes that give rise to suspicion or concern. Let us be blunt: one of the scenarios we have to plan for is no data sharing. That could be because of a bad-tempered breakdown of negotiations or equally because, in the absence of a common framework of law, we may not have a legal framework for data sharing, so individual countries' data protection rules may not allow them to share data with us, even if they wanted to. We have to prepare for a wide range of outcomes.

To be clear, the UK Government's position is that we will take the necessary actions to protect our border. On day one, we will not accept trucks rolling through Dover packed with dangerous goods or illegal immigrants, just to keep the flow of goods moving. When I say we will have a system in place, I mean that we will have a system in place that protects our vital interests—our national security, our homeland security and our revenues.

- Q55 Catherine McKinnell:** What assessment, formal or informal, has the Treasury made since last year of the economic benefits to the UK of reaching trade agreements with non-EU countries?

Mr Philip Hammond: The Treasury is working with DExEU, DIT and the Home Office on a cross-departmental model to look to model different scenarios. It is a wholly new model that has been built to do that. It is ongoing work that is continually being refined.

- Q56 Catherine McKinnell:** Are they being made on a country-by-country basis?



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Mr Philip Hammond: The model has the capability to look at countries and sectors.

Q57 **Catherine McKinnell:** Can the Committee see any of the work or any of the reports that have been produced?

Mr Philip Hammond: No, this is internal work at the moment, which is being shared by the four Departments that are most intimately involved in that future planning.

Q58 **Catherine McKinnell:** When do you think the Committee might be in a position to see some of those reports?

Mr Philip Hammond: We are not planning to publish this work. It is sensitive in the context of the negotiation. We have said from the outset that we will be as transparent as we can during this process. This is a model that looks at impacts on different parts of our economy, on different economies of the EU 27, and on sectors of economies in the EU 27, as well as third countries, so I do not think it would be in our negotiating interest to publish this ongoing work.

Q59 **Catherine McKinnell:** Okay, but from the analysis so far, can you tell the Committee how these benefits compare with the advantages currently enjoyed through existing trade agreements with non-EU countries, such as Canada?

Mr Philip Hammond: Our planning expectation is that on day one after our exit from the European Union, we will have in place interim agreements with those third countries that the EU currently has trade agreements with that are effectively copy-outs of the EU-third country agreement, but as a UK-third country agreement. That is the basis on which the Secretary of State for International Trade has been engaging with the, I think, 46 countries with which the EU has trade agreements, and so far, we have had a very positive response from those countries. This isn't really a subject of negotiation, because we will simply take the EU agreement in its entirety, so that we have a patch, as it were, for day one. In every case, those countries would welcome, in the fullness of time, as we are able to do it, the opportunity to seek to negotiate more ambitious trade agreements with the UK on a bilateral basis, but for day one we will have the benefit of those agreements, so I wouldn't expect there to be any negative impact on our trade with the 46 countries with which the EU has trade agreements.

Q60 **Catherine McKinnell:** So you are confident that the benefits will outweigh any economic disadvantages of not being part of the customs union with the EU.

Mr Philip Hammond: I think you're probably asking me two different questions there. What I said was that our trade with this particular group of countries I would expect to be able to continue largely unhindered. Obviously, there is a very significant economic advantage to the UK in having barrier-free supply chains across the European Union, for our businesses to be able to get their goods not just tariff-free but non-tariff-barrier free, largely, into their European Union markets. Again, it's a



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hypothetical question, because we don't know at this stage what level of facilitation there will be at the customs border between the UK and the EU 27 in the future, but clearly anything which restricts the flow of goods, delays the flow of goods or introduces new bureaucracy and costs compared with now will have a negative impact, and that has to be set against positive benefits of freedoms to do trade deals elsewhere, beyond that group of countries with which we already have deals through the EU.

- Q61 **Catherine McKinnell:** But is it the Treasury's view that the potential benefits of feasible future trade deals with non-EU countries will outweigh the potential costs of leaving the customs union and single market?

Mr Philip Hammond: If you're asking the question about simply leaving the customs union and not putting in place any future partnership agreements that facilitate the flow of goods—

- Q62 **Catherine McKinnell:** Have all the different scenarios been assessed, and in that context, what is the answer to the question?

