

Treasury Committee

Oral evidence: Economic Impact of Coronavirus, HC 271

Wednesday 15 July 2020

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Mike Hill; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 855 - 926

Witnesses

[I:](#) Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, HM Treasury; Dan York-Smith, Director of Strategy, Planning and Budget, HM Treasury.



Examination of witnesses

Witnesses: Rishi Sunak and Dan York-Smith.

Q855 **Chair:** Good afternoon, and welcome to our latest session in the Treasury Select Committee's economic inquiry into the effects of the virus on the economy. I am delighted to be joined this afternoon by the Chancellor of the Exchequer. Welcome, Chancellor. I wonder if I could begin by asking the Chancellor and Dan York-Smith to very briefly introduce themselves for the public record. Thank you.

Rishi Sunak: Thank you, Chair. I am delighted to be here. I am Rishi Sunak, Chancellor of the Exchequer and MP for Richmond in North Yorkshire.

Dan York-Smith: I am also delighted to be here. I am Dan York-Smith. I am the Director of Strategy, Planning and Budget in the Treasury.

Chair: Great. Thank you and welcome to you both. Perhaps I could start with the first question. Chancellor, we know we are going to have a huge spike in the deficit this year. We know we are going to have an elevated deficit going forward. We know that future Government plans are predicated upon borrowing at historically low rates of interest. We know we are going to have to have a very clear and credible plan to demonstrate to the markets that we are going to get on top of that deficit in order to meet that requirement.

Growth is going to be under some pressure. There is not apparently much appetite from the Government to cut spending; in fact, the Prime Minister has said there will be "no return to austerity", as he termed it. We want to stop leaning into a debt too much, and that really just leaves taxation. It seems to most commentators at the moment that, come the autumn Budget, you are going to have to put the overall level of taxation up. Would that be correct?

Rishi Sunak: You will forgive me if I cannot comment on future fiscal policy. I think we may have had that conversation before as well. More broadly, I would agree that strong and sustainable public finances are important. It is something I believe in. As we said last week at the economic update on the plan for jobs, we will want to return the public finances to that over the medium term. The exact shape of the plan to do that would have to wait for a future Budget.

Q856 **Chair:** I understand your point about taxation, but let me ask you about manifesto commitments. There are some tax-related commitments in the manifesto on which the Government were elected. Are we going to meet those commitments, or is there a chance that we might break some of those manifesto commitments on tax?

Rishi Sunak: Our ambition is to deliver all the priorities that we set out, but as I have said of any questions about future tax policy, I obviously



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cannot comment one way or another. As always, those decisions are made in future Budgets.

Q857 Chair: When the Prime Minister appeared before the Liaison Committee, I asked him a specific question about taxation and the manifesto. I asked him if we would stick to the manifesto commitment on the tax triple lock—in other words, not increase the rates of national insurance, VAT or income tax. He was able to assure me at that point that all manifesto commitments would be met. In fact, I think he said, “Unless I tell you otherwise, Mel.” Do you agree with what the Prime Minister said?

Rishi Sunak: I always agree with the Prime Minister, but I have a perhaps pedantic and boring approach to this. Whenever I am asked about anything to do with taxation—I hope you will understand and forgive me—I give exactly the same answer, so that no one can read anything into what I am saying and start speculating on what might be the case. My standard, default answer to all questions about tax is that I cannot comment on future tax policy. As always, those decisions are made at Budgets.

Chair: You have just commented on the comments that the Prime Minister made to me at the Liaison Committee by saying that you would agree with them.

Rishi Sunak: I said, “I always agree with the Prime Minister.”

Q858 Chair: Can I take from that that we are going to stick to the commitment in the manifesto to the triple lock, and will not see increases in rates in the near future?

Rishi Sunak: You are obviously trying very hard to put words in my mouth. I am going to give the same answer on all questions about future fiscal policy. I do not comment on future fiscal policy. As always, those decisions are made at future Budgets.

Q859 Chair: Do you support what the Prime Minister said to me at the Liaison Committee?

Rishi Sunak: You obviously know exactly what he said to you. I think you repeated back the full extent of his quote, as well.

Q860 Chair: Can I move on to gaps in support? You will know, Chancellor, that we produced a report that shows that in excess of 1 million people have fallen through the gaps. In other words, they have not qualified for the SEISS or furlough schemes, typically because of administrative complications. Take people working through their own companies, and self-employed income received by way of dividend not being counted towards the calculation of furlough. We are told by HMRC that those 700,000 people cannot be accommodated because of administrative complexity in identifying where those dividends have come from. Is that the be-all and end-all of the problem there, or is there something else that we have missed? If that complexity could be overcome, would those



people get the support that most people feel they deserve and need?

Rishi Sunak: I would repeat some of the comments that I have made previously on this. Without a doubt, we have put in place unprecedented support for many millions of people in lots of different ways, and indeed millions of businesses as well, through this crisis. We have done so at a reasonably good speed, to make sure that that support gets to those people as quickly as possible. There are tens and tens of millions of people in the country, who all have particular circumstances, and we have faced an economic shock the likes of which we have not seen before. It is obviously going to be the case that not every single person feels that they have been helped in exactly the way that they would have liked. I can appreciate and sympathise with that, and I can only apologise for it, as I have previously.

I made the announcement in May about extending furlough, and indeed providing an extension to the self-employment scheme. As I said at the time, we now have to look forward. There would not now be the opportunity or intention to introduce new schemes. The decisions that we made were difficult, and I am happy to go into the reasons why we made those in a second, but I think they were the right ones. Our focus now is on planning for the recovery and protecting jobs. That is why last week we announced our plan for jobs, and a new set of support to help drive the recovery, and to safeguard, protect, and create as many jobs as possible.

Q861 **Chair:** You say that some people have been missed out. I am referring specifically to the example I have given of about 700,000 people. You, the Prime Minister and the head of HMRC have said that it is basically administrative complexity that has prevented help being provided. That seems to me to be quite a weak reason, given that you have shown an extraordinary ability to be nimble and agile in other areas. For example, 100% loan guarantees were brought in after the initial launch of the bounce-back loan scheme. You very quickly plugged that gap in the civil scheme when you had the "stranded middle". Even with furlough, there was a shift in the trigger date for new starters from 23 February to 19 March to make sure that that worked more effectively.

In other words, you have shown a great capacity to step in and fix problems. The Head of HMRC actually said to us that HMRC had ended up doing things that it did not think it was capable of doing. Why does none of that political will and agility seem to have been applied to any of the categories that we have cited in our report, or any of those million-plus people who so desperately need help?

Rishi Sunak: I would say a couple of things. First, not all of those reasons were ones of administration; some of those were policy decisions to deliberately target support. For example, your report talked about the threshold of £50,000 we used. That was a deliberate policy decision; that is not an administrative oversight. That was because, when we are giving money to the self-employed, we do not know their particular



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circumstances. The difference is that those who are employed are either furloughed or not. The company is making a decision about their employment status. For all we know, those who are self-employed could still be working and not in need of support.

That was one of the reasons why we thought it was appropriate to apply a threshold. We thought £50,000 was reasonable. It means that 94% or so of those who were majority self-employed were covered. The average income of those over that threshold is £200,000. Admittedly, there will be people who earn £50,001; I appreciate that this will feel difficult for them. In aggregate, that group of people have incomes of around £200,000. We thought that was therefore a reasonable threshold to apply, given that the policy design was trying to be targeted where it could to make sure support got to those who needed it. I think your report talked about majority self-employed; again, that was a policy decision which was made for the same reasons.

Q862 Chair: I am sorry to interrupt, but we are segueing off into different categories. The one that I specifically raised was the 700,000 individuals working through their own companies and receiving self-employed income by way of dividends. Let me ask the question again. Is there anything other than administrative complexity that prevents you from including those people fully within the furlough arrangements?

Rishi Sunak: There is a significant degree of administrative complexity. To your point previously, the fact that we have been able to do so much that people thought we were not able to do ought to prove the point. If we could have done an easy thing at scale and speed, while protecting against fraud and making sure that support was targeted and affordable within all of that, we would have done it. I think your point actually proves the thesis. If it was straightforward, given that we have managed to do lots of other things, there is no reason why we would not have done it.

As I said, it is not as if there is no support available for the group of people you have mentioned. Many of them choose to pay themselves up to the income tax threshold through PAYE; a degree of that part of their earnings is eligible to be furloughed. Companies are able to access CBILS or bounce-back loans, depending on what is appropriate for them. Other support will be available for those individuals. They may also benefit from income tax self-assessment deferrals. About 3 million people did; I forget the exact number, but there were tens of billions of pounds of deferrals until next year. That will also help with cash flow. In their personal circumstances, if they have had a mortgage, they might have benefited from a mortgage holiday for six months. This would have been quite significant as well.

It may well be that they have not got exactly what they have wanted, but they may well have been able to access other avenues. As I said in May, our focus now, and my focus for HMRC, and indeed everything else we



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are doing, is planning for and implementing policies for the recovery. That is where I think our focus should be.

Q863 Chair: We will come back to this point quite strongly in the rest of this sitting. For reasons of time, I will move on from that. I have one final, quick question for you around corporate debt, which I know I raised with you in the House the other day. We know that hundreds of thousands of SMEs will be saddled up with debt as they come through the crisis. We will want them to invest in growing jobs, but they will presumably be worrying about de-leveraging and shoring up their balance sheets. Therefore, we should have a really good plan to ease the burden of that debt going forward. I am talking specifically here about SMEs, rather than the larger companies.

It did not feature in your statement, but I know you are familiar with the issue. I believe that the Treasury may be working on it. Could you let us know when you think you might come back to this matter in a substantive way? Could you give us your assessment of how much of a challenge or a difficulty this issue might present to recovery?

Rishi Sunak: First of all, I am not completely persuaded of the scale of the problem at the moment. The simple reason is that we know corporate debt levels in the UK were in a relatively healthy place coming into this crisis. The latest report from the Bank of England talked about our leverage levels being low by historical standards. That was the reference they had.

Capital gearing and net debt as a percentage of GDP have close to halved, from circa the 70s to circa the mid-30s to 40s, from the crisis to now. There has been quite a significant de-gearing. If you look at corporate debt levels as a percentage of GDP relative to OECD countries, we again rank relatively favourably. We know corporate cash balances have increased quite significantly through the crisis as people have been able to access liquidity and build up cash buffers. I think our starting point is pretty positive, which is a good thing, because companies have been prudent with their cash and leverage over the past several years since the last crisis.

