

Treasury Committee

Oral evidence: Budget Autumn 2017, HC 600

Wednesday 6 December 2017

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

Questions 295 – 401

Witnesses

I: Rt Hon. Philip Hammond MP, Chancellor of the Exchequer; Clare Lombardelli, Director, Strategy Planning and Budget, HM Treasury.

Examination of witnesses

Witnesses: Rt Hon. Mr Philip Hammond MP and Claire Lombardelli.

Q295 **Chair:** Chancellor, good afternoon. Thank you very much for coming in for this session, which is our last scrutiny session on the Budget. Clare, I wonder whether you would like to introduce yourself for the record.

Clare Lombardelli: I am Clare Lombardelli; I am the Budget Director at the Treasury.

Q296 **Chair:** Thank you very much. We are going to try to cover as much of the Budget and topical issues as we can in the course of the next two hours. Chancellor, I wanted to start with the OBR's forecast of economic growth. In interviews after the Budget, you said of the OBR's downgrade to its productivity forecast, "The challenge for us now as a nation is to prove them wrong. The challenge for us is to deliver that higher productivity that will feed through into higher economic growth". I suppose the first question is whether you regard the OBR's forecast as unduly pessimistic, and how you plan that we are all going to beat it.

Mr Hammond: The OBR's forecast is based on its observation that over 16 fiscal events it has been over-optimistic in estimating the recovery of productivity growth. After 16 such forecasts, it has made a decision to



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take a different view about the recovery of productivity. You will have had a chance to talk to the OBR about this, but it is fairly open about the fact that it has simply taken a view that is mid-way between the view it has taken in the past and the experience of the last six or seven years, and set a new productivity path, which of course resulted in a significant downgrade of the forecast GDP growth.

Now, there is a healthy debate going on among economists about the reasons for the sharp change in productivity performance, not just in the UK but across advanced economies. Indeed, there is a healthy debate going on about the challenge of measuring productivity performance in an increasingly services-based economy and an increasingly digitalised economy. This is not a straightforward static environment that we face these challenges in.

But we recognise that we have a productivity problem in this country. The Government have taken significant steps to address it, including significant further steps in this Budget. We should take head on the challenge of the OBR downgrade of the productivity forecast to demonstrate that we can do better.

Q297 Chair: This is going to be your only Budget over the course of the next 12 months. Are you pleased with the way that you only now have one fiscal event or Budget in the year?

Mr Hammond: It was the right decision to move to a single fiscal event. As you know, many external bodies had been urging us to move to a single fiscal event. Many business organisations and tax professionals have said that it would make life much easier for users of the system. We think it will improve parliamentary scrutiny of tax proposals.

Of course, it has the huge advantage that proposals can be made in the autumn to come into effect the following April, and Parliament can scrutinise those proposals before they come into effect rather than having to scrutinise them after they have come into effect. It is the right way to go.

I can tell the Committee today that the spring statement will be held on Tuesday 13 March. I want to emphasise, again, that the spring statement is not a Budget; it is not a major fiscal event. It will be an opportunity for me to respond to the OBR's second forecast of the year; the OBR is mandated to make two forecasts during the year.

I hope also to use it as an opportunity to discuss and present to Parliament some ideas around some longer-term issues and to initiate some consultations that would then go through the summer and inform decision-making and announcements at the autumn Budget.

Q298 Chair: As you know, we try to do sessions of this Committee that are not purely on Brexit, but I am afraid it does not take very long before we get on to Brexit in this session.



Mr Hammond: It was worth a try.

Chair: Looking at the forecasts, Parliament is going to vote on the deal that is reached with the European Union at the end of the Article 50 process and on the legislation about the withdrawal agreement. Do you agree that for MPs and Lords to do their jobs properly they need as much information as possible, about both the deal itself, and the economic and fiscal consequences of the eventual deal that is struck?

Mr Hammond: Yes. When we have completed a negotiation and we have a deal, Parliament will want to have and should have full details of that deal. Government departments and, I expect, large numbers of external bodies will do extensive analysis of the implications of that deal. That is entirely helpful in order to inform Parliament's deliberations at that time.

Q299 **Chair:** I expect one of the bodies that will do that external forecasting will be the OBR. You will be aware that it has said it cannot yet forecast the impact of the outcome of the Brexit negotiations because—this is from its report in November—it has no meaningful basis on which to form a judgment as to the final outcome. Would you support the idea of the OBR forecasting the impact of the deal, once the terms have been negotiated, against a counterfactual of both no deal and continued membership of the EU?

Mr Hammond: I am not sure the counterfactuals are as binary as that, and that is always the problem with this discussion. There is a very wide range of potential future relationships with the European Union, ranging from, at one end, a set of relationships that very closely replicates the benefits of the customs union and the single market, which would involve high alignment and high access, right the way through to options that involve much less or perhaps no requirement for alignment, but consequently lower levels of access.

On the specific question of the OBR, my understanding is that the OBR's statutory mandate is to produce two reports a year, two forecasts a year. Of course, depending on the timing of the completion of negotiations, the OBR would obviously take into account whatever information was in the public domain or was provided by the Government when it is making its routine spring statement or autumn Budget report.

If the meaning of your question is, "Would I support the idea of the OBR being asked, additionally, to do a specific piece of analysis?" that is something we would have to talk to the OBR about in terms of resourcing. It might depend on where we were in the fiscal cycle. Clearly, in the run-up to a Budget or spring statement, the OBR is heavily committed with the statutory work it has to do. Whether it has capacity to do something else, were this event to occur at another time of year, we would need to explore with it.

Q300 **Chair:** In your answer, you used a word that has suddenly crept into Westminster parlance: "alignment". It has all sorts of meanings that we



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perhaps were not using even 48 hours ago. I am not going to read out to you the quotes from the Irish Prime Minister, because he set out to the Irish Parliament yesterday the nature of the proposed agreement about addressing the Northern Ireland-Ireland border.

But what he did say was that there was a third option, which he described as “a backstop if all else failed”, which would be ongoing regulatory alignment between north and south. It sounds—perhaps you could say whether you agree with this—like the Government were intending to reach an agreement that committed the whole of the UK to regulatory alignment even in the event of a no-deal scenario. Is that what you mean when you talk about there being many different potential outcomes at the end of the Article 50 process?

Mr Hammond: What I mean by, “There are many different potential outcomes” is that there are many different potential outcomes. Members of the Committee will readily understand that we could approach these negotiations with a range of different objectives, ranging from high alignment and high access through to low alignment and low access. Notwithstanding the intentions with which we approach the negotiations, we could end up with a range of different outcomes as a result of the negotiations.

You asked me specifically about the Irish Prime Minister’s comments. It is very important to see the Irish discussion this week in the broader context. The UK Government and the Republic of Ireland Government are absolutely committed to the maintenance of an open border on the island of Ireland and we are both bound legally by the Good Friday agreement to support and to maintain north-south co-operation and the other elements of the Good Friday agreement.

How do we protect what we have achieved in the Irish borderlands after Brexit? It has always been clear to us that the best way to answer that question is in the context of the end-state negotiations. If we achieve high levels of fluidity across the UK-EU border, it will make very much easier the delivery of the solution we require at the Irish border.

As the Irish Prime Minister has noted, that should be our first objective. It is a shared objective of the two Governments, and I expect when we move to phase two negotiations the Irish Government will be a strong supporter of a deep and comprehensive partnership between the UK and the European Union, because that is very much in the interests of the Republic of Ireland.

If the outcome of negotiations is not a sufficient level fluidity and a sufficient level of access arrangement to deliver what we need at the Irish border, the UK has put forward, in position papers we have published earlier this summer, ideas that would help to deliver what we need at the Irish border: for example, through the use of technology, we currently have an excise border between Northern Ireland and the Republic of Ireland but we have no infrastructure at the border. We



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operate an intelligence-led excise-policing regime, which operates in depth across the island of Ireland, via co-operation between the two Governments, police forces and customs authorities. We would look, as a second line of defence, at ways in which we could work together to find a bespoke regime.

The discussion this week has been around what the Irish Prime Minister has described as the third line of defence: if all else fails, how will we maintain the openness of the border in Ireland? As the Prime Minister has just said in Prime Minister's questions, and as the Irish Taoiseach has acknowledged, that cannot be done by creating a border or a customs barrier between Northern Ireland and the UK. It cannot separate a part of the UK from the remainder of the UK; it cannot disrupt the internal market of the UK.

Q301 Chair: Our time is very tight, and I have two more questions before I hand over to Catherine. I would really like a yes or no answer. Was the Irish Prime Minister right when he said that a third option in the event of a no-deal scenario between the UK and the EU is regulatory alignment? Those of us who are unionists believe the regulatory alignment would have to apply across the whole of the United Kingdom. But is the Irish Prime Minister right to say that in a no-deal scenario we could end up with regulatory alignment and that would be the way to cope with the issues you have described?

Mr Hammond: The important point here is that we are not talking about alignment across a broad range; we are talking about the specific circumstances of the all-Ireland institutions and arrangements. For example, there is a single electricity market operating in the island of Ireland. I can envisage a scenario where specific arrangements were agreed to allow that single electricity market to continue to function. We have an animal health regime that operates across the whole island of Ireland. It has been the case historically that, when there have been animal health concerns, like BSE and foot and mouth, movement of animals between the island of Ireland and the mainland of the United Kingdom has been subject to controls for veterinary health reasons.