Mr Philip Hammond: We look at a wide range of scenarios, but obviously, again, you have to make an assumption about what the regime at the border would be before you can weigh up costs and benefits.

- Q63 **Catherine McKinnell:** Taking the best-case assumption, that you can arrange a—

Mr Philip Hammond: The best-case assumption would be what we have called the highly streamlined border in our customs paper. It assumes a high degree of co-operation between the UK and EU member state customs authorities, the application of high levels of technology to the border, and relatively low levels of delay and additional cost at the border. In those circumstances, we would see many, perhaps most, of the benefits of being in the customs union still available to our businesses, through a streamlined customs agreement.

- Q64 **Catherine McKinnell:** Would those benefits and the benefits of the trade deals made with non-EU countries outweigh those in the existing situation?

Mr Philip Hammond: If you're asking me, "Can I construct a scenario of an agreement with the European Union that so facilitates movement across the border that the additional costs imposed are less than the benefits of being able to negotiate trade deals with third parties?", yes, I can, but obviously at this stage I can't say, because we haven't started the negotiation, what level of facilitation at the border we are going to be able to agree in our future partnership agreement.

- Q65 **Catherine McKinnell:** Okay, so what economic assessment has the Treasury undertaken of the impact of leaving the single market and customs union on different parts of the United Kingdom?

Mr Philip Hammond: As I said earlier, we have a model that can look at sectoral impacts, as well as impacts on bilateral trade pairings with different countries.

Q66 Catherine McKinnell: But not particularly regions of the UK?

Mr Philip Hammond: Regions of the UK as well, yes.

Q67 Catherine McKinnell: And has that assessment been undertaken?

Mr Philip Hammond: Yes, we are constantly using this model. It is not a single assessment; the model is a working tool. We constantly use it to test different ideas and potential solutions. For example, output from that model will have informed some of the thinking that has gone into preparing the 14 papers that have been published.

Q68 Catherine McKinnell: You must understand that there is a public interest in understanding and seeing these assessments, and understanding their implications.

Mr Philip Hammond: Yes.

Q69 Catherine McKinnell: I think it is important for as much to be made public as possible.

Mr Philip Hammond: If I may, I think there are two factors. There is the absolute level in static state of benefits and costs of different structures, different arrangements with the EU and different potential arrangements with putative third-country trade partners. There is also a timing question. It is clear that, if we have an arrangement with the European Union that introduces frictions into the flow of goods and/or restrictions in the flow of services across borders, the impact will be immediate. It is equally clear that there will be a timeframe associated with building trade agreements with third countries, for negotiating and implementing them, which is typically done over a period of time, and then for UK businesses to fully exploit them, building a presence in third markets with distribution networks, brand awareness and so on.

Q70 Catherine McKinnell: The trade White Paper that was published this week is based on a number of assumptions, which you have already referred to. Those assumptions are the basis on which the UK will be able to conduct future trade policy. However, in a letter sent to MPs, the Trade Secretary stated: "While we are confident that a positive deal can be reached with the EU, we are continuing to prepare for every possible outcome." Can you clarify what preparations are being made, should those assumptions not be realised?

Mr Philip Hammond: I think we have already covered that. We are preparing for a range of outcomes, in terms of our future relationship with the European Union, including, at one extreme, no deal and a non-co-operative environment.

Q71 Catherine McKinnell: I am thinking specifically in the context of international trade and making those non-EU trade deals. The assumption is that we can just cut and paste existing trade deals, and that the WTO will co-operate with that process and allow us independent status, and that it will not be as complicated as some would think.



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Mr Philip Hammond: We remain members of the WTO, so we don't have to apply to join the WTO or anything like that. I think we are confident of our ability to navigate the WTO process. There are issues about the allocation of quotas within the WTO that will have to be addressed. The process of negotiating and agreeing trade deals with third countries will begin as soon as we leave the European Union. We are clear about our need to be able to start that process during an interim or transitional period. Obviously, we will complete those deals as quickly as we can. Some will take longer than others.