The other thing I would say is that people talk about this, but I am not entirely sure it would necessarily be sensible for the Government to have individual equity stakes in millions of very small businesses. I am not sure that would be particularly practical. Some of the solutions need to be worked through. That said, we are, as always, open to interesting ideas that we think might help drive the recovery. As you know, many different institutions, bodies and think tanks continue to come up with ideas and send them our way; we will happily take a look at them.

Q864 Ms Eagle: Good afternoon, Chancellor. When you appeared in May before the Lords Economic Affairs Committee, you acknowledged, and this is a quote, "It is not obvious that there will be an immediate bounce back". We have since had the GDP monthly estimates for May, which



were for a very modest growth after a 25% fall in quarter two. We had the OBR's fiscal forecast yesterday, of which the central scenario was the expectation of a 12.5% fall in GDP this year, with the potential in that scenario that the economy could be 3% smaller by 2025. In a gloomier scenario, it could be 6% smaller by 2025, with unemployment potentially due to rise to 4 million. You must have made your decision about the summer statement in that context.

Your £30 billion package was "badly timed" and "could trigger a rapid rise in unemployment", according to the National Institute of Economic and Social Research. The IFS called it badly timed, poorly targeted and likely to do little to stop unemployment rising. This was about the job retention bonus and the eat out to help out scheme, both of which had to be given ministerial direction by you, because the Chief Accounting Officer in HMRC was not convinced that they were value for money. What do you have to say to the criticisms that the job retention bonus scheme is a huge dead weight, and that the eat out to help out scheme has been launched too early, when people are still too worried to go out?

Rishi Sunak: Thank you. On the direction point, it is probably worth bearing in mind that the vast majority of schemes that have been implemented during this crisis have required directions. Every single one of the loan schemes, many of which were welcomed by the Committee, required directions: the bounce back loan scheme, the coronavirus business interruption loan scheme, the future fund, the business rates grant fund, which provided cash grants to businesses in all of our constituencies, and the discretionary grants top-up, among others. Just to put it in context, I think most people broadly think those things were sensible, welcome and good things.

As you would have read, Jim's letter did acknowledge that there was a sound policy rationale for doing what we have done, but it was difficult for him to model the impact precisely in that environment of uncertainty, given the speed at which we were moving and the novel nature of the policy. I completely understand that. That is unfortunately the environment that we are operating in.

You talked about the OBR forecast. In the space of a few months, what the OBR previously had as a reference scenario has become an upside scenario. There is a far different central scenario. The OBR is one of our best independent forecasters, alongside the Bank of England. In three months, it has had quite a significant change in its outlook. I think that highlights the degree of uncertainty in which we are operating, which makes policy-making difficult.

I firmly believe that the scheme can and will make a difference. I think that because of the way it is designed, it will serve as a significant incentive to protect employment, especially for small and medium-sized companies, and particularly for those who are lower paid. I am very conscious of that. As you said, we have the prospect of many people



losing their jobs; I am determined to do what I can to protect as many of those jobs as possible. I believe this will help to do that.

Q865 Ms Eagle: Instead of subsidising over 9 million furloughed jobs when the OBR is suggesting that about 1.3 million of those on furlough will lose their jobs in the recession, surely you could have had less dead weight if you had focused help in the furlough scheme on a more sectoral basis. Looking at the GDP monthly estimates, it is quite clear that the effects of the coronavirus lockdown on different sectors of the economy are very different. You could have focused it more if you had wanted to. Why did you not do that?

Rishi Sunak: You talk about dead weight. One of the criticisms of the original furlough scheme was that it would have dead weight because it was open to absolutely every company and business in the country, regardless of what was happening to them, or their size. We took a deliberate decision to do that. I think most people now think that the furlough scheme was a good and sensible innovation, and indeed it has helped to protect many millions of jobs. Without a doubt, there was dead weight in that scheme as well.

In terms of targeting it, many have made the point that implementing it in practice is very difficult. I just did not think it was practical or feasible to sit here in this office and figure out which companies and industries should or should not be eligible, across 1 million businesses and 9 million employees. Even if you could solve that problem, you would have to think about the supply chain for that industry, and there are companies that are half-in and half-out. I decided not to do that. I would be interested to hear which sectors you think should not be eligible for the job retention bonus.

Q866 Ms Eagle: It is an issue of how the economy is being affected by the lockdown. We have seen from the look in the GDP estimates that different sectors are affected very differently. Some sectors are still closed by Government diktat. It seems that you should at least focus some extra help on the sectors that still cannot open because the Government think it is not fair for them to open. I would turn it back on you. You are the policy maker; I am the questioner. You do have to think, as we move out of lockdown, which was all-encompassing, about whether you need to focus your assistance more effectively.

Let me ask you about a particular sector that is affected. There are 102,000 UK manufacturing jobs in the aerospace sector. Productivity is very high. It is a very export-rich, high-skilled sector, but there is no sectoral strategic approach. When I asked you about this in Treasury questions, you talked about buses. Is there an area there where we need to focus on what we are good at, to try to preserve as much of our civil aerospace as possible and take it towards a much greener future, as many of our competitors are doing?



Rishi Sunak: First, it is easy to say that the job retention bonus should be targeted, but no one is able to say which sectors they think should be excluded from it. I think that is partly the challenge. I think even the Shadow Chancellor herself has also acknowledged that it is very difficult. There are hard choices and difficult boundary issues. When you have a scheme that is affecting so many millions of people and a million firms, it is very difficult to actually figure out where to draw those boundaries in a way that would make sure the support gets to everywhere you need it to get to. I remain of the view that it is actually too hard to implement something that would not undermine the policy objectives you are trying to achieve. No one seems to be able to say which sectors they would exclude, which is what that means.

To your second point on aerospace, the reason I talked about buses when you asked the question in the Commons was that you referenced the US support for airlines. If I am misremembering that, then please do correct me. The reason for that is an important one. The US has put in place quite significant support for its airline industry, which is different to aerospace. It is different here, because they are doing that primarily because airlines in the US provide domestic connectivity within the United States. We have provided billions of pounds of very significant support for our rail network and extra funding for our bus network, because those are the parts of the transportation system that provide inland connectivity. They have been significantly impacted by coronavirus, and we want to preserve that connectivity.

To your point on aerospace more generally, I agree with you that it is an important sector for the UK. It is a considerable strength of ours. I cannot comment on individual conversations we have with companies. Many companies in that space are able to access a lot of the things that we have already put in place, particularly some of the things we have put in place for larger businesses. The issue they are facing is not one that Government policy can readily correct. If there is a global slump in passenger travel, as we saw after 9/11, and potentially years of recovery in seat miles, that has an impact on the revenue and profitability of businesses, because they are doing less maintenance and parts work. Fewer orders are being placed. Government policy cannot do a lot about that, as was the case after 9/11. By investing in things like R&D alongside the sector, we are able to make sure that we have the foundation for future growth.

Q867 **Ms Eagle:** You did not even mention childcare in your summer Budget statement. Given that women have been very badly affected by the lockdown, why did you choose not to do that?

Rishi Sunak: It was about a 22-minute statement. There are probably many parts of the economy, many sectors and many types of families that have been impacted that we could not mention in 22 minutes. You will forgive me for that.



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You are obviously right to say that women have been impacted by the lockdown. In particular, they are disproportionately likely to work in the hospitality sector. That is why we have put various interventions in place to help protect the 2 million jobs in that sector, though I do not think you were a big fan of the eat out to help out one. They are designed particularly to try and safeguard jobs that would disproportionately not just benefit women, but also young people, those from ethnic minorities, and some of our more deprived coastal and rural communities.

With regard to childcare and nurseries in general, I can say that nurseries have received a full business rates holiday for the 12 months this year. Those childcare providers are receiving all the Government funding that they would have got, regardless of whether they are getting those children in and providing that service. That equates to about 50% of their revenue, which we have stood behind. The business rates discount, and 50% of the revenue guaranteed regardless of their activity, supports that sector. You are right about the impact on women, which is why I believe things like eat out to help out are important in trying to safeguard those women's jobs.

Q868 Ms Eagle: Finally, I just want to come back to an issue of value for money and public procurement. I was fairly staggered to see the cost of £15 billion to date for procuring PPE in your summer statement. Given that there is a health emergency, it is possible for procurement contracts to be made very quickly, without the usual safeguards being in place. Are you worried about value for money in public procurement in this area, especially given some of the examples of contracts that are just now coming to light?

For example, PestFix, with listed assets of £18,000, was given a £32 million contract not to make, but to supply, surgical gowns from China. It has still only delivered half of those, which are sitting in a warehouse somewhere unused by the NHS. An employment company with net assets of £623 was awarded an £18 million Government contract to supply face masks. A confectionary wholesaler was given a £100 million contract to buy PPE, with no previous obvious examples or expertise in this area. Do those examples and the level of money that has had to be spent worry you about value for money?

Chair: Chancellor, can you give a swift answer? I am sorry to hurry you. We are just a bit tight on our schedule.

Rishi Sunak: Angela, I will ask Dan to give you a little bit of detail, just to make sure he is not just sitting here. Then I will give you a broader, quick reflection, if Mel lets me.

Dan York-Smith: One thing to clarify is that the figures are in the summer economic update. Those are about approvals, rather than actual spending. This is how much the Treasury has approved Departments to spend for the financial year, so it does not represent what they have spent. I know this came up with one of my Treasury colleagues in the



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Public Accounts Committee. We are very clear that Departments still have to apply “Managing public money”. The Treasury is still scrutinising requests for novel, contentious or repercussive spending. Given the nature of the crisis, we did a lot of spending approvals at pace, but it is still a requirement for the Department to follow “Managing public money”, and for accounting officers to satisfy themselves that the contracts they are signing are good value for money. Departments will have to report in the normal way, through estimates and so on, what they have spent relative to the amount of money that has been approved.

Rishi Sunak: Thanks. I will just add that we are not responsible for the individual contracts. Individual departments will be in charge of that, as Dan alluded to. You will remember the acute phase of this crisis. There was a global shortage of PPE, and everybody was trying to get their hands on it. We delegated a lot of authority to the NHS, which was what the NHS wanted, so that they could move quickly and nimbly to get PPE for our country. As I said, it is easy to sit here now, but that phase was particularly acute. There was enormous stress. As Dan said, we were able to try and provide funding and approval in a slightly different way, so that DHSC and the NHS, which were ultimately the ones doing this, were able to move at pace. No doubt they will be able to talk to you and other Committees about those particular contracts.