There may be specific areas where bespoke solutions could work and will not be offensive, either to the Government in the Republic or to unionist interests in Northern Ireland.

Q302 Chair: I have one last question. In your remarks, you mentioned the phrase "end state". Has the Cabinet discussed openly, in a free discussion, the end state of where the UK Government want to get to by March 2019 and beyond?

Mr Hammond: The Cabinet has had general discussions about our Brexit negotiations, but we have not had a specific mandating of an end-state position. That is something that will be done first in the sub-committee that has been constituted to deal with this issue. Logically, that will



happen once we have confirmation that we have reached sufficient progress and we are going to begin the phase-two negotiations with the EU 27. We are not yet at that stage, and it would have been premature to have that discussion until we reached that stage.

Q303 Catherine McKinnell: Good afternoon. This morning, the Brexit Secretary, David Davis, gave evidence to the Brexit Select Committee about the now infamous Brexit impact assessments or sectoral reports. We have discussed these previously and you confirmed the Treasury has undertaken impact assessments on an ongoing basis. I want to ask whether these are reports the Treasury might be willing to publish. What formal quantitative impact did the Treasury undertake before the Prime Minister or the Cabinet took the decision to leave the single market and the customs union?

Mr Hammond: There is a misunderstanding here. First of all, we have done a lot of analysis in the Treasury and we continue to do a lot of analysis in the Treasury. We regard this as part of our day-to-day business now. But there is a misunderstanding around the concept of deciding to leave the customs union and the single market.

Let me be clear. When we leave the European Union, when we cease to be members of the European Union, we will cease to be members of the single market and we will cease to be members of the customs union. We can of course choose to seek to negotiate with the European Union arrangements that will replicate some or all of the benefits and that will require us to continue with some or all of the burdens of being in the customs union or the single market. I cannot comment on the likelihood of being able to negotiate those arrangements; that will obviously be a subject for the negotiations. But it is not a question of a decision to leave those institutions; it is a logical fact of our decision to leave the European Union.

Q304 Catherine McKinnell: Okay, but has a quantitative impact assessment been undertaken of leaving the single market and the customs union by the Treasury?

Mr Hammond: The question you are asking would require, first of all, an assumption to be made about the counterfactual: we are no longer in the customs union and, instead, we will have arrangement X or arrangement Y. We have modelled and analysed a wide range of potential alternative structures between the European Union and the United Kingdom, potential alternative arrangements and agreements that might be made. That analysis is ongoing, and it informs and will inform our negotiating position with the European Union.

Q305 Catherine McKinnell: Is that not information that would helpfully inform the public about the process and the potential outcome, and inform Parliament when it comes to make a decision on the final deal? Therefore, should those assessments not be in the public domain?



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Mr Hammond: As I have already said in response to the Chairman, when we get to the point where we have a deal negotiated and agreed, and it is being put before Parliament, at that stage the maximum amount of analysis being placed in the public domain would be helpful. At this stage, when we have not even begun the negotiation yet, I am afraid that to put our analysis in the public domain would be deeply unhelpful to the negotiation. There is no decision for Parliament to make at this point. Parliament's decision point will be when the Government have negotiated a deal and are presenting it to Parliament for endorsement.

Q306 **Catherine McKinnell:** The Chief Secretary told the House that any settlement with the EU—any divorce payment, as it is referred to—will be contingent on us securing a suitable outcome in the negotiations. Could you clarify what that divorce payment is contingent upon?

Mr Hammond: First of all, I would not refer to it as a divorce payment. The Prime Minister has made clear that we would not expect any member state either to have to pay more or to receive less during the remainder of the current multiannual financial framework to the end of 2020, as a result of the UK deciding to leave the European Union. In the context of an implementation period agreement, that implies that we would continue to make net contributions at around the level of our current net contributions during that additional period.

Beyond that, the Prime Minister has been clear that we will honour obligations that we have undertaken as a member state of the European Union. This is a complex area, and a great deal of work is going on to quantify what those obligations are. We are a country that meets its international obligations and pays its debts.

It would not be, frankly, in our interest or be credible to suggest that a country like the UK would walk away from amounts of money that it clearly had a responsibility to pay, obligations that it clearly had a responsibility to meet. Similarly, we expect the European Union to meet its obligations to us as a result of undertakings that were made during the period of our membership.

Q307 **Catherine McKinnell:** I will call it an "exit payment" for these purposes. Is the exit payment contingent upon a future trade relationship?

Mr Hammond: Nothing is agreed until everything is agreed in this negotiation, but I find it inconceivable that we as a nation would be walking away from an obligation that we recognised as an obligation. That is just not a credible scenario; that is not the kind of country we are. Frankly, it would not make us a credible partner for future international agreements.

But I would emphasise here that this is not about agreeing a sum that somebody has plucked out of thin air. This is about a careful analysis of obligations and commitments that have been undertaken. There will be arguments; there will be points where the argument is not clear as to



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whether we are required to contribute something or not, and we will fight our corner vigorously where there is any scope for debate. Where it is clear that we have entered into an obligation, we will meet the obligation.

Q308 Catherine McKinnell: Do you agree with Robert Chote, who suggested to the Committee that the economic consequences of Brexit are likely to dwarf the size of any exit Bill?

Mr Hammond: If by “exit Bill” you mean the sum we might continue to pay during an implementation period and any further sums that we agreed we were liable to meet, yes, it is clear that the economic and fiscal consequences of getting the right deal for Britain compared to a less favourable deal for Britain over the years to come would be significantly larger than any of the sums of money that are in question in this negotiation.

Q309 Catherine McKinnell: Just to continue, in some of the evidence we took last week from Robert Chote of the OBR, he was not clear whether the divorce bill—he referred to it as that, I believe—is an extra amount of money or a commitment to pay stuff that would have been paid anyway. Could you just clarify the position as to what extent the exit payment that has been agreed consists of liabilities and obligations that we will be meeting, or whether there is some element to it in terms of how it impacts on the forecasting going forward?

Mr Hammond: Yes, that is clear: it is a subset of what we would have paid had we remained members of the European Union. It could not be larger. It will be some subset of the payments we would have paid over the years if we had been members. There are many areas. The so-called RAL, the *reste à liquider*, is a significant part of it. There are future pension obligations, which will not crystallise for many years but which we recognise we have some liability in respect of. But these are part of what we would have paid had we remained members.

Q310 Catherine McKinnell: It is all accounted for in the OBR’s existing forecast; there is no extra payment that is unaccounted for in that current forecast.

Mr Hammond: My understanding—and the OBR confirmed this in its appearance before you—is that it has simply assumed that the current level of network contribution to the European Union continues indefinitely. It has made a fiscally neutral assumption. It has assumed that, to the extent that there are future payments to be made to the European Union, they will come out of that amount that is assumed.

Catherine McKinnell: Is that a realistic assumption?

Mr Hammond: It is, yes. To the extent that that leaves money on the table, that money will be recycled into the UK economy, for example in the funding of the shared prosperity fund, which we have already announced as a way of supporting less prosperous regions of the country in the absence of EU structural funds.



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Q311 **Mr Jack:** Chancellor, if I could start with departmental spending, the last time you gave evidence to the Committee, you told us that extra spending on Brexit would come from reserves and would not result in departmental spending plans being reviewed. The OBR told this Committee, however, that the overall departmental expenditure limit would have to be increased. Have you increased this spending as a result of Brexit or not?

Mr Hammond: In the Budget, I allocated an additional £3 billion to provide for additional expenses that departments will or may incur over the next two years, as we prepare for costs that will necessarily arise as a result of Brexit and as we potentially have to prepare for contingent preparations for a potential no-deal scenario. We have to be prepared for every possible outcome.

Q312 **Mr Jack:** Is that from reserves or an increase in spending?

Mr Hammond: It is an allocation that we have made in the Budget. It is fully scored in the Budget arithmetic. It will be committed to the reserve, and from the reserve it will be allocated to departments as they make successful bids for spending it. If I can just clarify the process, the Department for Exiting the European Union is working with all the frontline-spending departments that have a responsibility in this area to produce a critical path analysis that identifies the decision points where they have to make go/no-go decisions on areas of commitment in order to be ready for a day one exit scenario.

As we reach those decision points, departments will submit business cases in the usual way. We have agreed with the Cabinet Office an accelerated process for approving those business cases. When the business cases are approved, provided they pass the value for money test, funding will be allocated to the individual department from the Brexit funding in the reserve.

Q313 **Mr Jack:** How did you come up with the figure of £3 billion?

Mr Hammond: It is based on a preliminary assessment of Departmental estimated expenditure required during the process, but, as I made clear at the Dispatch Box during the Budget speech, if it is not enough, if we find that we need more funding, we will make it available as a priority.

Q314 **Mr Jack:** Will that come from reserves?

Mr Hammond: Yes.

Q315 **Mr Jack:** How would that money be split between the various departments if you have not had the business case yet? You must have an idea of which department needs what.