Catherine McKinnell: One final question—

- Q72 **Chair:** I think we are going to have to move on, unfortunately, because timing is so tight. You will be pleased to hear that we are going to move away from Europe and Brexit for the last part of this session. I want to ask about the model you talked about, which the Treasury has been using for its position papers. Is that something that you will share with the OBR if it needs it to assess the economic impact of a no-deal scenario for its work?

Mr Philip Hammond: Let me write to you on that. I don't think we've had any discussions with the OBR about our internal modelling.

- Q73 **Chair:** Because they are saying that it is very difficult at the moment to be able to model, given the lack of information that they have about the state of the negotiations.

Mr Philip Hammond: There are two questions that should not be confused. The OBR regularly asks us, quite properly, whether there is any information that is not in the public domain that would impact their judgments. This is different; this is about a modelling tool. The OBR will take its own view about how to model any information that it does have. This is not taking new information; it is not about new information. It is simply about modelling outcomes under different assumptions, so that we can make policy choices.

Chair: It is access to information that the Treasury has that the OBR could find helpful. If you could write, that would be very helpful. John.

- Q74 **John Mann:** Chancellor, you are increasingly coming across as the Geoffrey Boycott of politics, carefully batting back answers.

Mr Philip Hammond: You are going to try to break my—

John Mann: And, however tempting, you have avoided running out any of your colleagues so far.

Mr Philip Hammond: Good luck.

John Mann: But you need a few boundaries, and I want to help you in appealing to the spectators. On 14 December, universal credit will be rolled out in my area and a few others. That is obviously going to make catastrophic headlines for the Government, literally at Christmas. Can I invite you to join me in saying that not doing it on 14 December would be very sensible for the Government's press management, and for those

people who will be impacted?

Mr Philip Hammond: The Secretary of State for Work and Pensions has a programme for the roll-out of universal credit. He has made clear that he is instructing Jobcentres to signpost more clearly the arrangements that are already in place for advances to be made available to people who are new applicants for universal credit. I am sure that he will note your advice with regard to the roll-out in Bassetlaw, and I will ensure that his attention is drawn to the comments you have made.

Q75 John Mann: Not quite a dot ball, then. Let's look at HS2 contracting, because the criteria for that are out for discussion at the moment and about to be resolved. I know you will have an impact on that. If you are a subcontractor in this country, there is no requirement, if a foreign company wins a key part of the contract, for them to use a UK firm, even if that firm is the cheapest supplier. The consequences of that will not come through in the price in the contracting, but will be there in terms of future work, such as the Singapore line or the Norway and Sweden contracts that are around at the moment.

If a subcontractor cannot get work on HS2 but is bidding to be on other projects, even if they are cheaper, because of the way the criteria have been set with no forward proofing for UK business, that is not going to be good for our economy, is it? Could you take that away and look at whether we have got this right, in terms of allowing our competitive subcontractors to compete on HS2?

Mr Philip Hammond: I will certainly have a look at it. We have a growing and competitive railway sector in the UK, and there is a large pipeline of railway work for the industry. Of course, we have a lot of foreign players also involved. Our contracting arrangements at the moment are, of course, subject to European Union procurement directive processes.

I remember from my own days at the Department for Transport that we sought to exploit to the maximum the flexibility within the European Union procurement directive to support wider social and economic benefits, through the award of contracts to companies that could deliver such benefits, within the rules that exist. As far as I am aware, we have incorporated, to the maximum extent possible, provisions that will seek to maximise the UK content.

Q76 John Mann: That's not what the industry is telling me.

Mr Philip Hammond: I'm sure the industry would always like more.

Q77 John Mann: No, they would like that flexibility built in. The question is whether they can compete on price. It is clearly a Treasury matter, and it would be useful if your officials looked at what is being done and whether UK industry is being properly protected within those regulations in what is happening now. It is a current issue.

Mr Philip Hammond: I'm happy to look at it. If I understand your point, you are suggesting that there could be cases in which a UK subcontractor



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offered the most price-competitive bid but was not successful because a foreign main contractor preferred a foreign supplier.

John Mann: Correct.

Mr Philip Hammond: I'll certainly take that away and look at it.