Ms Eagle: I appreciate that, and I look forward to some better explanation from the Departments concerned.

Chair: Can I remind members to stick strictly to their 10 minutes, please?

Q869 **Felicity Buchan:** Thank you both for taking the time this afternoon. My questions are on changes to taxation, stamp duty and VAT. First of all, I welcome the temporary cut in stamp duty, but I personally feel as though it is a tax on social mobility. The rates at the middle and top end of the market, at 5%, 10% and 12%, are quite punitive and, I would argue, a deterrent to transactions. That is certainly our experience in my constituency of Kensington. Do you think that you have missed an opportunity here to do a root-and-branch review of stamp duty?

Rishi Sunak: Thanks for the question. We were not trying to reform the overall tax system here; we were trying to move at pace to inject some life into a market that showed signs of being in a difficult place. We saw transactions down 50%. I think mortgage approvals were down closer to 90%, from memory. House prices were falling for the first time in eight years. There were predictions that transaction volumes would not recover for a few years. All of that was worrying to the team and to me, partly because housing movement catalyses lots of other activity. An interesting study done in 2008-09—the last time this happened—showed that someone moving home capitalised about 5.1% of the value of the house in additional spending in the first year, and 0.7% in the next year. We know that household-related consumption is worth about 5% of



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consumption. We thought that people buying, moving, selling, and then renovating would be good for jobs and economic activity. That is why we acted in the way that we did.

I am perfectly happy to listen to your broader questions about the structure of taxation. Those are the kinds of things that we would deal with at Budgets; I refer to my earlier answer. You are right that most countries tax property. I do not have the figures to hand, but we tax transactions, and other countries tax asset values. People have done it in different ways. I think the big improvement we have made over time is to move to our now progressive "slab" system, versus the "slice" model that we had before. I think everyone acknowledges that that is a welcome change. The last thing I would flag is that because of the changes we have made for first-time buyers, the vast majority of first-time buyers do not pay any stamp duty at all. Dan, do you have anything to add on that?

Dan York-Smith: Not really. You are right; most countries have a form of transaction tax and a form of current property tax, like the council tax that we have. The relative values of those are very different in different economies, but most countries have both a transaction tax and a recurrent tax.

Q870 **Felicity Buchan:** The estimate for the cost of the change is £3.8 billion. Is there a risk that we are subsidising transactions that would have happened in any instance and were already in the pipeline?

Rishi Sunak: There is definitely a risk of that when you do something like this. Was the last time this was done in 2008 or 2009? I forget. It was 2008, was it not?

Dan York-Smith: It was the end of 2008.

Rishi Sunak: Yes, it was the end of 2008 into 2009. We know that it generated an increase in transaction volume of about 20%, which was positive. To your point, it is clearly going to bring forward transactions that would have happened otherwise. They will now just happen sooner than they otherwise would, Felicity, so you are absolutely right. Ordinarily, that would not be a good thing; right now, that is actually what we want to happen. We need the activity now to help drive the recovery, given the situation we are in. Angela walked us through the OBR numbers. In this particular instance, when we are dealing with a recession like this, bringing forward some economic activity to a time when we really need it is exactly what we want to do. You are right that many of those would have been transactions that would have happened otherwise, but there is value to us in them happening now rather than later, to protect and safeguard jobs.

Q871 **Felicity Buchan:** Moving on to the changes to VAT, is there a risk that those changes do not pass through to the consumer and the £4.1 billion earmarked for the cost to VAT effectively just becomes an extra grant for those sectors?



Rishi Sunak: Felicity, I am not going to be able to sit here and direct the pricing of every single business in the country. That would not be right or appropriate. Businesses have been doing a difficult job throughout this crisis, and they have responded well when things have been asked of them. We do know that last time around, when we had a generalised VAT cut in 2008-09, about four out of five businesses passed that VAT cut on to consumers. I was out today getting my lunch, and that was certainly the case, and I know lots of companies are making a feature of that. It will obviously be a decision for individual companies to make.

I think the important thing is, whether the benefit slightly flows to consumers or to the businesses, or some mix of that, all of that is helpful for safeguarding jobs. That is what this is about. There are 2.4 million people who work in these sectors, and about 150,000 businesses. That benefit will flow through in different ways, but it will fundamentally make it more likely that we can safeguard more of those jobs. That is what this is about.

Q872 Felicity Buchan: The changes to VAT are due to end on 12 January. Is there an argument that that is exactly when you need to encourage people to go out to restaurants and bars? They may already be doing so in the run-up to Christmas, in November and December; is in January that businesses and consumers will need the stimulus.

Rishi Sunak: That is a fair point. We obviously cannot do this forever; it is very expensive. The question is whether we should wait until then, or act now. Given the situation—we are just coming out of lockdown, these businesses have been closed, and people are not used to going out and about—we thought the time to act was now. By coincidence, or whatever you want to call it, there are about four or five other countries that have done something similar. I think they are Belgium, Austria, Cyprus—I am trying to remember the others.

Dan York-Smith: Germany.

Rishi Sunak: Yes. There are four or five that have done targeted VAT cuts in these sectors.

Dan York-Smith: Norway.

Rishi Sunak: And Norway. Almost all of them end in October, December and January, actually. They have all done similar timeframes of support. This industry has just opened up and has been through a really tough time. This is when it needs our help.

Q873 Felicity Buchan: We have heard from a number of pubs that they are concerned that alcoholic drinks are not part of the VAT reduction. What was your thinking there?

Rishi Sunak: I think it was probably just the obvious one. There is a public health imperative alongside it as well. It is fairly common. From memory, both Ireland and France have excluded alcoholic drinks from



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similar measures that they have taken, and I think Germany actually excluded non-alcoholic drinks as well. I do not think it is uncommon. We want to be mindful of the public health side of things as well.

Q874 Felicity Buchan: Thank you. I am mindful of the fact that you do not want to talk about future changes to fiscal policy, but let me just ask you a couple of general questions. Our business rates are clearly a real issue for high streets. You have committed to a fundamental review of business rates. When do you expect to opine on that? Do you have the flexibility to make major changes, given the deficit at the moment?

Rishi Sunak: As you have rightly highlighted, we remain committed to a fundamental review of business rates. We said we will publish the next stage of that relatively shortly, and we will remain committed to that timetable. We will put that out there to get people's views.

Q875 Felicity Buchan: Will you publish a consultation paper?

Rishi Sunak: Yes. Forgive me if I am not going to get this completely right between calls for evidence, consultations and fundamental reviews. There is some form of engagement happening on that, as we committed to in the Budget.

Dan York-Smith: We actually published the terms of reference for the review in March around some of the Budget. It was potentially just before the Budget, but I cannot remember the exact date. Yes, we are about to publish a call for evidence that will go into a bit more detail about the areas on which we are seeking input from businesses and others.

Q876 Felicity Buchan: Great. Yesterday you asked the OTS to investigate capital gains tax. I am again conscious that you do not want to talk about future fiscal policy, but what is your thinking behind that?

Rishi Sunak: It is a reasonably business-as-usual practice for the Treasury to ask the Office of Tax Simplification to examine various parts of our tax system to make sure they are up to date. It happens every year. In the last year or two, the OTS has looked at inheritance tax. Before that it has looked at capital reliefs, VAT, stamp duty, income tax and national insurance. I think capital gains tax is the only one it has not looked at, if you look back at everything it has done over the last few years. It is just a matter of annual administration that it picks a new area of tax policy, or we jointly pick an area for it to look at. It has done all those other taxes over the past few years, and this is just the next one on the block to look at.

Q877 Felicity Buchan: Just one final question. I think the £5,000 subsidy to green houses has generally been welcomed. However, we are hearing from lots of manufacturers that orders are being pulled left, right and centre until there is clarity on what will be subsidised. People are concerned about proceeding with works now and not getting a subsidy. When will you be able to give clarity?



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Rishi Sunak: That is an excellent point and one I am cognisant of. It has been raised with me by other colleagues, including the honourable Member for Shipley. I have spoken to the Business Secretary, Alok Sharma, about this, because his Department runs this initiative. It is modelled quite closely on something that it has done previously called the green deal home improvement fund. It primarily funds things like cavity wall and solid wall insulation, where there is the greatest return on public subsidy for a carbon saving and it makes the most behavioural difference. I think those are the primary measures. Once those are done, you can add on secondary measures as well.

Alok is aware of the issue that you have raised. I think BEIS is trying to provide further clarity and guidance as quickly as possible in advance of the scheme actually going live in a month and a half or two months. It is a fair point, and I can reassure you that the Business Secretary and his team are on it.

Felicity Buchan: Thank you. That is my time up.

Q878 **Alison Thewliss:** In March, you told us that you were alive to the urgency of action, and you were working to ensure that people could get the support they needed. You will be aware of our Committee report, published last month, which highlighted that over 1 million people have not been eligible for support through either the job retention scheme or SEISS. Can you honestly tell us today that you are satisfied that you have done the best you can to support those whose livelihoods have been affected?

Rishi Sunak: Yes. As you say, I know there will be people out there who will feel that they have not got help in the exact way they would have liked. I completely understand that; I sympathise with it, and indeed I apologise for it. We took the decisions we did—not all easy decisions—so that we could help as many people as possible, as quickly and as fairly as possible. I do believe we did succeed in that aim, but that does not mean there are not people who feel that they should have been treated in a different way.

As I have said previously, there are lots of different things out there that people can access for support. It is not just the self-employment scheme or the furlough scheme; it is loans, mortgage holidays, changes to the safety net and council tax grants. I hope all of these will make a difference, but I understand why people feel that way.

Q879 **Alison Thewliss:** This is not really about people not having the support they would have liked. My inbox, and I am sure the inboxes of all of my colleagues on the Committee, are absolutely crammed full of emails from ordinary people, some of whom have had no support at all: tradespeople, taxi drivers, beauticians and freelancers. That is correct, is it not?

Rishi Sunak: There will be some people who have not been able to get the help in the way that they would have liked to get it. I think the



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Licensed Taxi Drivers' Association were actually quite complimentary about the self-employment scheme in particular.

Q880 **Alison Thewliss:** It is not "not the support they would have liked"; they have not had support at all.

Rishi Sunak: I obviously do not know the individual circumstances of every single person, but as I said, we have strengthened the local housing allowance for those who are renting, with billions of extra pounds to make sure that rent is up to the 30th percentile and covered. We have instituted standardised mortgage holidays for those with mortgages.