Mr Hammond: I can tell you that the big spending departments will be: the Home Office, because of migration-control and border-control issues; the Treasury, because it is responsible for HMRC, which also has responsibility for the management of goods traffic at the border; Defra,



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which has a large and complex challenge in looking at our agriculture, food hygiene and policing arrangements. Are there other departments, Clare?

Clare Lombardelli: Those are the main three.

Mr Hammond: Those are the three big spending departments. Other departments will have smaller calls on the fund.

Q316 **Mr Jack:** In that case, can I move onto the foreign-aid budget? It is correct, I believe, that £1 billion of the UK's payment to the European Union is then spent by the European Union on its foreign aid budget, but we include it in our 0.7%. Is that correct?

Mr Hammond: That is correct. I am not sure the billion is correct.

Mr Jack: Our research says a billion.

Mr Hammond: It is definitely correct that a part of our foreign aid goes through the European Union.

Q317 **Mr Jack:** Does that mean our net contribution, if it was £10 billion, is actually £9 billion? When we exit the European Union, are we going to spend that billion on British direct foreign aid to keep our figure at 0.7%?

Mr Hammond: We could do. We definitely are obliged by law to maintain our official development assistance at 0.7% of our gross national income. Whether we spend it through intermediaries—we spend quite a lot of our development assistance budget through intermediaries; not all of it is direct by any means—is a matter of choice and negotiation. We have some commitments to the European Development Fund. As a consequence of the negotiations, we may continue to fund some programmes through the European Development Fund.

Q318 **Mr Jack:** On a personal note, would you agree with me that an emergency disaster relief fund is a very good idea, so we can help countries that need help? We should build up a large fund that we can apply directly to where it needs to go in emergencies.

Mr Hammond: I do not appear before this Committee in a personal capacity.

Mr Jack: Do you not? I do not mean to lobby, but we all have our own little pet issues.

Mr Hammond: I readily agree with you that the public certainly think that disaster response should be the first call on our overseas aid budget. I understand that, with a very large overseas aid budget as we have, the public expect us to be able to respond promptly and generously when a disaster occurs.

Q319 **Chair:** Chancellor, I want to take you back to something we discussed with the OBR, which Catherine was just asking you about. You have a copy of the OBR's report there. Could you turn to page 251, table B.5?



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We were trying to puzzle this out with the OBR last week. It talks about expenditure transfers to the EU institutions up to 2018-19, and then it goes on to assumed domestic spending in lieu of EU transfers. This relates to what Catherine was saying, which we want to tease out.

I know we are not aware of how that £40 billion is calculated yet, but assuming that £40 billion is not all spent out by 2018-19 and continues to be spent, particularly in relation to pension liabilities, does that mean there is less in terms of domestic spending on other things or is part of that £40 billion over and above that domestic spending?

Mr Hammond: What the OBR has done—Clare will correct me if I am wrong—is simply projected forward what we would have paid net to the European Union, and it has assumed that if we do not pay it to the European Union we will use it as domestic spending. This table rather confirms this. There is no separate provision made for any tail of obligations to the European Union. Any funding that is payable over years will, in overall fiscal terms, have to come out of that line.

I should emphasise that—and we have not yet got to the point of discussing a precise schedule—it is likely these ongoing obligations will liquidate over a very long period of time. Some of them relate to things like pension obligations that will not even crystallise for decades to come.

Q320 **Alison McGovern:** Chancellor, you said a moment ago that it follows logically that, if we are leaving the European Union, we are leaving the single market and the customs union. I asked the Brexit Secretary yesterday in the House of Commons whether he could tell me the date when the Cabinet decided that we would leave the single market and the customs union. He said that he could not really remember precisely. You have given a slightly different version of events, which is, “It is a logical truth; therefore, it needs no discussion”. Can I clarify that the Cabinet has never discussed whether we are leaving the single market and the customs union? Is that correct?

Mr Hammond: The Cabinet has discussed lots of things, and I am not going to give you a commentary on Cabinet discussions. But I am clear that the position that we are leaving the customs union and the single market flows logically from our decision to leave the European Union.

Q321 **Alison McGovern:** It is quite a big decision, though, is it not?

Mr Hammond: No, it is not a decision at all. On the contrary, it is not a decision. It is not a decision.

Q322 **Alison McGovern:** Okay. Let me go back to the question I just asked you. If it is not a discussion, if it is just a mere fact of life, when was that asserted? When was it made clear to the Cabinet?

Mr Hammond: I cannot answer that question. I cannot answer the question when individual Cabinet members may have become aware of all the consequences of leaving the European Union. I have always been



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clear since well before the referendum that this would be a logical consequence of a decision to leave the European Union.

If I may say so, in terms of the real world, this does not need to be a terribly significant fact. As I have already explained, it would be possible to approach the negotiation of our future relationship with the European Union on the basis that we wished, as far as possible, to replicate the situation of membership of the customs union. Now, that would have consequences and some of our colleagues would not find that palatable, but it would be logically possible to approach it in that way.

Q323 Alison McGovern: Okay, I am going to move on to the Budget, and particularly your changes to stamp duty. The OBR gave some commentary on that decision that was quite clear and robust. I would have expected, in the process of producing the Budget, for you to have taken advice on that decision. When did you receive advice on the implications for the housing market of your decision?

Mr Hammond: I was advised continuously. The process of a Budget is a frenetic process of continuous advice and discussion.

Q324 Alison McGovern: Given that frenetic process of continuous advice, was the OBR's commentary replicated by internal Treasury advice?

Mr Hammond: The OBR's analysis did not surprise me, but the OBR's analysis is what it is. It assumed no supply-side reform of the housing market, and the OBR has chosen not to model any consequences of the broader housing package that we announced. The OBR commentary that you are referring to answers a question. If you abolish stamp duty for first-time buyers in the absence of any other measure, what will the consequences of that be? I do not disagree with its analysis on the basis of that narrow point.

Q325 Alison McGovern: Good, that is my next question answered, which was about the OBR saying that the benefits accrue to homeowners, not first-time buyers. You have just said you agree with that analysis, which is helpful.

Mr Hammond: In a world where nothing else happens, yes.

Q326 Alison McGovern: Let us come to the world where something else happens. Your response has been, "That is fine, because I am going to do all of this supply-side stuff, which is going to fundamentally change the housing market anyway". Can you explain what forecast you have of the economic impact on the housing market of your supply-side measures?

Mr Hammond: First of all, let me be clear: it is not just the supply-side measures we announced in the Budget. The OBR has not modelled in the effects of the planning system changes that have already been announced in the White Paper, which are themselves very significant and are already leading to improvements in supply.



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Q327 **Alison McGovern:** Taking all possible measures that you feel will change the housing market as it is in Britain today, tell me about your forecast of the economic impact of that.

Mr Hammond: As I said at the Budget, if we deliver 300,000 net additional housing units a year, which we expect to do by the middle of the next decade, and the additional units over and above where we are now are well targeted—that is to say, they are in the areas of highest demand and lowest affordability—that will help us to begin to improve the affordability of housing.

Q328 **Alison McGovern:** That is not a number, is it?

Mr Hammond: No, it is not a number; it is a direction of travel.

Q329 **Alison McGovern:** That is fine. This policy is really quite expensive, is it not, Chancellor? By 2021-22, it is £640 million a year in year. That is double what you have spent to deal with the universal credit problem. We have seen the impact of that in the child poverty forecasts this week. In your heart, is this really worth it? For a country that is seeing child poverty rise, is giving money to people who already own homes really the right choice?

Mr Hammond: No, this is giving money to first-time buyers.

Alison McGovern: That is not what the OBR says.

Mr Hammond: Let me draw your attention to the IFS evidence to you, which said something slightly different. Paul Johnson drew the distinction between money that is paid in a tax and money that is spent on a more valuable asset. He said that a buyer who spends £2,000 more on their home, but that £2,000 is represented in the value of their home, is better off than a buyer who spends £2,000 on a tax, which simply goes to the Treasury.

Q330 **Alison McGovern:** Across the course of their life, sure, but right now, today, we are facing child poverty. I am asking you whether this is really the right priority for now.

Mr Hammond: Let me just take you through my logic around the way we deal with the housing market. We can only address affordability by improving supply of housing. That is the route we have committed to. Equally, the housing market plays a very important role in our overall financial economy. Housing is the most important financial asset of most people in this country. Therefore, the challenge here is to improve the affordability of housing as quickly as possible without damaging the housing market in a way that challenges financial stability. That is quite a precise path.

I am clear that the trajectory to improved affordability will necessarily be quite a slow path. In the meantime, it will be necessary for us to continue to provide demand-side support to allow people who would otherwise be excluded from the market to get into the market. The



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measures we took at the Budget to support first-time buyers were a part of that. The continuation of help to buy equity loan until 2021 was another important part of that process.

It is about aspiring to reach a point where housing becomes more affordable and genuinely available to people who would expect to be able to access the housing market while, in the short term, in the interim period, providing some continued support on the demand side.

Can I just draw your attention to the fact that—

Q331 **Alison McGovern:** It is fine. You have given me a very long answer, which all the evidence points against. That was my final question.

Mr Hammond: Let me just remind you of what the IFS said.