- Q78 **John Mann:** You will want to be doing the maximum on fire safety. If a business installs a fire sprinkler, even though it could be said to be to the common good, it will cost the business in terms of its rateable value and business rates. So there is a disincentive. One could argue the same thing with CCTV that the police would like to use, if it was installed. There is a public benefit but, again, a perverse disincentive because of the increase in valuation and therefore the increased business rates. Is that something that you would consider looking at?

Mr Philip Hammond: This is about the definition of premises for business rates, and the inclusion of plant and machinery in the valuation process. We have had representations from business over many years about that. Business rates produce about £25 billion of tax revenue. As business rates retention proceeds, more and more of that will directly fund local authorities' spending. So this is a straight issue of priorities. If we reduce the taxable base, it would be quite a large hit to the yield from business rates, and that revenue would either have to be found from elsewhere or matched by cuts in public expenditure.

- Q79 **John Mann:** I am merely throwing you up a dolly to hit for six in relation to fire sprinklers, which it seems to me would be very appropriate to exempt.

Let us move on to landfill tax. There are 69 abandoned waste sites in this country. Your Department is responsible for landfill tax. Where those sites have been totally abandoned, the Crown Estate is given ownership of them. But 80% of the costs of clearing a site, for both the local council and the Environment Agency, are landfill tax. The state would have to fund an extra 80% in order to clear a site that the state owned and would benefit from when it is cleared and brought into other economic use. Therefore none of those 69 sites have been cleared, which costs the Exchequer and for example, the fire service—one in my area has been called out on six major occasions. The state is paying. The answers to solve that riddle are entirely within the flexibility and logic of the Treasury: exempting the state from landfill tax where there is an abandoned site. Would you consider making that kind of change?

Mr Philip Hammond: I am certainly happy to look at it. It would, in effect, be a spending commitment, but I will look at it and work through the numbers. I will be happy to write to you.

- Q80 **John Mann:** Thank you. I am not sure it would be a spending commitment because it is the state paying to the state—the Environment Agency paying to your Department, and probably back to them indirectly. There is a circular logic and it would be helpful to move quickly on that.



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Mr Philip Hammond: The logic of your position, I think, will depend on establishing that the costs to the public purse of supporting the abandoned sites will be less than the costs to the public purse of remediating the abandoned sites.

John Mann: Absolutely.

Mr Philip Hammond: I would need to see a business case that demonstrated that.

- Q81 **John Mann:** You will be getting one, I am sure. I welcome the overseas aid and emergency systems to Anguilla, Turks and Caicos Islands and the British Virgin Islands. The Government, in my view, moved appropriately quickly, so I am in favour of that and support that expenditure. I think they have pledged £57 million in total—that is the figure that I have seen. But these tax havens host loads of tax avoiders with lots of money, so what are you doing to ensure that tax is taken from those tax avoiders, either by the overseas territories themselves or by you, so that the taxpayer does not fund what in fact is being avoided by very wealthy people or companies?

Mr Philip Hammond: We don't control the domestic Administrations of the overseas territories. We have over the years encouraged the overseas territories to move into compliance with international standards around money laundering and tax transparency, with some substantial degree of progress. That does not mean that all the overseas territories are operating systems that we regard as fully compliant yet, but the direction of travel has been positive, and we continue to engage with them and we are continuing to discuss with them now, in the context of our ongoing support for them, how they can make further progress on that compliance.

- Q82 **Rushanara Ali:** Good morning, Chancellor. I have a question on housing and also one on personal debt. On housing, in relation to sprinklers and other changes that have needed to be made, including replacing cladding after the Grenfell fire, a lot of housing providers have raised concerns about the cost. In some cases, as in my constituency, some other important work has had to be deferred because of funding shortages, and we still don't have clarity about how much money—contingency funding—has been earmarked with help from your Department to CLG. Would you be able to give us some clarity on that, because it has been quite vague, and the costs of the introduction of sprinklers as well as replacement of the cladding are going to be high?

Mr Philip Hammond: First of all, this is an issue for CLG.

- Q83 **Rushanara Ali:** But has the Treasury earmarked any additional funding for CLG?