Alison Thewliss: I was on about incomes, though.

Rishi Sunak: We have strengthened universal credit. We have provided small business loans for people who have businesses. We have provided cash grants for small businesses and business rates holidays. Lots of different things have happened. There are 50 million adults in this country and I do not know the individual circumstances of every single one. Are there going to be people who are having a very difficult time at the moment? Of course there are. There is no way I can make sure that every one of 50 million people is completely unaffected by this; it would be unrealistic to expect otherwise.

I do take some comfort in the results and analysis that we published alongside the statement last week, which showed a distribution analysis of how household incomes have fared during this crisis. That analysis very clearly shows that those in the lowest income deciles of household income have had their incomes protected the most on average. Is what we have done completely perfect? Absolutely not. Has it impacted absolutely everybody? Obviously not, but it has helped a lot of people in general and on aggregate. The most vulnerable and poorest in our society have been helped the most.

Q881 **Alison Thewliss:** Almost a third of Members of Parliament are members of the Excluded UK APPG, which I am pleased to co-chair. Will you listen to the concerns raised by the APPG? Will you meet with the APPG and look now to find ways of addressing the people who have been missed?

Rishi Sunak: Again, I echo and repeat what I have said before. I have explained why we have made the decisions that we have made. We have put in place various different things. I have listened to people all the way along. I have had questions multiple times in Parliament and from the media. I have spoken to many stakeholder groups. At this point, we are now looking forward; we are not looking to introduce new things for the past. We are now looking to try and protect, create and support jobs for the future. Our focus is on delivering the policies that we announced last week. As Angela pointed out to us, we have a pretty distressing set of economic forecasts to contend with. Many people are at risk of losing their jobs. We are now throwing all our energy at trying to protect as



many of those jobs as possible, create new ones and support people to find those new opportunities. That is what our energy is now focused on.

Q882 **Alison Thewliss:** Looking to the future does not really help over a million people who have not had the support that they need. Would you accept that it is unfair that the set-up of the job retention scheme and SEISS means that very similar households and next-door neighbours could see thousands of pounds of difference in support, because of a single-day delay and an RTI notice to HMRC, or because they are a single pound above the £50,000 threshold?

Rishi Sunak: I accept that the £50,000 threshold means that someone who earns £50,001 will feel particularly upset; that is absolutely right. What would the answer be? You could say, "We do not think there should be a threshold at all," but we have had this conversation about dead weight previously. Trying to minimise dead weight in action means that you have to make some hard decisions. Therefore, you have a threshold.

Why is £50,000 appropriate? I think it is defensible. It is obviously hard for the person who earns just the other side of it, but we have to make policy in aggregate. Setting a threshold at £50,000 means that 95% of people are included. This is just the top 5% of incomes, and on average, those people earn £200,000. Given that we do not know whether these people are impacted by coronavirus and they are just receiving cash from the taxpayer, I thought it was reasonable to make the assumption that we can say to those above that threshold, in the top 5% of people earning in this group, that we hope they have the financial resilience, and that we should concentrate our support on those earning under £50,000, cognisant that that covers 95% of people.

Q883 **Alison Thewliss:** You have had a long time—since March—to look at this, review the policies, and review the job retention and SEISS schemes. Why have you decided not to make any further changes?

Rishi Sunak: We made the decisions that we made for the reasons I have just set out. I have explained them as best I can. When we extended the schemes in May, I said that I acknowledged that people would be upset and would feel that they had not got the help they needed. From this point forward, we were looking to focus on the future. We could not introduce new schemes to deal with these things. Indeed, as I have said previously, some of these are conscious policy decisions. The best I can do is explain why I have made those decisions.

Q884 **Alison Thewliss:** You said the average is £200,000. What is the median?

Rishi Sunak: I do not have it to hand.

Q885 **Alison Thewliss:** Can you send that to us?

Rishi Sunak: I will see if we have it, yes.

Q886 **Alison Thewliss:** Lastly, there has been a huge amount of attention for the maternity petition that the Petitions Committee have looked at.



Would you consider extending parental leave for three months?

Rishi Sunak: I think, with regard to the maternity side of things, we did make a change to the self-employment scheme, after engaging with stakeholders to make sure that those whose eligibility was threatened by them not qualifying in the relevant year had the ability to use previous years to qualify for the scheme. That was fixed and accommodated reasonably recently.

Q887 **Mr Baker:** In case it was not clear at the very robust session that we had with the Chief Secretary, I think it is clear that I and others wanted changes to help those people who have been excluded from help. You seem to be saying very clearly today that you are drawing a line under any possibility of changing the schemes to help those people. Can you confirm that that is what you are saying today? Have you had any political advice on the consequences of saying that?

Rishi Sunak: That is actually something I said back in May when we made the announcements about extensions to the self-employment scheme and the furlough. I acknowledged this point about people not feeling that they have had the help they needed and drawing a line. I cannot remember if I used that exact phrase or not, but I was clear then. I was re-explaining the reasons for the decisions that we have already made.

Mr Baker: I think you have made it very clear where we all stand, but I do not look forward to the email.

Q888 **Harriett Baldwin:** Chancellor, I know that the gilt markets are drawing reassurance from the fact that in the past, you have been so firmly of the view that governments should be careful with the size of the deficits that they run. To quote you directly, you felt that deficits over 90% could start to damage growth by 1% a year. I just wondered if you could update the Committee. At the Budget in March, you said that the debt interest this year would be £56 billion—the third-highest-spending Department in Government. Interest rates are at a record low. Can you just update the Committee as to what the expectation of that outturn will be this financial year?

Rishi Sunak: Harriett, thanks. I do not have an up-to-date number for you. As you would know, the OBR will do that as a matter of course, when they can fully cost everything, come the autumn Budget. You are right that it will be a reflection of two moving parts. The debt will be higher but the rates will be lower. I think those two things might largely offset each other in the short term, but we need to see, because that is a constantly evolving picture.

Your point before was spot on, and I think I was quoting a reasonably famous Reinhart and Rogoff paper about debt to GDP and the impact. I cannot remember exactly when the paper was written, but it was probably written on the basis of far higher interest rates than we are now experiencing. For a long period of time, long-term nominal interest rates



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in Western countries like ours or the US were figured to be 4 to 5%. They are clearly not; they are considerably less than 1% at the moment. That is a different environment. To the extent you would think that is sustainable, you would probably have a different view on your ability to carry a higher debt burden.

If 90% was the right answer some time ago, you would probably have to think about that differently in an era of low rates. Your point is very well made. It is the sustainability of those low rates that no one can know perfectly. That is why I think any future fiscal framework would need to have some recognition of interest costs in it—we started moving towards that anyway—to deal with the fact that, if you are carrying such a high debt load and interest rates change, that is a problem for your fiscal sustainability. You would want to have something that could accommodate that and make sure that you were responsive to a change in that environment.

Harriett Baldwin: Yes. We cannot predict what interest rates are going to do, but we can say with a fairly high degree of confidence that they are about as low as they are ever going to be, particularly with the amount that you are exercising the nation's credit card at the moment.

Rishi Sunak: Yes.

Q889 **Harriett Baldwin:** I noted in the introduction from the Chair that you did not deny the fact that taxes are going to have to go up. You are obviously not going to be drawn on which taxes, so I am going to try Dan. Dan, are there any taxes that you are not currently doing analysis on? I am particularly interested in the sugar tax, which came in when I was a Treasury Minister. I know the Prime Minister has mentioned the need for us all to keep our waistlines down, and I am no exception. I also wondered about the fuel duty stabiliser, which came in in 2011. It came in with the specific premise that it would be looked at again if oil prices fell to the kinds of levels that we are seeing now. Dan, can I draw you out a bit on which taxes the Treasury is not looking at?

Rishi Sunak: Just before Dan attempts to find a way to answer that, just to make sure that we are clear, I am going to say exactly the same thing all the time, rather than have people thinking, "You have not confirmed or denied x." I do not want people to get into this habit, between now and the autumn Budget, of trying to read things into what I say. I say this clearly to any journalist or colleague I speak to. I am going to give the same answer, which is that I am just not going to comment on future fiscal policy. People should not then infer, "You did not rule this out," or "You do rule this in." I am just going to give you the same answer every single time.

In the same vein, it will be difficult for Dan to answer that question. Of course we look at everything all the time; that is what we do. I think your broader point is about fiscal sustainability is right. It is one that you know



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I share, and you are right to highlight it in the way that you have. You should keep pushing me on it.

In terms of what that means for spending and taxes, those are decisions that have to wait until we get to Budget. There are tough choices ahead; that is clear. We have an ambition to deliver on our priorities and the promises we made. We have been in this hopefully once-in-a-lifetime episode. It has had an enormous impact on our economy, jobs and public finances. That means that there are some tough choices to come, but it is difficult for us to go into more detail than that.

Harriett Baldwin: I gave it a good try.

Rishi Sunak: Yes.

Q890 **Harriett Baldwin:** I am going to change the subject completely. In November 2018, the Treasury published its estimate of what the various different types of free trade agreement that we might strike with the EU would be, and what the most optimistic forecasts of very good trade deals with the rest of the world might be. I wondered whether the Treasury has plans to update those, because a lot of water has flowed under the bridge since November 2018.

Rishi Sunak: There were no specific plans at the time. I was not there, Harriett, but I remember the foreword of that report saying something to the effect of, "These are scenarios, not forecasts. There is inherent uncertainty in this type of work, and they should be treated with caution." One thing I am humble about is the ability of economic forecasting to be that accurate, particularly right now.

Q891 **Harriett Baldwin:** Fair enough. Yesterday or Monday, though, the Chancellor of the Duchy of Lancaster did update Parliament about what some of the potential transaction costs will be for businesses.

Rishi Sunak: He did, yes.

Harriett Baldwin: I just wondered, in light of that, what the potential outlook is for economic growth.

Rishi Sunak: As I said, we have not done a macro forecast, and are not planning to. Given all the other uncertainty we are seeing in our economy, it probably would not be a particularly accurate or constructive exercise. I do not know if Dan would disagree with me there. You are right. On the discrete things we are doing as part of preparing for a new set of trading relationships, it is right, as the CDL did, to provide information around that, partly on some of the transaction costs but also on the investments we are making—the close to £800 million in resources, staffing and border infrastructure to prepare ourselves properly.