Alison McGovern: Chair, I do not think we need—

Mr Hammond: The IFS said that the abolition of stamp duty for first-time buyers tilts the playing field in favour of young adults. That is what the IFS said, and that was the intention of the measure: to give a group of people, young adults, who have started to feel they were being excluded from the benefits of prosperity, an opportunity to share in them.

Q332 **John Mann:** Good afternoon, Chancellor. How much is the average house price in Runnymede?

Mr Hammond: I thought you were going to start by saying, “Thank you so much for extending the landfill tax to illegal waste-filling operations”, but we will come back to that. How much is the average house price in Runnymede? I do not know. It is probably about £600,000.

Q333 **John Mann:** It is a bit less than that, but it is above the £300,000 mark.

Mr Hammond: Let me say to you that, contrary perhaps to the popular image of Surrey, Runnymede is a very mixed area. We have some very affluent parts in the borough and we also have some more modest parts of the borough. The average council tax band across the borough of Runnymede is band B.

Q334 **John Mann:** We all have some mixes. Is there is a region in the country other than London that has an average house price of over £300,000?

Mr Hammond: Probably not, no.

Q335 **John Mann:** No, there is not. You will know, because you have just made housing your big priority. The answer is, no, there is not. Have a guess at the average house price in Bassetlaw compared to Runnymede.

Mr Hammond: What is the average house price in Bassetlaw? Of course, the average is a fairly meaningless figure, but I would guess the median house price is £175,000.

Q336 **John Mann:** It is quite a bit less than that. It is less than that on



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average in Leeds; it is less than that on average in Manchester; it is much less than that on average in Bassetlaw. In Runnymede, the average price is three times higher. You are becoming a Chancellor for the wealthy south. You are giving your own constituents an opportunity you are denying mine because, for the average house price in Runnymede, we are looking at virtually no houses at all available in Bassetlaw and the north of England.

This is a policy for the wealthy south-east, is it not? But it is not the only one. What about income tax? Would I be right in saying that, with your salary, you will personally benefit £340 from the changes you have brought in?

Mr Hammond: I have no idea. I have not bothered to make that calculation.

Q337 **John Mann:** The good news, Chancellor, is that you will personally benefit £340 by the changes you have just brought in on income tax. What will the average earner in Bassetlaw benefit compared to the £340 you have awarded people of your status?

Mr Hammond: First of all, I am not at all sure about your logic. But, as you will know, anyone earning over £100,000 a year loses their personal allowance, so I am not sure how the changes to personal allowance would deliver any benefit.

Q338 **John Mann:** How much will the average person in Bassetlaw benefit?

Mr Hammond: I do not know, I am afraid, and I do not really want to play these games.

John Mann: It is not a game. It is about how the distribution across the country works.

Mr Hammond: I apologise, but we have not done a distributional analysis for every town in the country.

Q339 **John Mann:** No, but what you have done is become a Chancellor for the wealthy south.

Mr Hammond: That is complete nonsense.

John Mann: You have reinforced that. Do you have your pensioner's rail pass yet?

Mr Hammond: I am here to answer questions.

John Mann: Do you have your pensioner's rail pass yet?

Mr Hammond: I am here to answer questions in my capacity as a Minister. I am not answering personal questions.

John Mann: It is not a personal question, because your mode of transport choice appears, at the moment, to be flight. I am asking about how often you are using your pensioner's rail pass or bus pass in the



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north of England on buses or on trains.

Mr Hammond: I am sorry. You are not asking me a question about my official duties; you are not asking me a question about my role as a Minister. I am not answering personal questions.

Q340 **John Mann:** I am not asking about your holiday arrangements; I am asking you about your professional work. Your silence says a lot in relation to that.

Stephen Hammond: This cannot be right, Chair.

Mr Jack: It is personal and it is nonsense.

John Mann: It is not a personal question.

Mr Hammond: Let me answer it this way. When I travel on official business, travel arrangements, whether by air, train, road or any other means, are made by the department. I have no involvement in them, and any discount cards or anything else I might as a person hold would play no parts in those arrangements.

Q341 **John Mann:** How much is the investment in transport in London and the south-east compared to the north?

Mr Hammond: An analysis of transport infrastructure investment in the different regions has been published. I do not have it immediately to hand, but you will know that there is a difference in spending between the different regions on a per capita basis. I do not have the numbers with me.

Q342 **John Mann:** If we took Yorkshire, the north east and the east Midlands, and London and the south-east, what is the approximate difference in expenditure?

Mr Hammond: Do you mean on a per capita basis?

John Mann: On a per capita basis, yes.

Mr Hammond: The amounts on a per capita basis are slightly higher in London than in some other regions of the country.

John Mann: Your "slightly", Chancellor, is in fact 10 times higher.

Mr Hammond: No, that is incorrect. You are using incorrect data.

Q343 **John Mann:** If we take the per capita for Yorkshire and Humber, it is £190 per head; if we take it for London it is £1,943.

Mr Hammond: No, I am aware of the report you are quoting from and it is inaccurate on a number of grounds.

John Mann: If you would like to give the accurate figure, how much more is it?

Mr Hammond: The figures are published, and I will write to you and draw your attention to where they can be found. They are published.



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Q344 **John Mann:** If you do, it would be helpful to identify what the difference is between the north of England and the south-east of England.

Mr Hammond: I do not have the data with me.

Chair: If you could write to us, if you have a response to that report, it would be very helpful.

Mr Hammond: The data is published, as Mr Mann well knows, and it is readily available.

Q345 **John Mann:** Universal credit has been rolled out into my area on 14 December. Who are the people who are going to have the biggest problems within in? All the local experts in my area say it is going to be those who are working. Those who are on zero-hours or four-hours contracts are going to have the biggest single impact before Christmas. Would you agree that it is going to really hit those who are working irregular hours the most?

Mr Hammond: The point about universal credit is that it provides a systematic encouragement to work: it encourages people into work and it encourages people to increase their earnings and increase their hours of work once they are in work, unlike the legacy benefits system, which discouraged work and trapped people on welfare.

Q346 **John Mann:** You have not answered the question. Are the people who are going to have the biggest negative impact in the run-up to Christmas going to be—as all the people working in my area tell me, and it is also my conclusion—those who are working? Those who are working with irregular hours are the ones who are going to have the biggest disbenefits from 14 December from rolling out universal credit?

Mr Hammond: I am not sure I agree with that analysis. We have indicated that we recognise there are some challenges with the delivery of universal credit. I made a series of announcements in the Budget that address those challenges directly: there is the run-on of housing benefit for housing benefit claimants, the ability to claim a full month's payment within five days of registering for universal credit, and the elimination of the seven-day waiting period so that benefits start to accrue from the day of registration.

These are all significant changes to the way the universal credit regime works. We are confident that they will allow it to be rolled out so the benefits of universal credit can accrue to people across the country in a way that mitigates some of the challenges we found in the early roll-out stages.

Q347 **John Mann:** On a positive note, on landfill tax you have listened. Can we expect to see that change coming through immediately?

Mr Hammond: I believe it is effective 1 April 2018.

John Mann: That is a good move, Chancellor.



Q348 Rushanara Ali: Good afternoon, Chancellor. I have some questions on universal credit and on the plans post Grenfell. Starting off with universal credit, you mentioned housing. In your announcement, you stated that housing benefit claimants could continue to receive it for an extra two weeks while waiting for universal credit. Why can that not be extended to four weeks to cover the whole period? The current plans would mean that claimants would have to make up the difference for the outstanding period. The increase for an extra two weeks will be enacted in April. It would have been April this year. The issue is about the extra two weeks. What are they meant to do with that period?

Mr Hammond: There are two measures that will help people moving into universal credit. The first is the running-on of housing benefit for two weeks, which is extra money that goes to people. There is no requirement to repay it; it is net additional funds they will receive.

Rushanara Ali: Yes. My question is why it cannot be for four weeks.

Mr Hammond: There is no reason to do it for four weeks. If people receive an additional two weeks of housing benefit and are able to obtain an advance of a full month's universal credit allowance—

Rushanara Ali: I will come on to that.

Mr Hammond: —we are confident that, between those two measures, we will ensure that people are able to maintain rent payments.

Q349 Rushanara Ali: You do not expect there to be a gap in terms of housing costs if you provide this two-week cover.

Mr Hammond: No, because people will be able to obtain an advance equivalent to a month's universal credit payment within five days of registering for universal credit, and will receive the additional two weeks of housing benefit payment. That is a generous resolution of this problem.

Q350 Rushanara Ali: That is not the experience of a lot of our constituents. On this point about the advance, why are you making it so complicated? Why is it a loan? Why can it not just be a payment?

Mr Hammond: The principle here is that we are trying to deliver a benefit through a system that replicates the experience that most people in work have of being paid monthly, in arrears, and having to manage their budgets around being paid monthly.

One of the challenges in running a welfare system is to try to make sure that there are no cash-flow cliff edges when people move from benefits into work or work into benefits. Designing the universal credit system to replicate the pattern of payments people receive in work is part of its fundamental design. We have allowed people to obtain a full month's advance payment, to apply online for it and to repay it over a period 12 months rather than six months.



Rushanara Ali: But they still have to pay it back, Chancellor.

Mr Hammond: Of course, yes.