Mr Philip Hammond: Let me be clear about what I have said previously and what we announced at the time. Where the professional advice is clear that work is required for safety critical reasons, we will not allow a situation to arise where a housing authority or a social landlord, due to lack of financial resource, cannot carry out safety critical work. That does



not mean that the Government will automatically step in and provide funding for that safety critical work. We will want to work on an individual basis with authorities and housing associations, to look at the resources they have available and to look at how we can free up resources for them, perhaps by moving ring fences to allow them to spend resources that they have available but cannot necessarily use for this purpose. But in the last resort, where an authority genuinely does not have any available resource—there are one or two authorities where it is clear that the numbers are going to be very challenging for them—we will ensure that the necessary resource is available.

I can perhaps pre-empt the next question. There has been some press reporting of specific authorities saying that they are not getting the support that they need. In the cases of the authorities that were named in the media, I have checked with CLG, and in all cases they have been asked for information which they have not yet furnished to CLG. So CLG is actively engaged with these authorities, but does need them to provide all the information required, in order to help them to find a way forward.

- Q84 **Rushanara Ali:** Turning to the announcement of £2 billion for housing by the Prime Minister, it was said in the media that the restrictions on borrowing by local authorities might be removed. Can you just clarify whether that is the case, or whether the existing restrictions on local authorities for building council houses will remain?

Mr Philip Hammond: The announcement that the Prime Minister made was of a pot of £2 billion, which local authorities and housing associations can bid for. I am aware of the requests by some housing authorities for the removal of restrictions and we will consider those in the round, as part of our approach to wider housing policy.

- Q85 **Rushanara Ali:** Do you have an idea of what the breakdown will be between the allocation for housing associations, local authorities or councils and private landlords? I ask that because quite often announcements have been made, including a similar one in 2013, but take-up was low and the actual consequence has not necessarily been more affordable social housing. How will this announcement be different in mitigating some of those inadvertent outcomes?

Mr Philip Hammond: This is to provide housing for social rent, and we will ensure that the intended outcome is delivered. I can't tell you what the allocation between different bidders will be, because of course the point of having a biddable pot is to maximise the delivery with the available resource. So we will look at the bids we receive and we will allocate the funding to deliver the maximum benefit to the sector.

Chair: Saving the best for last, I will bring in Kit.

- Q86 **Kit Malthouse:** I was going to ask you about the patient capital review, but just to confirm, you think it will be published before the Budget. What will then happen to it?

Mr Philip Hammond: I hope to be able to announce in the Budget how the Government will take that matter forward. We regard ensuring that



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there is an adequate supply of appropriate-term capital to fund growth businesses in the UK as absolutely crucial to addressing our long-term productivity challenge. Too often in the past, brilliant inventions, discoveries and even innovations in the UK have gone abroad, simply because adequate capital couldn't be found in the UK to support them, and—

Q87 Kit Malthouse: Okay—sorry, but I am just conscious of time. So you think that some of the measures might be in the Budget, but it's not going to go into a sort of 12-month consultation and get lost in the weeds?

Mr Philip Hammond: As you will know, there are some issues on which we are required to consult, in order to fend off the ever-present danger of judicial review, but it is the Government's desire to move as quickly as possible with this.

Q88 Kit Malthouse: Fantastic. If we were to do a BBC on the Treasury and reveal everybody's salaries, would the women be outraged or happy? In other words, is there still a gender pay gap and, if so, why?

Mr Philip Hammond: Maybe Katharine, as one of the most senior women in the Treasury, would like to answer that question.

Katharine Braddick: I honestly cannot recall the data on distribution of pay by gender in the Treasury, but I can assure you that we scrutinise relative pay levels across gender, ethnicity, and part-time and full-time staff within the Treasury, in order to make sure that we are remunerating people fairly.

Q89 Kit Malthouse: So there isn't a gender pay gap at the Treasury still?

Katharine Braddick: I didn't say there wasn't a gender pay gap, because—honestly—I would have to check the data.

Q90 Kit Malthouse: Okay. Can you write to us about that?

Katharine Braddick: We can write to you and I can assure you that we do review it regularly.

Q91 Kit Malthouse: You'd want to correct that immediately, Chancellor.

Mr Philip Hammond: Anecdotally, in my engagement with senior officials, I would say that the majority of the senior officials I work with are women.