Not only is that the right thing to do, because we should be ready as a country and work with our businesses, but it sends a strong signal to our



European friends and allies that we are getting ready. They should not assume that, just because of coronavirus, we are in some defensive position, and that we need something from them. We are ready to embrace our future. We are making the preparations that are required. We are investing in what is required to prepare ourselves for it at our borders, and we very much hope we can also conclude a successful trade negotiation alongside that.

Q892 Harriett Baldwin: I think I have time for one last question. I want to go back to the point Angela raised about the £15 billion that you secured for PPE in the statement last week. That is a half a Trident programme. Can I just ask you to assure the Committee that you and the Chief Secretary will go back and ask some very hard questions about some of the spending that happened, and about making sure that we have a really, really big stockpile of PPE?

Rishi Sunak: I can assure you that both the Chief Secretary and I, and the rest of the Treasury, keep as close an eye as we can on all these things. I do not have the detail of those individual contracts that Angela mentioned, but DHSC will no doubt be able to talk more about those. You are right; we of course should be very prudent with taxpayers' money. It is a crisis. We are operating at pace and trying to do things quickly to protect ourselves, but that does not mean that we should not be responsible with the decisions we are making, and we take that responsibility very seriously.

Q893 Rushanara Ali: Good afternoon, Chancellor. I want to start off by saying that obviously all of us appreciate what you did immediately as the virus hit with the job retention scheme and some of the other interventions. So far, the responses today on those who have been left behind do seem to suggest that your ability to listen, respond and take into account the perspectives of colleagues has stopped. Three million households have been left behind, according to the Standard Life Foundation, the New Starter Justice Campaign, and the all-party group on the excluded, which almost 100 cross-party Members of Parliament have joined. They are very concerned about people who are being left behind because, as your Chief Secretary said in the last session when I asked him, you had to look at the hard edges when you were introducing a programme that could be simply and easily applied and, as a result, there have been trade-offs.

Taking into account your party's references to "levelling up", this crisis has obviously created huge problems. Given your response and inability to take into account the need to do something to help those who have been left out—the 3 million—it does feel like you have stopped listening. What do you have to say to that? Is there anything you could do in terms of reconsidering help for the 3 million households that still have not had the support that they need? They are not earning £200,000. I have freelancers and supply teachers who have suffered in this crisis who do not have anything because they have been left out.



Rishi Sunak: I am sorry. There is probably not much that I can add to my previous responses on this. These decisions were made with reasons, and I have tried to explain them. I am happy to explain them again, but if we go back to, for example, this £50,000 line, it is not a question of not listening. It is a question of a decision that I took to target support on those who I thought most needed it, and to draw a line at a place that I thought was reasonable—where people’s incomes were in the top 5%. I thought that was a reasonable place. People can disagree with that. I completely understand that, and they will be upset, but that is not a question of me not listening. That is a question of me making a decision, explaining it and people disagreeing with it. That is the job I have.

Q894 **Rushanara Ali:** Let me move on to my next question, which is partly related to this point. Earlier on, you mentioned in response to Angela’s question the £9.4 billion you are going to spend on the job retention bonus, and you said that targeted approaches are not appropriate. There seems to be an inherent contradiction there. On the one hand, you are not prepared to target support and respond to the 3 million households that are excluded. On the other hand, you are prepared give a £9.4 billion job retention bonus. As a Labour MP, I do not often quote *The Spectator*, but it has taken this apart, because it will lead to perverse incentives, with businesses bringing back people they might have made redundant so that they can benefit from the furlough scheme, and getting rid of people who might have put their lives at risk to do their jobs during the pandemic. That does not seem like a particularly targeted response that is going to be effective, and it is very costly. What do you have to say to that?

Rishi Sunak: Do you think there are some people or some group of people that should not be eligible for the job retention bonus? Again, we are hearing that it should be more targeted, but being more targeted means people should be excluded, and I am just wondering who should be excluded from it.

Q895 **Rushanara Ali:** What I am saying that it is quite possible, and there are commentators not necessarily on the left who are concerned, that your approach could lead to small and medium-sized businesses not actually getting the help they need through this scheme, and being able to take advantage of the bonus because they are not going to be able to afford to pay people the salary and get the £1,000 bonus. Others who may not need it and are likely to not need support will get the bonus. Could you at least send us an impact assessment?

Rishi Sunak: That is fair, so let me respond to that. As I have completely acknowledged, there is dead weight in the scheme, as there was in the furlough scheme and the vast majority of the interventions we have made. It is hard to be against the principle of dead weight if you are in favour of some of these other things that had to be developed at scale and at speed. In an ideal world, everything would be completely targeted, but it is not an ideal world that we live in. We are dealing with something



happening at a scale, speed and severity that requires a different response.

To your point specifically, I will walk you through why I think the impact is actually very positive. If you look at who uses the furlough scheme, 95%-plus of the 1 million businesses are small or medium-sized businesses. Two thirds of the employees work for those small or medium-sized businesses with five, 10, 15 employees furloughed. That is exactly the overwhelming number of businesses that constitute this population. That is the first thing. If you are a small business with five employees whom you have furloughed and brought back, £5,000 will make a lot of difference.

The second thing to say is to your point of, "Well, how do you compare it to employment costs?", which is the right question to ask. Look at the 50th percentile, or average, of someone in the furlough population, and look at the total employment costs from August through to January, and compare the £1,000 to that. We cannot be completely precise about the maths, but the £1,000 represents roughly 20% of the employment costs over that period. That 20% is quite a significant incentive for employment outcomes. There are good studies on this. All the labour market evidence we have from previous hiring subsidies or apprentice incentives, which are typically set at around 11%, have shown positive labour market outcomes. I do believe, given where it is set, it will have a very positive impact on hiring and retention decisions for that group.

Q896 Rushanara Ali: In terms of the £30 billion or so spent on interventions that you have made, are you confident that, on balance, alongside the interventions you made with the job retention scheme and the support to businesses, that is enough to prevent the projected rapid rise in unemployment, including youth unemployment, numbers? Those numbers are very worrying for all of us. If you are not—obviously we have the Budget later on in the year—do you feel that it might have been better to do more now, or is it okay to wait until later on in the year? People are very concerned about a second wave of the coronavirus pandemic, about uncertainty on what kind of deal we are going to have on Brexit, and about how much friction there will be even if we secure a deal, or, in the worst-case scenario, if there is no deal. Do you think that package is adequate for now, or should you have taken advantage and gone for something much more ambitious and bold?

Rishi Sunak: I would agree with you. I am particularly worried about youth unemployment. We know that young people are two and a half times more likely to work in closed sectors. We also know from experience and from academic and economic evidence that young people are the ones who are at the greatest risk of scarring. If they lose contact with the labour market early on in their careers, that has a very damaging impact on them for years and years to come. This is why it is right and appropriate to target interventions on them, which is why we



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launched the kickstart scheme, which will particularly and acutely focus on young people up to the age of 24.

Rushanara Ali: The Chair is telling me that I am running out of time, so I just have a quick supplementary on that.

Chair: You really are out of time. I am going to stop you there.

Q897 **Julie Marson:** Thank you, Chancellor, and good afternoon. I would like to turn to the corporate sector, if I may, and just very briefly turn to something that has been alluded to a couple of times. I completely accept your position about not referring to future fiscal policy. Would you agree, however, that for the corporate sector, the prospect and fear of future taxation can be a real drag on investment and recruitment and, therefore, a drag on our potential recovery?

Rishi Sunak: Julie, I think the corporate sector has been through an incredibly tough time. It has been a really difficult period of time. That is why we have put in place what we have. We have provided an enormous amount of support to businesses over the last few months, whether it is through business rate holidays, tax deferrals, cash grants or, indeed, an enormous Government-guaranteed loan programme, all of which are designed to help business. Last week's announcements were again supporting businesses, so that they can protect jobs, because that is what we would like them to do.

I think they can see very strongly that we are trying to stand behind them at this time. On the reception of this, I am hearing that businesses are very appreciative of what we have done and welcoming of it. Obviously there are some people who would like more, or would like different things, but in general, we have done what we can to give them as good a boost as we can, coming out of lockdown, and hopefully to safeguard as many jobs as possible.

Q898 **Julie Marson:** You referred earlier, and I accept what you say, to historical corporate debt levels being relatively low. However, we have seen estimates from TheCityUK that the scale of unsustainable corporate debt could be in the region of about £100 billion, with about half of that being borne by SMEs. It is unrealistic to think that the private sector will invest on that scale, so is Government intervention by way of bailouts and equity investments inevitable?

Rishi Sunak: As I said before, I do not necessarily think it is inevitable. We need to look at the evidence and see what is going on. Our starting position was very good coming into this. We do not know the exact shape of the recovery, so that will obviously have an impact on the sustainability of debt, depending on how rapid and steep a recovery we have. I have seen the report from TheCityUK and others and, as with everything, we are happy to listen and hear ideas from people if they think that there are things that we can do.

Q899 **Julie Marson:** In principle, are you comfortable with the prospect of



bailouts and equity investments, or picking winners, if you like?

Rishi Sunak: I am not. It is not something that I think governments should get into the business and habit of doing. It is not my money; it is taxpayers' money. It is not the Government's money. If that is being put to help very specific individual companies, if that is what your question is targeted on, I think the bar for that kind of intervention is very high. The bar for large, bespoke, individual company support is very high. Obviously, Government are always the last resort that can do that, now and historically, but it should be exceptionally rare. It should only be in situations where a company has some strategic value, clearly has a long-term viable future and the existing equity holders and creditors have shared in the burden and are not just looking for a free ride on the taxpayer. They must understand the situation has changed, and that will have implications for their current investments or for lending to that business.

Even if that all works, for the taxpayer, you would like to have conditions attached to anything you might do concerning executive pay, climate change, treatment of suppliers etc. As I said, it is not a situation that I would want us to be in. It remains there for exceptional situations. Thus far, there has been one instance of it through this entire crisis. That gives you a sense of how rare it should be, and that is partly a reflection on the widescale support that we have put in place, which has helped the vast majority of businesses.

Q900 **Julie Marson:** From your comments, can I draw the inference that Project Birch, for example, is still on the table, and that we might hear more over the coming months?

Rishi Sunak: I try to shy away from these names of things but, ultimately, in any country, government are always the lender of last resort. That is always the case. This was the case before this crisis and it will be the case forever. Clearly, there is going to be a slightly bigger call on the Government's role in that regard during a period of financial distress like this. That said, the bar remains where it should be. This is something that should be a rare situation. A variety of different conditions and criteria need to be fulfilled for it to be a plausible and sensible thing to be happening. Thus far, only one situation has emerged.