Q351 **Rushanara Ali:** You will appreciate that lots of people do not get paid monthly; they get paid weekly or fortnightly. There have been a lot of representations to Members of Parliament, particularly from the hospitality industry and many others where there are lots of uncertainties in relation to this policy. How does that address their concerns? It just seems that there is an imposition of assumptions that do not match with the reality of people's everyday experience or their patterns of work. Although this change, the reduction from six weeks to five weeks, is a step in the right direction, it is only tinkering with some fundamental problems that remain in the system.

Mr Hammond: Let me tell you, the fundamental problem was in the legacy system, which discouraged people from going into work and discouraged them from working more than 16 hours when they were in work. We are very clear that work is the best way out of poverty; it is the best way to keep people sustainably out of poverty; it is the best way to improve the life chances of children growing up in families.

70% of tax credit claimants are paid monthly or four-weekly. The entitlement to universal credit, under the new arrangements that I announced at the Budget, begins on the day of the claim. People are accruing an entitlement but being paid at the end of the monthly period, as is normal for 70% of people in work.

We are offering them an advance—

Rushanara Ali: It is a loan.

Mr Hammond: It is a repayable advance. In recognition that many of these people will not have significant savings that they can draw on, the advance is being made available.

Q352 **Rushanara Ali:** Chancellor, many of these people are in vulnerable positions where loan repayments are not easy, even with your extension to 12 months. If you take a comparator, those who are making this transition are being treated very unfairly. You would not treat pensioners in this way. Why is it acceptable to treat people you are trying to help make the transition into work like this? Why is this system proving to be so complicated and problematic? It could be addressed, and some further steps could be taken to make the transition easier.

Mr Hammond: I do not believe there are steps that could be made—

Rushanara Ali: You will find that there are.

Mr Hammond: I do not believe there are steps that could be made without significant fiscal cost. What we are trying to do here is make the system work more smoothly. You may recall that the Institute for Fiscal Studies has said that universal credit will clear up some of the most



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egregious complexities and disincentives that our benefits system has imposed for far too long. Universal credit is a benefit that is designed to address the disincentives to work.

I recognise that the transition needs to be managed properly. When somebody moves into monthly paid work, they will have the challenge of working for four or five weeks, sometimes a little longer, before they get their first paycheque. Most employers will make an advance available to someone coming into work against their first month's pay.

Q353 Rushanara Ali: It sounds like a lot of employers would not be able to do that.

Mr Hammond: That will be recoverable. What we have tried to do here is replicate what I believe is normal, good practice among many employers.

Q354 Rushanara Ali: On this issue, I want to point out that the IFS has also stated that the changes you have made will cost about £300 million per year. The planned working-age benefit cuts are in the order of £12 billion. That is going to hurt working families and low paid families—the very families you are trying to encourage to make a transition into the world of work for more hours, as well as those who are moving from not being in work into work. I just wanted to put that on the record, Chancellor.

Before the Chair stops me, I am going to move on to some questions in relation to the response to Grenfell. A week tomorrow will mark the six-month anniversary of the Grenfell Tower fire. At the time, when the Prime Minister met victims in June, she said, "My Government will do whatever it takes to help those affected get justice and keep our people safe". In your Budget Statement, you said, "This tragedy should never have happened and we must ensure that nothing like it ever happens again". You made the welcome announcement of £28 million to Kensington and Chelsea Council to help those affected.

But a recent FOI request from the BBC revealed that 2% of Britain's 4,000 tower blocks—I have many in my constituency—run by councils and housing associations were in need of a sprinkler system. To retroactively fit those, it would cost £1 billion. Why are the Government not making the funding available to honour the commitment the Prime Minister made back in June, not only to provide justice to the victims, but to make sure it never happens again?

Mr Hammond: First of all, let me just pick up the point that you have made about benefits and the benefits freeze. Working-age benefits tripled under the last Government in a way that was unsustainable. Getting that system properly under control so that the balance between work and welfare is appropriate was a key commitment that this Government made. We believe the introduction of universal credit and the huge increase in opportunities for employment have together



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addressed a very serious structural problem in our welfare system and our economy.

On the question of post Grenfell, I do not accept your premise. We have said that, where there are urgent and necessary fire safety works, they must be carried out. Landlords, whether housing associations or councils, must carry them out. They must discharge their legal—

Q355 **Rushanara Ali:** How much have you put aside for that?

Mr Hammond: Let me finish. They must discharge their legal responsibilities.

Rushanara Ali: You are passing the buck, Chancellor.

Mr Hammond: That must be a priority for any responsible landlord.

Where a landlord genuinely has to carry out urgent and necessary fire safety works and does not have access to the funding to do that, as I said during my Budget speech, they should approach the Department for Communities and Local Government, which will ensure that access to funding is facilitated.

Rushanara Ali: It is not happening.

Mr Hammond: That can be done in a number of ways. But the persistent position some have taken up that sprinkler systems are always the answer is not borne out by the facts. Fire safety experts do not support a blanket retrofitting of sprinkler systems as the best way to deliver fire safety.

Rushanara Ali: Chancellor, you have had your say. I have got a couple of questions.

Mr Hammond: A number of councils around London, as you will know, including Islington and Lewisham, have looked at retrofitting sprinkler systems and have decided against it on fire safety grounds. It is not the best way to deliver appropriate fire safety.

Chair: Time is tight. I know you are keen not to be here longer than necessary, so if we can keep the answers short Rushanara will not need to chivvy you along.

Q356 **Rushanara Ali:** Thank you. Research by the chief fire officer of Derbyshire's fire and rescue service showed that 90% of fires can be controlled by or extinguished with sprinklers, so there are clearly different levels of evidence.

Mr Hammond: I agree with that.

Rushanara Ali: We should take care in dismissing the evidence base.

Mr Hammond: I will be very precise here.



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Rushanara Ali: Chancellor, you have had your say. I have a couple more questions.

Mr Hammond: No one disputes that sprinkler systems are effective at suppressing fire. The question here is about retrofitting of sprinkler systems in existing buildings, which has been rejected by some London councils, because it compromises fire compartmentalisation.

Rushanara Ali: Chancellor, you have not answered my question.

Chair: Rushanara, you can have one more question. What is the question you would like to have answered?

Q357 **Rushanara Ali:** You keep referring to the department being able to answer requests for funding. There are reports, including in my constituency, of where funding is being redirected to do these urgent repairs, delaying other much needed repairs and maintenance. David Orr of the National Housing Federation, when he gave evidence, said that housing providers are stuck between a rock and a hard place on this. It is not working. I ask you to please state how much money the Treasury has earmarked for this issue, because there is a lot of confusion. It keeps coming up, and it feels like you are passing the buck on this.

We need an assurance. The victims and others who are concerned about safety and do not feel safe in their properties, particularly in tower blocks but elsewhere as well, in the light of what has happened, need a commitment from you. If you can find money for other programmes, why can you not tell the public that you have allocated some funding for the department to honour these commitments and pledges?

Mr Hammond: Let me be clear about the position. First, where fire safety works are identified as necessary by the fire safety experts in a specific case, they must be carried out. Where a local authority or housing association does not have access to funding to do that, we will ensure that access to funding is provided. That could be by a specific relaxation of a borrowing cap, for example.

Rushanara Ali: Are there any provisions for that?

Mr Hammond: In some cases, it may require grant funding. We are going to look at this on a case-by-case basis. Contrary to things that have been quoted, as far as I am aware, no authority that has applied to CLG for assistance has had its application rejected. A number of authorities have been asked to provide further information and detail in support of their claim. We are working closely with CLG, and CLG will deal with every situation that arises.

Chair: We may come back to look at exactly how that is being spent.

Q358 **Stewart Hosie:** Chancellor, I want to ask some questions, mainly about local authority funding, particularly in relation to social care. Before I do, can I ask a quick question about the changes you made to capital gains tax indexation, and the freezing and then removal for corporate sales? As



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you will be aware, over the last few days, a number of voices from the life and pensions industry have suggested that could have a detrimental effect on savers with certain sorts of products. When a life assurance company holds assets and sells them on retirement to purchase an annuity or provide a drawdown, those asset sales would now be liable for CGT without the indexation allowance. Was the Treasury aware of the impact this change could have on those with modest pension savings of that sort before this was undertaken?

Mr Hammond: Yes, but it is a very modest impact. We are still working with the insurers to get to the bottom of what the impact is. In the Treasury's view, there is a potential impact on a relatively small number of policyholders. About 20% of the overall burden of this change will fall on life assurers. It is not a withdrawal of a relief; it is a freezing of the indexation relief, so that anyone liquidating a holding as of January 2018 would not suffer any detriment at all. Inflationary increases in value beyond January 2018 will no longer be allowed in the computation, bringing the treatment of capital gains tax for corporations into line with the treatment of capital gains tax for individuals, making the system fairer and more transparent

Q359 **Stewart Hosie:** You make the point that it is 20% of the burden. I would make the point to you that that is getting up to £100 million a year. The likelihood is that the people who bear the cost of that would be people with very modest savings in those forms. I am glad you are working with the industry. I hope that, if there is a real impact, sectorially or geographically, this is looked at and reviewed, if necessary.