Chair: Sorry to interrupt, but one of the reasons why we are asking for transparency is so that we don't have anecdotal evidence. So, if you could write with all that breakdown, that would be tremendously helpful.

Q92 Kit Malthouse: There are some very senior women at the Treasury; you are absolutely right about that. The question is whether they are paid the same as the men. Also, are you alarmed at all that across the Monetary Policy Committee, the Financial Policy Committee and the Prudential Regulation Committee, there are only two women, and are you looking to



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correct that situation with, perhaps, the current vacancy?

Mr Philip Hammond: It is an issue of concern. Obviously, the current vacancy was caused by the departure of a woman. It would be desirable, of course, to have a better gender balance, but, as I said earlier, the selection criteria are pretty testing and I think it's probably fair to say that we haven't been deluged with qualified applicants. I think we have to look first and foremost at the qualifications of the individuals. Obviously, ensuring that the other criteria that we seek to apply, including gender balance, are met is an important part of the selection process, but we need people of internationally recognised talent. It depends on who puts themselves forward.

Q93 **Kit Malthouse:** This is a self-defeating problem, right? So unless women are given the opportunity at these high levels to prove themselves and know that they are unable to qualify to—

Mr Philip Hammond: Typically, the kind of person that we will be appointing to these committees will be people quite well advanced in their careers, who have already established a reputation and are recognised globally. We are not talking about giving people a chance; we are talking about recruiting people who are already recognised as global leaders in their field.

Q94 **Kit Malthouse:** So therefore the charter on women and finance, improving the number of women in finance, is key. What are you doing to promote that?

Katharine Braddick: We do a good deal to promote the charter, which has an ever-increasing number of signatories covering companies and public sector operators who operate in very many geographies and jurisdictions. The Economic Secretary to the Treasury gave a speech at the awards for women in finance recently, citing the Women in Finance Charter. We are constantly engaging with firms in the UK and beyond to encourage them to sign up to that charter. Indeed, I have been invited to speak to groups in Italy who want to copy our approach and to sign up. So it does have a considerable effect, but we continue to be ambitious for the number of signatories that we get and to drive up the participation of women in senior executive levels, because that becomes the talent pipeline, if you like, for the appointments that the Chancellor is talking about, where we have a legacy issue with not many women having got to the stage where they are operating at that level.

Q95 **Kit Malthouse:** Okay. I think that over 50% of the profession is now female and has been for some time, so this should be percolating through; yet still, stubbornly, we seem to see a lot of men, particularly on these Committees.

Katharine Braddick: The other factor is that, as the Chancellor has referenced, there are lot of very talented senior executive women who would be interested in the roles, for example on the FPC, but as the Chancellor has explained, the conflict of interest requirements mean that they would have to give up their jobs, in effect. That is certainly a factor



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that we have encountered in trying to encourage more diversity, not only of women but also of ethnicity in the people who apply for these roles.

Q96 **Kit Malthouse:** Okay. You will write to us about the gender pay gap?

Katharine Braddick: We will.

Q97 **Kit Malthouse:** Fantastic. Finally, Chancellor, you referred earlier to uncertainty being damaging for business. That is definitely the case. One of the things that is causing significant uncertainty among small businesses in particular is the new-found enthusiasm at the Revenue for retrospection. There are an awful lot of people who are very concerned about the fact that the Revenue now seems to think it is okay to change its mind in hindsight, whether that is on IR35 issues or otherwise. What is your view of the Revenue changing its mind on tax arrangements in the past about which it was fully aware and over which it has colluded, if you like, sometimes for 20 years?

Mr Philip Hammond: I think you might be seeking to tempt me into areas which are the subject of legal proceedings, and it would not be appropriate for me to comment. I think the way you characterise it and the language you use would not be accepted by HMRC. There is a set of proper processes to protect taxpayers and I think it is better if we let them operate rather than seeking to pre-empt those processes.

Q98 **Kit Malthouse:** On the principle of retrospection—for instance, on this staircase business rates issue, where the Supreme Court has ruled that in some offices where two rooms are separated by a staircase they should be treated as separate properties—do you think it is fair, to be retrospective?