Q901 **Julie Marson:** Chancellor, did we lack public institutions to help distribute Government funds during the crisis? Is this a legacy issue that you would look to address in the future?

Rishi Sunak: Yes, I think that is a fair question. Obviously the British Business Bank is an institution. It does not do direct lending in that way, so we have had to use the existing banking system to deploy credit to people. As I think we have discussed previously and certainly other colleagues have raised with me in the Chamber, trying to implement loan guarantee schemes is one thing; making sure that that credit flows to individual businesses is another. Of course there are things that we need



to look at as to how that process worked. As we get through the other end of this, we can figure out what we would do differently and what we would change next time, though hopefully there is not a next time. We need to make sure that, if we want credit to flow to businesses, we have a way to do that. Working through the banking system is one option. Other countries have slightly more state-oriented banks. It is right that we look at all of that in the round and make sure that the British Business Bank is doing what we need it to do, and look at our relationship with the banks and what they are, so that they can do what they need to do.

Q902 **Julie Marson:** Thank you. I think I can squeak in one quick question about the global response. We heard a few weeks ago from Gita Gopinath from the IMF that, if there were a scenario of a second wave, the IMF's resources would be sorely tested. Would you and the UK Government be open to leading or supporting an increase in their resources, should that be the case?

Rishi Sunak: Yes. I think the IMF's lending commitments are about a quarter of its overall resources at the moment. I might be off by a bit, but it is there or thereabouts. They are okay for now. That said, I am in regular contact with Kristalina, who runs the IMF as part of the G7 and G20 forum. As you have probably heard from Gita, there have been unprecedented calls on the IMF, given the crisis. I would say that I think we should be proud of the fact that as a country we responded very quickly. We were one of the first countries to respond quickly to the IMF's call for extra help. We invested about £150 million in something called the Catastrophe Containment and Relief Trust, which is one of the most concessionary elements of what the IMF does. We also did a £2 billion loan to the Poverty Reduction and Growth Facility, which is similarly one of the more concessionary ends of what they do. We obviously stand ready to work with other members to provide resources as needed. I think they are fine for now.

The other thing again, for interest, is vaccines and therapeutics. We are the single largest contributor to CEPI, with just shy of £300 million. The Prime Minister championed a global effort to get global investment into vaccines and therapeutics. You are right that we should keep an eye on it, because there have been unprecedented calls on the IMF.

Q903 **Anthony Browne:** Thank you to you both for giving us your time this afternoon. Thank you to the Treasury team for the excellent work you have been doing responding to the economic crisis. I know you cannot commit yourself to future tax policy, but I have a question about future spending on infrastructure. Just before the crisis, you announced a £640 billion plan for infrastructure spending over the next five years, an absolutely vast amount of money. Can we still afford it?

Rishi Sunak: Again, ditto all future spending and tax policy for future spending reviews and Budgets, but I can completely commit to you that we remain ambitious about our infrastructure plans. This is something that the Prime Minister champions from the front. You would have heard



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that repeatedly from him, and you will hear it from me. The reason for that is simple. We believe that can be something that drives long-term growth and productivity in the country. To the extent that we do have low interest rates at the moment, the best thing to do with that is to use that to invest in infrastructure. It is not so much to use that to fund current spending. Most people would say, "Great. Use that to invest in long-term capital projects that will drive up your growth rate". That is what most people say when they say, "Take advantage of low long-term interest rates". That is our plan.

Coming into this year, we had planned to spend £88 billion. That represents a 20% increase on last year, and it represents about a tripling of the average amount that we have spent over the previous few decades. Even if that moves around a little bit, there has been a significant step-change up, and that is the right thing for the country's long-term productivity.

Q904 Anthony Browne: The Prime Minister recently announced his plan to "build, build, build", to use his phrase. Some of that was about planning regulations, but he announced some measures to slightly accelerate some infrastructure projects. How much have you been able to accelerate, and are there risks that you end up investing in projects that are not good value for money?

Rishi Sunak: Yes, you make a very fair point. There are two different things. One is we were able to bring forward over £5 billion of investment into this year that previously we were going to do later, but we found a way to do it this year. That helps drive our recovery and create jobs. That is what our Prime Minister talked about.

Separately, I think he also talked about something called "Project Speed", which I think is what you were also asking about. More generally, if we look at how we build infrastructure in this country, we are taking a fresh look, end to end, at the entire process, and figuring out if we can do things faster. There is a general conception that it takes a long time to get things done, and that is a function of lots of different things. It is right that there is process around planning, that we fulfil certain environment requirements and that people have an ability to take part in a process. We then need to design things and build them safely with minimal disruption. The Treasury plays a part in every stage of that process, in approving things. We need to look at that entire process and figure out whether it is as fast as it can be.

You are right: we still need to do things effectively, and not just say, "Oh, great. Here's cash. Get on with it", without any scrutiny; we have to get that balance right. Given we have got these ambitious plans, it is right that we look at our processes and figure out if they are as good as they can be. The Infrastructure and Projects Authority, which is a reasonably recent creation, can play a really important central role in that, and I think that will be quite valuable.



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Q905 **Anthony Browne:** One of previous witnesses, Professor Philip Booth from the Institute of Economic Affairs, said that we do not seem to have an effective measure in the UK for the Government to pick high-return infrastructure projects. Do you think that is an issue?

Rishi Sunak: I am trying to think. I do not know if Dan has an exact number, but there is an interesting but not great stat that shows that if you look over a long period of time, we do not do a great job of post-match analysis. We do not evaluate things after our major projects. Once they are done, we do not systematically go back and evaluate the project and figure out, "Okay, it said it was going to cost x. It turns out it cost y, and the benefit we thought was A is now B". We do not systematically do that. That is not us; that has been the case for a very long period of time. We obviously have to correct that. We need to figure out, "What did we think we were doing? Did we do it?", and learn from that, so that what we do in the future can be better or more effective. That is where the IPA in particular can play a really important role. Dan, I do not know if you have anything to add on that.

Dan York-Smith: No, sorry. I do not have the number to hand.

Q906 **Anthony Browne:** I understand you are evaluating the Green Book, the Treasury book, which gives you guidance on how to assess which projects are value for money and which ones are not. As I understand it, the review is to see how it can be changed to pursue the levelling-up agenda. Can you give us some more light on that? Would that not just be directing public spend into less efficient projects?

Rishi Sunak: That is a fair question to ask. What I will say is it is worth us looking at it. Broadly, it is not that it is a completely broken. Let us be clear that the methodology in the Green Book is one which many countries around the world have looked at and said, "Well, that is a pretty sensible way to evaluate projects". There are five different dimensions on which a project is evaluated. The pure financial return is just one aspect of it. The methodology, as it is constructed, already has the ability to take into account lots of different things.

That said, we have not looked at it in a while, and a lot of people have said that the way that some of the underlying, quite nitty-gritty calculations work is they might essentially bias investment in a particular direction, even though that is not the policy objective. That does not mean it is less value for money, or it is not productivity-enhancing; it is just some of our formulas might be constructed in a way that creates outcomes that we do not actually want to see. We think it is right to rigorously go through it. We want to involve a lot of outside people. For example, Diane Coyle is someone who has written about this a lot, and who I have spoken to in my old job. That is the process we are going through. Dan, do you have anything else to add on that?

Dan York-Smith: I agree; it is looking at how the formula works. For example, for some housing projects, if you invest in an area with higher



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house prices, you apparently get a better return, even though, in terms of the long-term economic impact, investing in an area with lower house prices might be the right outcome. That is an example, but the plan is for it to feed into the spending review later in the year.

Rishi Sunak: Exactly. I launched this whole initiative as Chief Secretary. I represent a northern, rural seat, so I was quite acutely interested in this area. I think it is worth us going through it. Part of it is the formulas and the other bits and bobs in the process, and then it is how it is used across Whitehall. This is a separate thing, as we have it, but are we using it in the way it should be used across Whitehall, and are Departments fully utilising the flexibility of it or making sure that they use it properly? That is all part of the process.

Q907 **Siobhain McDonagh:** Chancellor, we know that people are not equally affected by the coronavirus lockdown. If we look at private renters, they are 50% more likely to have fallen behind on their housing costs than people in other tenures. They are also likely to be in the occupations where they are more likely to lose their jobs. Given that they represent 20% of the workforce, they fear the reinstatement of repossession hearings in September and losing their jobs. What is in the pipeline for them that does not already exist? I would be very grateful if you did not refer to the discretionary housing payment fund, given that it already exists.

Rishi Sunak: I obviously cannot comment on things that do not already exist, but it is probably worth reflecting on the fact that there has been a five-month suspension of possession proceedings, which has been welcome, as you said. We are obviously entering a different phase of this crisis now, and we are moving out of it. We need to look at what is appropriate going forward. That will be a decision for the Housing Secretary, who is in constant touch with the sector. There have been some other things at our end at the FCA, with regard to working with lenders to make sure that there are buy-to-let landlord payment holidays, or equivalents of. That has happened. Lastly, I would say that for the full year—it is not just for now—the local housing allowance has been significantly increased in generosity, which helps renters. The change takes it up to the 30th percentile. That is something that is here for the full year.

Q908 **Siobhain McDonagh:** I am not sure that private renters feel that the Government are showing them generosity. There are 700,000 children who have been unable to complete any schoolwork since the lockdown because they do not have access to the internet or adequate devices at home. When they finally return to school, these children will be further behind their classmates. The digital divide is not restricted to the lockdown, and the costs are fractional compared to the sums discussed today. Would the Chancellor make funds available for children on free school meals to have internet access and adequate devices at home, so they do not fall further behind their classmates?



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Rishi Sunak: I completely share with you a passion to make sure that our children get the support they need during this. It has been one of the great sadnesses of this whole period that our children have not been in school. That is something that is, without doubt, a tragedy.

This is obviously not my specific departmental responsibility, so you will forgive me if I do not have all the exact details to hand. We did provide resources and funding to the Department for Education, and the Secretary of State has done a very good job of getting not just laptops but internet connectivity out to a very large number of vulnerable children and their households and, alongside that, making sure that resources were available. The Oak National Academy was created in order to provide those resources for children during that period. You will also know about the very significant announcement that he made a few weeks ago about a catch-up programme that will be a mix of intensive tutoring for our most vulnerable children combined with a per-school amount for them to use in a way that is appropriate to help children catch up once they are back at school.

Q909 **Siobhain McDonagh:** As the Chancellor will know, the Oak Academy is an online service. If you do not have the internet or a device, it is really no use to you.