I wanted to mainly talk about the point the OBR made about local authorities drawing down the reserves over the past two years in particular, and that they are now finding it more difficult to absorb reductions in their funding. Why do you think local authorities are now running down their reserves?

Mr Hammond: Local authorities have actually been building their reserves up. If we look at the data over the last few years, local authority reserves were at £23.1 billion in 2016-17, up from £16.3 billion in 2010-11. The OBR noted that reserves have reached historic highs over the last few years: 25.5% of current spending in 2016-17. Local authorities will build up reserves; they will draw down reserves. That is a sensible part of their everyday prudential activities. The OBR acknowledges that its forecast for local authority reserves is highly uncertain. In the past, local authorities have consistently drawn down less from their reserves than the OBR has forecast.

Q360 **Stewart Hosie:** I will get to the reasons for the change; I am going to ask a couple of questions about that. Would your view be that, when the reserves shrink, this is local authorities drawing down upon reserves to fund day-to-day services.

Mr Hammond: I am sorry.



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Stewart Hosie: When reserves fall—as you say, they go up and down—these reserves will be drawn upon to fund day-to-day services.

Mr Hammond: They may be drawn upon for all sorts of purposes. Local authorities have capital investment programmes, and in some cases will build reserves in anticipation of significant capital expenditures and then draw them down as they invest in those capital programmes. In some cases, local authorities may draw on reserves to smooth patterns of resource expenditure.

Q361 **Stewart Hosie:** The OBR points out, at chart E on page 171, that spending on social care is now the major drawdown on local authority reserves. Given that local authorities now have the social care precept, why do you think social care is still causing reserves to be drawn upon?

Mr Hammond: Social care is a pressure on local authorities; I recognised that in the spring Budget. We have addressed it with the better care fund, which provides additional funding in 2017-18, 2018-19 and 2019-20, rising to £1.5 billion in 2019-20. In the spring Budget of 2017, I put an additional £2 billion in, and I profiled it the opposite way round, so that there was over £1 billion in 2017-18, £670 million in 2018-19 and £337 million in 2019-20, helping to smooth that trajectory for local authorities. We have also increased local authorities' ability to raise funding for social care, by allowing them to raise an increased precept for social care funding, which overall means that they will have £9.5 billion of additional social care funding capacity.

We know that, because of the ageing profile of the population, the pressure, particularly for social care of the elderly, is not going to go away. We need to take a more strategic look at how we manage social care funding pressure. The Government have committed to publishing a Green Paper before the summer recess next year, setting out our thoughts about how, in the long run, to fund the social care system sustainably.

Q362 **Stewart Hosie:** That would be helpful. You have had to put in the extra cash, as you have described, and social care spending is growing faster than the social care precept, as evidenced by the drawdown to fund it. Can I ask you if the precept is the best way to fund social care?

Mr Hammond: It is the way that we fund social care. The Green Paper will look at the funding of social care and how best that should be done.

Q363 **Stewart Hosie:** Let me ask how that relates to the cap. The £72,500 cap is still in legislation. When will that cap be lifted in legislation?

Mr Hammond: The Green Paper will address the issues around the cap and the future sustainable funding of social care.

Q364 **Stewart Hosie:** I have a final couple of questions, going back to something you said at the beginning about reserves being drawn down and, indeed, built up into the future for particular reasons. Are you



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concerned that local authorities are not only stripping reserves but borrowing money to purchase commercial assets, such as shopping centres?

Mr Hammond: Yes. That is why we encouraged CIPFA to produce new prudential guidance, which has now been published and makes clear that local authorities should not borrow simply to invest in assets to generate yield. They should borrow for investment in assets that deliver on one of their core functions, for example urban regeneration schemes, but not simply the acquisition of investment property for the sake of generating yield.

Q365 **Stewart Hosie:** Have you had any kickback from local authorities that believe they have made the right decisions to generate income to provide local services in future?

Mr Hammond: Local authorities are innovative in their approach. Some local authorities spotted an opportunity to draw down on their borrowing capacity, with the public works loan board, in order to invest in commercial property. We believe that this has created risk and that local authorities are not necessarily the best-placed institutions to manage portfolio risk in commercial property investment portfolios. The new CIPFA guidance draws local authorities' attention very specifically to the risks, and suggests a way in which local authorities can appropriately invest in the future. We are very comfortable with the new CIPFA guidance. I am sure that what could have become a problem will now not become a problem, as a consequence of this new guidance.

Stewart Hosie: Let us wait and see.

Q366 **Alison McGovern:** The Treasury is duty-bound to produce an equality impact assessment of the Budget. Where is it?

Mr Hammond: Clare, do we have it?

Clare Lombardelli: We are duty-bound to consider equalities in all the measures that we include in the Budget, and we did consider the equality impact of all the measures.

Chair: Is that recorded somewhere?

Q367 **Alison McGovern:** The demonstration of your commitment to fulfilling that duty is to tell us that you have done it.

Mr Hammond: The equalities impact requirements apply to all measures across government, not just the Budget. We do that for all measures. Ministers receive advice on the equalities impacts of every measure before they sign them off, and are asked to sign the advice to confirm that they have received and considered it.

Q368 **Alison McGovern:** Why will you not put an equalities impact assessment in the Budget?



Clare Lombardelli: We do not publish any of the detail of the internal policy advice that goes to Ministers, but we do consider the equalities impact of all the measures. We have considered it in the process. Ministers see that advice. They take it alongside all their other policy advice.

Q369 **Alison McGovern:** We have had this debate about the distributional analysis before. If you do not publish the information about the impact on different parts of the population of the budgetary measures, other people will calculate and publish it. Why does the Treasury not publish its understanding of the impact, on different parts of the population, of its budgetary measures?

Clare Lombardelli: We publish detailed information on the distributional analysis of the policies. We publish a document that covers the recent trends, the impact of employment and earnings inequality. We have published some distributional analysis that shows the impact of the individual policies, since and including autumn 2016. We also publish the impact of all the policies to be implemented between 2015-16 and 2019-20. That is more than many other people publish.

We do not publish an analysis of the impact on things like gender. I think you raised this with some of the other witnesses before the Committee. It is very difficult to produce an overall robust picture by different demographic groups. All sorts of things affect that: the household structure, taxes and benefits, all those things. Other people produce versions and variants of this, but they all have their own faults and issues. I think Paul Johnson said it is very complicated and difficult to do that. What we publish in terms of a distributional analysis is very comprehensive, by the standards of distributional analysis.

Q370 **Chair:** Paul Johnson actually said last week that it should be “relatively straightforward” to produce some form of equality analysis. The Women and Equalities Select Committee, in the last Parliament, raised this with the Treasury. It is now possible to do this. The question is whether the Treasury is unable or unwilling to do it.

Clare Lombardelli: He said that for some things, such as taxes and benefit, we have a fair amount of information and could do something. What is very difficult is the impact of public services. What is very complicated and hard to know is the way in which household size and structure affects it. For example, we know who pays income tax, both men and women. We do not necessarily know the household size and structure. It is incredibly complicated. What we produce is genuinely one of the most informative ways of doing distributional analysis.

Q371 **Chair:** The Committees and MPs would appreciate starting somewhere. This was asked for in the last Parliament by colleagues on other Select Committees, and we will continue to ask the question, as a Committee. We understand that information can be published and hedged around with all sorts of caveats and explanations but, as you say, there is a



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public sector equality duty. In preparing the Budget, like other documents—you are absolutely right, Chancellor—the equalities impact has to be assessed. We are expecting and have been asking for some of that information to be published and made transparent.

Mr Hammond: There is a difference between making an equalities assessment that identifies any negative or positive outcomes for groups with specified characteristics, and turning that into a quantitative analysis of the type we publish as an income distributional analysis, which is more challenging. This always depends on what data is available. If the data is available, that is one thing. If the data is not available, of course it cannot readily be done.

Q372 **Alison McGovern:** Have you raised this with the ONS? It conducts all kinds of household-based surveys. Have you raised the question with the ONS whether it could improve its data collection so you would be able to do it?

Mr Hammond: I have not personally, but I am very happy to ask the Treasury to engage with the ONS on that question.

Chair: If you could and you could let us know, we would be very grateful. We will continue to ask this question at future fiscal events, so all information, however limited and hedged with caveats, would be appreciated.

Q373 **Wes Streeting:** Good afternoon, Chancellor. I am slightly more generous than Mr Mann, so I would like to thank you for including the vehicle excise duty supplement exemption for licensed black taxis in the Budget, as Chair of the APPG on Taxis. I hope you will have heard the representations about bringing that forward sooner.

Back to the issue of housing, until May I am still a councillor in the London Borough of Redbridge. You state an ambition to build 300,000 homes a year, to tackle the housing crisis. No one credibly thinks the Government have a hope in hell of achieving that target, so long as we still have a cap in place on local authorities' housing revenue account borrowing. Is it not time to finally listen to what so many parts of the housing sector and local government are saying, and remove that grip on so many councils that are still affected by the cap?

Mr Hammond: First of all, I do think we have a hope in hell of building 300,000 houses.

Wes Streeting: That is because you are cheerful, as everyone knows.