Mr Philip Hammond: Let's be clear here—and that is a very good example to raise, because this is not an area where the Revenue has discretion. The Court has made a decision. The Revenue is required to apply the rating law and on the basis of the decision the Court has made the Revenue will have to apply the law to a group of businesses that are affected. It is open to Parliament to consider changing the law in a way that changes that outcome, but the Revenue is not making a discretionary decision to go after this group of businesses; it is doing what it is statutorily required to do.

Q99 **Kit Malthouse:** So you're saying that the Revenue never makes discretionary decisions not to collect tax.

Mr Philip Hammond: No, I didn't say that. I said that in this case, under business rating law, the Revenue is required to apply the law as the court has now determined it.

Q100 **Kit Malthouse:** And it's not able, on a discretionary basis, not to collect the money.

Mr Philip Hammond: It is not able to disapply it on a discretionary basis. I pursued this after the decision was made. It is not able to use an extra-statutory concession to avoid the outcome that the court has determined,

so if we are going to have a different outcome, it will have to be a legislated outcome.

Q101 **Chair:** Is that something the Government would consider legislating for?

Mr Philip Hammond: It is certainly something that we are looking at.

Q102 **Kit Malthouse:** On the overall issue of retrospection, would you agree that it adds to business uncertainty?

Mr Philip Hammond: Of course. It must logically be the case that businesses want to be able to make decisions against a certain institutional framework. The UK is an attractive jurisdiction in terms of the certainty of the framework, but I don't think in any jurisdiction you can say that there will never be an element of retroactivity in specific circumstances. What is important is that, overall, business has a high degree of confidence about the way the UK institutional framework works.

Kit Malthouse: I think that is right. Just one final question—

Chair: I am conscious that we promised officials we would release you, Chancellor. Is it literally a one-sentence question?

Q103 **Kit Malthouse:** Yes. If there were a situation where a business had correspondence from the Revenue saying that the particular tax arrangements they had were fine, and then some years later the Revenue changed their minds, is that acceptable?

Mr Philip Hammond: Again, I think you are trying to tempt me into commenting on a case which is live.

Kit Malthouse: No, it is a general principle.

Chair: That was quite a long sentence.

Mr Philip Hammond: I think there is a current case in which a piece of correspondence from the Revenue is in question, and it will be for the revenue commissions or the courts to decide how to interpret that correctly.

Chair: We are nearly out of time. Catherine is going to ask a one-sentence question on universal credit.

Q104 **Catherine McKinnell:** To follow up on John's question about the timing of universal credit, I think there is a much more systemic and fundamental issue that I urge you to consider as Chancellor. Universal credit has already been rolled out in Newcastle, and it has caused untold misery for a huge number of my constituents. It has doubled the work of my office and the local CAB. Apart from the hunger, debt and misery, it is also causing huge levels of rent arrears. The local ALMO is reporting £1.2 million of rent arrears as a direct result of universal credit roll-out. Is that how the system is supposed to be working, or is the system therefore fundamentally failing?



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Mr Philip Hammond: As you know, the design purpose of universal credit is to ensure that work always pays and to encourage a situation where people in receipt of benefits are actively seeking work and face the same kind of challenges, incentives and disincentives that people in work face. I am aware of the concern that has been expressed by housing providers about the short-term impact of the transition to universal credit.

Q105 **Catherine McKinnell:** But it is long-term, because it's not going to clear.

Mr Philip Hammond: Well, we might have to have a longer discussion about that. But I am aware of it, and I know that the Secretary of State for Work and Pensions takes this very seriously and is looking at it very carefully.

Q106 **Chair:** We are going to have further inquiries on household finances. One inquiry we are going to start next week is into student finance. I am going to write to you ahead of that, Chancellor, about the RAB charge issues, which we have not had time to talk about today, but can I ask you something very quickly? At the start of the Conservative party conference, the Prime Minister made an announcement on raising the threshold. Could you tell us at what point you were involved in those discussions about that policy announcement? How far in advance were you aware that she would be making that announcement?

Mr Philip Hammond: We discussed it together. We have been discussing it for some time and talking about these issues, and obviously I was involved in the announcement that was made at the conference.

Chair: Okay. Thank you very much, Chancellor, and thank you very much, Katharine. We look forward to seeing you—certainly you, Chancellor—after the Budget.