We know that people of ethnic minority are more likely to be impacted by coronavirus, and are more likely to be made redundant than furloughed. On a Wednesday, I walk round the queue at my local food bank and I know that two thirds of the people in that queue every week are from black and ethnic minority communities. What plans does he have to help those people?

Rishi Sunak: What plans do I have?

Siobhain McDonagh: What plans do the Government have?

Rishi Sunak: Just to go back to the school thing for a second—as I say, you will forgive me because it is not my departmental responsibility—there has been provision made, and laptops and connectivity have been provided to a large number of vulnerable children.

Siobhain McDonagh: Year 10s, Chancellor—not children in primary school.

Rishi Sunak: You will have to forgive me, because I am not entirely sure exactly which year has received what, and how many children. I would say that it is not fair to say that nothing has happened. Very early on in this crisis, the Secretary of State has made sure that some of our most vulnerable children did have access to connectivity and laptops.

To the point on ethnic minorities, one thing I would say again is this is why the focus on the hospitality sector is important. It is a sector with 2 million people who are disproportionately lower paid, young men or women, and from ethnic minorities. They are over-represented in those



industries, which is why I think the initiatives announced last week as part of the plan for jobs targeted that sector, including eat out to help out, will disproportionately benefit people from those communities. I want to try and safeguard as many of those jobs as possible. As you said, people from those communities are disproportionately represented in those jobs, so that will be a policy that will provide benefit to many of them.

Q910 Siobhain McDonagh: Chancellor, I do not know about the other female members of this Committee, but I bridled when earlier, in an answer to Angela Eagle's question, you suggested you did not have time to mention women in your 22-minute statement. We are 51% of the population. We are more likely to lose our jobs. We are more likely not to be able to do the hours that we normally do. What does the Chancellor have to say to constituents like mine, including Winnie, who works at Marks & Spencer and is presently on unpaid leave because she simply cannot get childcare for her children?

Rishi Sunak: Sorry, Siobhain; when Angela asked about the childcare sector, which is what I took her to mean, I said I could not mention every single sector of the economy, of which childcare is one, in a 22-minute speech. I talked about our provision for nurseries through business rates and funding them, because it is very important that that sector remains strong. In a 22-minute speech, it is just simply not going to be possible to mention every single sector and every single group of people.

Siobhain McDonagh: We are 51% of the population.

Rishi Sunak: It was not about women. It was about the concept of the childcare sector, which is not the same as not mentioning women. Specifically, as I stated before, women are disproportionately represented in the 2 million jobs in the hospitality sector. As I have said repeatedly, it is a matter of social justice that we are able to reopen this sector. The 2 million people working in this sector are disproportionately young people, who are also important; they are disproportionately women; they are disproportionately lower paid; and they are disproportionately from ethnic minorities.

All of these are things that you and I care about, which is why last week I announced policies. I am unclear whether or not you support the eat out to help out discount. I thought it was worth doing something novel that we have not tried before, because I wanted to throw everything I could at trying to protect those 2 million jobs, because of the types of people who were in those jobs. Women will disproportionately benefit if we can safeguard these 2 million jobs, and it is because I care passionately about that that I did the things I did last week.

Q911 Mike Hill: Thank you, Chancellor, for attending. On the back of Siobhain's comments there, I want to very quickly discuss some of the areas in which women are predominantly employed, and that is health and social care, and I want to touch on local authority spending.



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Following on from Anthony's question on the issue of future spending reviews, you have announced a spending review. Will this be a full three-year review? When will Departments receive their instructions for the review? Will we get some positive news on free hospital car parking for NHS workers in the next Budget?

Rishi Sunak: Mike, there is lots there. Let me just try and work through it. With regard to women in particular, it is probably worth bearing in mind some of the policies that I announced at the Budget that will disproportionately benefit women. One was obviously abolishing the tampon tax, which is something we announced in March. We also introduced 12 weeks of neonatal leave and pay. The third thing was the changes we made to enhancing tax-free childcare, which will mean the parents of about half a million children will have access to greater childcare, particularly that wraparound childcare provided through schools. Those are all things that we did at Budget that I think were warmly welcomed at the time, and will continue to be of benefit to many.

With regard to the spending review, the timing for that will be announced in due course. You will have to wait, but I do not think you will have to wait too long. It is something that normally would be launched at some point in the summer in order to conclude in the autumn, if that is what one wanted to do. Of course, we have to do that, and that will happen reasonably soon.

Q912 **Mike Hill:** In terms of the future spending review, another area where woman are disproportionately affected is pensions. A straight question: are you planning to revisit the pensions triple lock in the next Budget?

Rishi Sunak: It is the same answer, Mike, that I have had to give to Angela, Harriett, Mel and others. I cannot comment on future fiscal policy now.

Q913 **Mike Hill:** I know you answered a similar question from the Chair, but I have to ask it again. In those circumstances where you did look at something like that, that would be a move away from the Conservative party manifesto. I know that times are a lot different, and that covid-19 has had its effects, but would it be acceptable to you to consider breaking away from that manifesto and some of the promises contained within it, like protecting the triple lock?

Rishi Sunak: On the triple lock, your Committee has had evidence from others that has pointed out the anomaly in the way that it might work, depending on the very particular trajectory of declines in earnings and then rapid rises over the next few years. Your Committee is very abreast of the particular mechanical issues that that causes, which are appropriate for people to raise and appropriate for us to look at at the right time. Commenting on future policy is not something I can do, Mike.

Q914 **Mike Hill:** What about local authorities? Local authorities have, as you know, borne the brunt of covid-19. They have provided a lot of financial support, which has been necessary to keep their communities going. We



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have heard that funding for local authorities was treated as a residual balancing item in previous spending reviews. Can you promise that this will never happen again?

Rishi Sunak: Mike, you will remember we discussed exactly this when I was Local Government Minister. It is absolutely right that from 2010, for several years, local government took a very heavy share of the burden of bringing our public finances back to a sustainable position. That is something I said repeatedly as Local Government Minister. That is a fact. They did a heroic job on the frontline of doing that. You are right to highlight that. I share with you an admiration for everything they have achieved.

That said, that has changed. Certainly when I was Local Government Minister and then thereafter, they have had two good years of record rises in core spending power, significantly ahead of inflation and the rate of growth of the economy. Rates have increased 3.5%, maybe even 4% depending on how you cut it, over the last couple of years. That has been the trajectory up until the crisis, and that was very positive, and was warmly welcomed by the LGA, the County Councils Network, District Councils' Network and others.

During the crisis, they have again had a very difficult job to do. They have done it very well. They have been provided with over £3.5 billion of incremental funding to help them do that, including things like £600 million for infection control at care homes. Just a week or two ago, at the LGA conference, the Local Government Secretary announced a landmark deal to do some loss-sharing around some of the fees and charges that they were missing. Again, this was warmly welcomed. People can see from that that we have done what we can to support local government at what has been a difficult time for them, but that comes on the back of two years of quite strong increases in core spending power for them as well.

Q915 **Mike Hill:** Do you have future plans, or will you factor in future plans, for local authority budgets to cope with things like social care and the pressures that are brought to play on that?

Rishi Sunak: Yes. That is why we have committed to providing an extra £1 billion a year and making sure that we sustain that to help address some of the pressures in the system. That is what we already have done and plan to continue to do.

Q916 **Mike Hill:** Linking up with my cheeky question, if you like, on free car parking, the Committee and I are very grateful that you responded quickly to our intervention on the taxation of employees over covid-19 testing by employers. On learning lessons, especially in the care sector, to what extent have successive Government failures to deal with funding in social care caused the current problems in social care? Bear in mind we were promised a Green Paper, which was ditched, and we are now waiting on a White Paper on the future of social care provision.



Rishi Sunak: On social care, the Secretary of State is in charge of trying to find cross-party consensus. That is what we have committed to trying to do. I think he has written to your party leader. Coronavirus then happened and that, rightly, has occupied all of our thoughts in responding to that as a priority. We remain committed to trying to find and build that consensus. On something like social care, where the implications are for many years into the future, if we can find a broad cross-party consensus on a sustainable solution, that would be preferable, so that people have confidence that it will be a sustainable solution. I know that the Secretary of State for Social Care remains committed to that.

Q917 **Mike Hill:** In a sustainable solution, would you rule in or rule out integration of health and social care as one big Budget heading?

Rishi Sunak: I think the detail of that is for the Secretary of State to get into. As I said, he has started those conversations, as far as I am aware, with your party, Mike. Whatever reforms that we want to put in place for social care, we also need to look at what reforms people want to make and how they get paid for. We need to have that conversation in the round. Structures are a different part of that. You have spoken a lot about local government. They would have strong views on the right way to deliver social care, but those conversations will happen with the Secretary of State for Health and Social Care, as he is doing that work.

Q918 **Mike Hill:** My last question is back to the economics. The economic update revised Government spending upwards by £30 billion over the previous OBR estimates published on 19 June. Why was the figure for public spending in the OBR estimates so much lower?

Rishi Sunak: I think it was just a timing point, but Dan can give you that chapter and verse.

Dan York-Smith: What the OBR had included in their regular update on the costs of the Government's coronavirus interventions was what was announced at the Budget, and then several specific announcements that had been made by other Departments. Given we were doing the plan for jobs, and we were producing in one place, which we have not so far, a full record of all of the interventions supporting the economy through coronavirus, we updated the actual approvals that the Treasury has given. Most of these were in the public domain. For example, the Health Secretary had talked about the £30 billion of additional funding for the NHS through the Department of Health and Social Care, but the totality had not been confirmed, in terms of what that meant for overall public spending.

Yesterday, the OBR, alongside its fiscal sustainability report, updated all its databases to the latest confirmed numbers from the Government, as they do on a fortnightly basis, and indeed provided its early estimates of the plan for jobs measures. In a sense, it is unusual. Normally, you would only have an update on these sorts of things at a Budget but, given the nature of the crisis and the Government's response, the OBR has taken to



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producing these more ad hoc updates on Government policy. They reflect what the Government have confirmed and the OBR needed to confirm from the Treasury of the total amount of extra spending required by the individual announcements that the Departments had made.

Mike Hill: I would have liked to have pressed again on the issue of free car parking for NHS workers—they deserve it—but I am out of time.

Chair: Thank you, Mike. You did just press again, so well done.

Q919 **Mr Baker:** Chancellor, I am just looking at said fiscal sustainability report, with its quite horrific charts, which I am sure you are familiar with. The public finances are not on a sustainable trajectory, are they?