Mr Hammond: I am always very cheerful, but it is also because of the significant growth in additional housing units that has been delivered over the last few years: 217,000 units in the most recent year. We have looked very carefully at how this will build up. It cannot be done overnight, which is why I have set the ambition to get to 300,000 around the middle of the next decade. I am confident that we can deliver that.



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Why would it not be sensible simply to remove the housing revenue account cap? As I said earlier in this hearing, if we are going to tackle affordability—and affordability is the challenge here—we need to make sure that the additional housing units are targeted in the areas where affordability is the greatest problem. We have indicated that we will remove the cap for local authorities in high-stress areas, i.e. areas where affordability is a challenge, where they have plans to address housing need by building council homes. We will support that.

There is limited fiscal capacity available. Removing the housing revenue account cap uses up fiscal capacity, public sector net debt, and we still have a big challenge over public sector debt, which we have to address. Therefore, we want to make sure that the capacity available is used to address the problem we have identified.

Q374 Wes Streeting: Investment in property is a good investment. There is an issue of demand, not simply affordability. Having heard your point about affordability, let us look at affordable housing. There was £2 billion provided in the Budget, which included homes for social rent. There are over 100,000 children currently living in temporary accommodation, and Savills estimated that it will take £7 billion a year to build the 100,000 homes a year for social rent that the country needs: £2 billion versus £7 billion; there is quite a gulf. You are simply not investing enough in affordable housing, are you?

Mr Hammond: The Budget confirmed a further £2 billion of funding for affordable housing; that was announced in October. This takes the total budget for the affordable homes programme from £7.1 billion to £9.1 billion over the period to 2020-21. That is a very significant increase in the affordable home building programme.

Let me present this in a slightly different context. Whether we are talking about affordable housing built by housing associations, council houses or market housing built by developers, however facilitated or encouraged, it still depends on a supply chain. It depends on the supply of land, planning consent, building materials and appropriately skilled labour. We have to address this problem as a multifaceted challenge. Getting the supply side right is as important as ensuring that the demand is there.

I put it to you that a local authority re-entering the housebuilding business to build council homes will be competing with developers and housing associations for the labour, materials and land needed to build homes. We have to look at this as a holistic problem and ensure that we focus on the areas where the stress is greatest. Clearly, London is the area where the stress is greatest in terms of unaffordability. We have to make sure our interventions are targeted to deal with the problem we have identified, which is the non-affordability of housing for young people in work to get on the housing ladder.

Q375 Wes Streeting: Your point about looking at this holistically is correct.



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You are right not to simply rely on local authority or state investment. Let us consider the fact that the last time this country built over 250,000 homes a year was in the 1970s, where councils contributed 40%. There is an imbalance there. You talked about other factors. On labour and skills, we have a skills shortage in this country; it is a disaster. The Government's immigration policy, looking to the future outside the European Union, will be counterproductive to that effort. In terms of materials and supply, you have things like domestic gravel extraction, but we will need to trade effectively. That is not looking very good in the long term. Planning permissions is a total red herring, because nine out of 10 planning permissions are successfully granted. In terms of the wider context, it is not looking very good.

I want to ask you specifically about spending priorities. In the housing review this year, around 21% of the focus was on affordable; 79% of the investment was in the private sector. When you look at where you are spending billions of pounds, so much of it is on stimulating demand-side provision, rather than supply. If you take the 79% of support for the private market—some of this has been updated since the Budget—in terms of your overall housing review, you are spending £2.3 billion on the help to buy mortgage guarantee, £3.5 billion on the PRS guarantee, £4.2 billion on help to buy and lifetime ISAs, and £12.5 billion on help to buy equity loans. These figures, stimulating the demand side of things, dwarf the amount we are spending on dealing with the supply-side challenges, particularly in terms of affordable housing.

When we have over 100,000 children living in bedsits and single rooms with their families, as I have in my constituency, can you not see how it might stick in people's throat to see housing prices, which is essentially a supply and demand problem, exacerbated by a Chancellor spending billions of pounds increasing demand and benefiting people who will be a lot better off than the kids in my constituency who are sharing one room with their brothers, sisters and a single parent or two parents?

Mr Hammond: I do not agree that we are exacerbating the problem. We are facilitating people who would otherwise be excluded from the housing market to get a foot on that ladder. Since 2010, we have increased the supply of homes by more than 1.1 million, and 350,000 of them have been affordable homes. The numbers you just reeled off there included support to the private rented sector, which is an important component of our overall housing market.

We need to do all three things. We need to ensure that people who are in work, earning, have a reasonable chance of accessing the housing market and can deploy their own private resources to that end. We need to ensure that we have a vigorous private rented sector, and I am personally committed to ensuring that we have a purpose-built private rented sector, where high-quality property is being built for private rental. Of course, we also need to ensure that we build an appropriate number of affordable homes, both homes for affordable rent and homes for social rent. That is why we have announced, in this Budget, that we



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are going to remove the HRA cap for councils in high-stress areas, so that they can start building council homes for social rent again.

- Q376 **Wes Streeting:** Can I conclude, because time is moving on? I agree with the point you are making around balance. I would urge you to go away and think again about the imbalance, particularly around affordable housing and social housing. Particularly in London, where the housing crisis is most acute, we have changes to welfare policy driving homelessness and driving people out of homes that they can barely afford anyway. The measures that you have taken in this Budget and others are increasing prices and making the demand-side pressures more acute. In London, we are spending £600 million a year on the cost of temporary accommodation alone.

Here you are, as the Chancellor, putting pressure on DWP to make things worse for the poorest in our community. Similarly, local authorities are having to spend hundreds of millions of pounds, collectively, on dealing with the consequence of temporary accommodation. That imbalance leads to the position where the Government are penny wise and pound foolish. You are absolutely right to stimulate private sector housing expansion. You have a real blind spot when it comes to the role of local authorities in this, and you need to look again at that issue.

Mr Hammond: I can assure you that I have no blind spot in relation to the role of local authorities. In London, where the problem is most acute, the Mayor of London has a critical role to play in this. The draft London Plan that was published last week is an important step forward, and the Government will be engaging with the mayor in ensuring that the London Plan is taken forward in the right way.

- Q377 **Wes Streeting:** He got £500 million a year off you for that. He needed £2.7 billion a year to address the housing crisis for the poorest residents in London.

Mr Hammond: We have not made an affordable housing settlement with the mayor yet. We entered into discussions ahead of the Budget, but we were not able to complete them in time, so they are ongoing.

Wes Streeting: This was money already announced, so I am glad there is an opportunity for you to correct the imbalance.

- Q378 **Kit Malthouse:** Chancellor, hello. On fiscal targets and the Patient Capital Review, you have talked repeatedly about bringing the public finances into balance in the middle of the next decade. The glide path on the chart in the Red Book indicates that it is way beyond that. Are we still on for 2025?

Mr Hammond: It is right that we have a plan to bring the public finances back into balance. The immediate target is, in 2020-21, to deliver a deficit that is, on a cyclically adjusted basis, less than 2% of GDP. The OBR forecasts that will be at 1.1% of GDP, cyclically adjusted, by 2020-21.



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Q379 Kit Malthouse: We have heard some evidence, in the run-up to this, that there is a bit of mucking about with the targets. For instance, the fiscal illusion, which we gather is now a technical term, around housing authority debt—moving it off without adjusting the target—is a bit of a crafty move. Do you think that is correct or not?

Mr Hammond: No, not at all. Let me explain to the Committee. In 2015, housing associations were reclassified on to the public sector balance sheet as a result of an ONS decision, which arose from a review of the degree of control that local authorities exercised over housing association nominations. No changes were made to the fiscal plans or fiscal rules to reflect that reclassification to the public sector. We have always been clear that housing associations belong in the private sector. We said, at the time of the original reclassification, that we would work with the ONS and the sector to ensure that they could be reclassified back where they belong, to the private sector. Two years ago, that has happened. There were no consequential changes on the way in or on the way out.

Q380 Kit Malthouse: We also heard that your pushing the CGT payment window a bit down the road was effectively going to give you a big bump, which might help you towards your targets. Is that going to be the case? I think you have delayed the CGT payment window down to 2020.

Mr Hammond: The change in the arrangements—

Q381 Kit Malthouse: Yes. It becomes due in 30 days, so you will get a big receipt in one year.

Mr Hammond: We have decided to push one year further out the point at which CGT-payers have to account immediately for their CGT. That was one of the judgments we took at the time of the Budget in trying to create a smooth pathway and manage the overall fiscal picture.

Q382 Kit Malthouse: I forget the year you have put it in for; is it 2020-21?

Clare Lombardelli: Yes, we have delayed it to 2020-21.

Q383 Kit Malthouse: That will give a big bump in receipts in that one year.

Mr Hammond: I do not think it is very big, is it?

Clare Lombardelli: It is £1.2 billion.

Mr Hammond: It is purely a timing issue.

Q384 Kit Malthouse: In terms of reaching overall balance by 2025, that does not look like it is going to be hit. You might hit the first target, but 2025 is looking more like 2030.

Mr Hammond: I have read this as well: 2030, various years.

Q385 Kit Malthouse: People are just drawing the graph beyond the forecast period.