Rishi Sunak: No, Steve, they are not. That was the conclusion of the OBR report. Indeed, as they said, that has been the conclusion of every report like that that they have done. I liked all your highlights in that but, yes, it is important that our public finances are put on a sustainable footing in the medium term. It was right to act now in the way we did. It is not something I ever imagined having to do, certainly not on this scale, but it was the right thing to do. I think the OBR acknowledged that the situation would be far worse if we had not done that but, once we get through this, it is absolutely important, both for the economy and otherwise, for us to have sustainable medium-term public finances.

Q920 **Mr Baker:** Do you think Members of Parliament, the public and indeed commentators have quite yet internalised what all of this means to the public finances?

Rishi Sunak: Steve, hopefully you can do your bit to spread the good word. It is probably hard for me to say, but I certainly will keep saying that. It is something that is personally important to me. You will know that from speeches that I have made from the back benches. It is the right thing to do, and one thing the OBR highlighted is that, as Harriett talked about, we cannot be assured that interest rates will always be this low. This is one thing we have to have in mind; it might be that they just asymmetrically change.

The other thing is we seem to keep having these once-in-a-generation shocks with regularity. This is the second once-in-a-generation shock we have had in 10 years. That therefore makes you think what you do with public finances in “good times” may need to be a bit different. There is then an inter-generational argument about living within our means and making sure that we are looking after our finances that we continue to enjoy. Over the medium term, absolutely we need to return to a sustainable place. I would hope that parliamentarians and the public would broadly sympathise with that. It seems to me to be reasonably common sense, and hopefully people will get that.

Q921 **Mr Baker:** Thank you very much for your candour on this point. I want to turn to the border and Brexit. It is two years and seven days since I resigned over the decisions taken at a Chequers summit. I resigned with



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David Davis, and indeed the Prime Minister, over the Brexit policy. We now have a far, far better policy on Brexit, but the reason I mention this is that, at that summit two years and a week ago, it was decided that the Government of the day would dramatically accelerate its preparedness for Brexit. I was glad to hear that, because I nearly resigned that January over foot-dragging. How can it be that on the border today we are not ready, as we should be, to leave in January?

Rishi Sunak: Steve, you will have seen the CDL announcement from earlier in the week. We will have a fully-functioning border on 1 January. You will have seen our announcement about investing £800 million in a range of different things for border and other preparedness, which is absolutely the right thing to do. You and I absolutely share that desire. We need to make sure we have infrastructure that is ready to handle a new set of trading relationships.

What has changed is, as Michael pointed out, we are going to implement the brand-new border in phases. The reason we are doing that is because it is pragmatic. It is only going to take a few months to do it. There is a tight road map for what is happening, and that is because coronavirus has had an impact upon businesses' ability to prepare, as well as ours. It is right that we ease people into the new set of arrangements. That is something that will be helpful for business. It will help us adjust. The key thing is that no one should be under any illusions that we are fully committed, prepared and ready to transition to a new set of trading relationships. The announcement on Monday sends a very strong signal to anyone who was doubting that. There is concrete going in the ground, and we are ready for the future.

Q922 **Mr Baker:** Is there anything else that you can do further to ensure that the CDS customs system is ready for day one? I believe I know that the CHIEF system is available and can be used for GB but, for Northern Ireland there are additional issues. Is there anything you can do to accelerate the CDS system to be ready for day one?

Rishi Sunak: We are looking at all of that. It is going to be one of my areas of focus over the summer, Steve, having hopefully now moved out of the acute phase of dealing with the lockdown and coronavirus. It is something that I am going to spend more time on over the summer in particular. HMRC has been busy doing lots of different things. You are very familiar with the various demands on those various different customs systems, but the team and I remain committed to making sure that we are ready to go. The road map that we set out is one that we absolutely committed and confident of delivering to. You are absolutely right that we should be on it, and making sure that that happens.

Q923 **Mr Baker:** Can I particularly press you to look at the obligations on the European Union, in the withdrawal agreement, to adopt reasonable exemptions to the Union Customs Code proposed by the UK? We, as Brexiteers, took ownership and made sure we set out alternatives, and through Prosperity UK's work, I have been party to ensuring that. Can I



particularly press you to make sure that your officials, HMRC in particular, the Cabinet Office and all parts of Government—wherever there is a border function—ensure that they put forward reasonable proposals to the European Union? They should be proposals that can be seen as reasonable, and therefore can be adopted by the European Union, to ensure that those GB/NI arrangements are absolutely as seamless as possible.

Rishi Sunak: You are right, Steve. I share with you an ambition to make that all as seamless as possible. We are already engaged in the detail through the joint committee. A technical working group is going through all the various arrangements for different aspects of that. Thank you for reminding me of the clause, which I will happily remind everyone of.

Q924 **Mr Baker:** Thank you. Now, we have all held your feet to the fire, as is our job, but I have to say I think you have been dealt a hand, as Chancellor, that is as bad as it could possibly be. That is borne out in the fiscal sustainability report. With just one or two exceptions, which we have touched on, regarding support for those who have not been supported—you have made your position very clear on that—it is difficult to see how you could be playing this hand any better.

Knowing that you are not going to comment on future tax, and I do not want to draw you there, have you got any studies going on about what the taxable capacity of the UK economy actually is, and how close we are to the limits of taxation? The reason I ask that is I have long paid attention to the work of the economist David B. Smith. His work suggests that we are already at the taxable capacity of the UK economy and that, were you to raise the main rates of taxation, you would not raise more money. Without commenting on the tax or giving the same answer on the tax, are you looking at the taxable capacity of the UK economy? Might you draw some conclusions you can share?

Rishi Sunak: Steve, if you send me his work I would be very happy to have a look at it. Your broader point is a fair one. Fundamentally, we do not tax our way to prosperity. We can debate where the exact line one draws for that is and where we are on the Laffer curve, but that broad view is one I share. We want people to keep more of their own money. We think that is good for growth. I believe all of that, as you know.

With things like this, we also have a lot of demands on public services and they need to be funded. That is a question that you asked before about what people in Parliament and people in the country think about all of this. We, as a country and as a Parliament, need to look at these things in the round. We want public services. We have expectations on the Government to provide certain things. We then need to look at how we are going to fund those things. We must have that conversation in the round. We cannot only choose to talk about one side of it without having reference to the other. I hope, as you said, we can have a sensible conversation about all of these things in the round, both with the country and with colleagues, and that we can confront some of the tough choices



that are coming your way over the next few months. I am very grateful to your earlier comments, which were very kind.

Q925 **Mr Baker:** Finally then, since you were the leading advocate of free ports in the Conservative parliamentary party, I am absolutely delighted you are now Chancellor of the Exchequer and can see those policies through. Could you finish with just a brief word on your ambition, perhaps not just on free ports, but for this country, and where you want to see our economy in a few years' time?

Rishi Sunak: Free ports are an example of something that I believe in, and it is probably a good test case for my broader ambitions, because free ports use private enterprise to encourage growth and productivity in areas where we want to see more of that. If you look at where our ports are, they are in particular parts of the country that we want to try and make sure are not left behind. They are firmly part of our levelling-up agenda. I want to spread that opportunity to those areas by involving the private sector, because I believe that fundamentally is the best way to drive growth, productivity and prosperity in our country. They are a good example of doing that. They also help position us for our new future, which is one as an independent trading nation. This is something we could not do before, but we can do now; it is something that makes us look outwards to the world, grows our exports and keeps us connected to places around the world. That is part of our future.

All of that is underpinned by a strong investment in people. The reason I got into this is because of education. You have heard the Prime Minister talk passionately about this. I share that passion. We talked about it before as well. You are making sure that all our children have the best possible opportunity to thrive in life. Following that through with opportunities for our adults and young adults to get the skills they need is all part of that mix. If, in the spending review, we could deliver on that, make sure that people have the skills and the education they need and then provide lots of growth-enhancing opportunities like free ports all around the country, to me that is hopefully a recipe for future success.

Mr Baker: A bit broader than I expected, Chancellor, but thank you very much indeed.

Rishi Sunak: Thanks, Steve.

Q926 **Chair:** One of the key components of recovery now is going to be the extent to which people readily re-engage with the economy, go out, get involved in retail, bars, pubs, restaurants and so on. You will have lots of real-time data that you are no doubt poring over on an almost daily basis. What is it telling you at the moment?

Rishi Sunak: It is probably sadly too early to tell, Mel. You can see from around the world as well that it is not as if it is consistent. What most people have seen is an immediate bump straight after reopening, then a drop-back and then a slow and steady build, but at quite different rates in



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countries. Even within different states within the US, you are seeing that data. We are so early into our opening now that it is hard for me to give you firm conclusions. Yes, things are obviously better than they were, but they are still quite a bit down on last year, and habits have changed. We also see that in the polling data about, as you have said, people's confidence and security in going. We need to rebuild that. Part of that will come from people understanding where we are in the process of the virus. Actually, we have done a really good job, and prevalence has really, really been squeezed, which is fantastic news. We are able to control the spread through targeted approaches, which is better.

As people get out and about, they will see it is a new normal. The restaurants that we were talking a lot about have changed. You are ordering on apps. There are screens. You are sitting further apart. At shops, there is no trying on clothes. There is a different system for returns, and there are one-way systems. All of that is a new normal which makes it safer, so hopefully that gives people confidence. Things like our eat out to help out discount are deliberately designed to elicit a behavioural response, which we hope will make a difference to safeguarding those 2 million jobs. You are absolutely right. It is ultimately going to come down to confidence for a consumption-driven economy. Without confidence, we do not have that consumption. We all need to do our bit, and hopefully that will happen over the coming weeks and months.

Chair: Chancellor, thank you very much indeed. Thank you to Dan as well, but particularly to you, Chancellor, for having fielded such a wide variety of questions and having answered in such detail. It is fair to say there are some areas in which we have some comfort in what you had to tell us, and there are other areas where we feel you should go a bit further. In this session at least, it was the issue of the gaps. Do please keep an eye on those who have fallen through the gaps; that is a message from this Committee.

All of that apart, we totally recognise, as Steve mentioned, the extraordinary hand that you have been dealt at the moment and the massive challenges that you face. I think it is only fair for the Committee to thank all of those at the Treasury and HMRC at the moment for working incredibly hard to try and get us through this crisis. We do appreciate all that you are doing. Once again, thank you very much indeed for appearing before the Committee. That brings us to a conclusion.