Mr Hammond: If you simply extend the line, you can extrapolate a future date. Further decisions will need to be made in the light of and the context of economic conditions at the time. My view is that we are in a fairly uncertain period economically; we can expect a lot more clarity about the future trajectory of the economy in the next year or so, and it makes sense to continue with the policy that we have set out, to continue to plan on that basis, but to continually look at the economic circumstances and make future judgments. There will be a number of fiscal events between now and the mid-2020s.

Q386 **Kit Malthouse:** I understand. It is just that I understand 10 of the last 12 fiscal targets have been missed, but you are determined that that will not be the case in your case. On the Patient Capital Review, I have been interested in the EIS, the SEIS and the Patient Capital Review generally. We heard some evidence yesterday from tax experts, and their indication was that the changes you made, particularly to those schemes, were likely to result in less money coming in through the schemes rather than more, because you have added a layer of regulation and withdrawn prior assurance for certain types of schemes that do not satisfy the knowledge-intensive test. Is that your understanding?

Mr Hammond: No. Clare is just looking up the figures. We expect that it will attract more money in aggregate, but most importantly it will ensure that the money that goes into these tax-privileged schemes goes where it is meant to go: to high-risk, high-growth businesses that benefit the economy. Unfortunately, we have seen an industry growing up around inventing capital-preservation schemes that can be marketed to fit inside the rules of EIS, but where very little, if any, real risk is being taken. That is not the purpose of these schemes. The taxpayer is not in the business of subsidising wealthy individuals to shelter their capital. We want to see this money going into the high-growth businesses that will produce the economy fit for the future.

Q387 **Kit Malthouse:** The fact that you have not adjusted the reliefs available means that the risk-reward equation remains the same, albeit you have raised the thresholds for the amount that can be invested by any one individual and, indeed, in any one company. Obviously you will get rid of the capital-preservation schemes, or they will start to decline. But I am not entirely sure whether your sense is that, without changing those, you will see this wall of patient capital appearing to fund the innovations that the British are inventing.

Mr Hammond: There are three key measures that we have announced. There is a raft of other things around visa regimes and so on, which will support the high-growth tech sector. The first of the three measures is the change to the EIS scheme, to double the amount that can be invested by an investor, and the amount that can be received by an investee company, for knowledge-intensive businesses. The second is the seeding of a British Business Bank fund with public money that will leverage in a larger amount of private sector money, for direct investment in high-growth businesses. The third is a discussion with the Pensions



Regulator about issuing new guidance to pension trustees, to ensure that they can, with confidence, invest a small portion of their pension funds under management in high-growth, higher-risk businesses, without fearing that they are breaching their fiduciary duties.

Q388 Kit Malthouse: I understand all that. On the basis that these two schemes—EIS and SEIS—are the primary means by which private sector investment reaches and finds innovation, the amount of money going in through these schemes has been broadly static over the last couple of years: around 1.8 billion or 1.9 billion quid. Against a GDP of whatever it is—£2 trillion—that is tiny, if we are meant to be starting to grow business. The question is whether, on that particular aspect, you feel that the measures will move the dial significantly either way, because we have had evidence that the extra regulation will start to reduce the amount of money coming in.

Mr Hammond: That is not my expectation. My expectation is that we will divert money that has been put into capital-preservation schemes into higher-risk, higher-growth areas. It is right to draw attention to the fact that the EIS route is a relatively small part of the total £20 billion that the Budget was designed to free up for patient capital investment. The British Business Bank fund and the guidance to pension trustees, we believe, will have a bigger impact overall.

Q389 Kit Malthouse: When we last met and I asked you about the Patient Capital Review, you said there would be measures in the Budget, and then there were measures that you would be consulting on. Will there be more to come in the spring around the Patient Capital Review recommendations?

Mr Hammond: We are working with the Pensions Regulator on the pensions work. We have made the two key announcements on EIS and the British Business Bank funding. As you know, we launched a review of patient capital, and Sir Damon Buffini led an industry group to comment on it for us. We believe that the measures we have taken will address the current gap that the industry faces. That is a dynamic situation. A tech business is founded in the UK every hour at the moment. That is extremely good news. As we see the number of tech businesses increasing, the demand for scale-up funding will also increase. This is an issue that I am sure we will want to return to in the future.

Q390 Chair: Jagjit Chadha of NIESR told this Committee last week that a cyclically adjusted deficit target is “bordering on the ridiculous”, because “nobody is able to measure the business cycle in real time and tell you whether the economy is at trend, below trend or above trend”. I wondered if you had a response to Professor Chadha.

Mr Hammond: He is right, in the sense that precise measurement of the economy in real time is very challenging. I remember, as an Opposition spokesman, challenging Gordon Brown with that notion, which he roundly rejected when he was making his own definitions of cyclical deficit



numbers. The reason we have chosen a cyclically adjusted figure, recognising the measurement difficulties, is that it is important that the automatic stabilisers are able to operate if the economy slows because of cyclical factors. Unlike at least one of my predecessors, I do not claim to have abolished the economic cycle, and I do not think it is possible to abolish the economic cycle. We have to operate a regime that manages and goes with the grain of the economic cycle.

Q391 Stephen Hammond: Chancellor, good afternoon. Please can we return to productivity, initially? Last year, when you were before us, you said it was the central theme of your economic strategy. Given what you have just said about cyclicalities, we have heard a lot of evidence so far in sessions about the relative causes of productivity and a balance between cyclicalities and structural explanations. There is a view that the Government's industrial strategy and your productivity investment fund are attacking the structural causes, but little in the Budget attacks the cyclical causes.

Mr Hammond: That is a fair comment. We are targeting our efforts on the structural productivity problem that we have in this country: skills, infrastructure, private capital investment and the regional imbalance, which is clearly a driver of low productivity performance. No other large developed economy has the kind of gap that we have between different parts of the country in terms of productivity performance.

Q392 Stephen Hammond: In the OBR's book, it identifies five factors for the slowing of growth in productivity since 2007. One of those is highly accommodative monetary policy. How much balance does the Treasury model put on that?

Mr Hammond: I cannot give you a quantified figure in terms of the impact of accommodative monetary policy on productivity performance. This is a complex area, as I said earlier, a thought possibly underscored by the fact that the OBR has failed to correctly forecast productivity growth on 16 occasions. We are in a world where quite a lot is changing. The measurement of productivity in a services economy is relatively immature compared to the measurement of productivity in a goods and physical products economy. The digitisation of the economy and the rapid improvement of the quality of goods and services, through digitalisation, is presenting some measurement challenges. This applies to all economies, but the UK, as the large economy with the highest levels of services penetration, and as one of the leading adopters of digital economy, particularly online retailing activity, is, when the history books are written, likely to be more affected by this measurement challenge than any other economy.

Q393 Stephen Hammond: I remember that, in response to last year's Budget, we had a number of commentators trying to estimate and talk about the measurement challenge. Professor Chadha, when he was in front of us last week, suggested that productivity growth was under-measured by something between a quarter and a third. Is that a number the Treasury



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recognises or a number you would comment on?

Mr Hammond: I could not say the Treasury recognises the specific number. I am acutely conscious of the risk of being presented as a wishful thinker at a time when our productivity growth forecast has just been substantially downgraded. I do not want to sit in front of the Committee and in any way suggest that this is just a measurement problem. It is much more than a measurement problem; we have a fundamental productivity problem. But there may also be a measurement component, which is particularly acute because of the speed and nature of the change going on in the economy. That is a debate that academic economists will, I suspect, be having for years to come. We will only know in several years' time what was actually going on with productivity growth in the economy at this stage.

Can I just make one further point, which I know the Committee is well aware of? The UK's approach, since the beginning of the recovery post the financial crisis and the recession that followed it, has been to support and encourage employment growth. Other economies have chosen different routes, where high levels of unemployment have been tolerated. The consequences of high levels of unemployment, particularly high levels of youth unemployment, will be felt for many, many years to come. They will be generational impacts. I think we have made the right decision, but it is almost certainly the case that, by increasing participation in the workforce, including far higher levels of participation by marginal groups and very high levels of engagement in the workforce, for example, by disabled people, which is something we should be extremely proud of, we may have had an impact on the overall productivity measurement. That tells us that perhaps productivity measurement, in itself, is not the only thing we should be looking at. Having high levels of workforce participation, allowing maximum access to the workforce by all groups in society, brings a benefit in itself and produces a larger GDP. It may have collateral impacts on measured productivity performance.

Q394 **Stephen Hammond:** I note the comments by the OBR about participation rates and your national retraining, which presumably are linked together. You are also aware of the academic research showing that, with increased technological advances, productivity declines. Returning to one thing that was in the Budget, in 2016 you had £6.2 billion of spending planned under the productivity investment fund for 2017-18 and 2018-19. That number appears to be £4.7 billion now and seems to be moving backwards through the period. Is there an explanation for that?

Mr Hammond: I am sorry; can you explain to me which number you are looking at again?

Q395 **Stephen Hammond:** I am looking at the spending planned under the NPIF in 2017-18 and 2018-19, which was due to be £6.2 billion and appears to have fallen to £4.7 billion.



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Mr Hammond: I do not recognise the numbers you are quoting. Money is shown in the National Productivity Investment Fund until it is allocated to a specific project, so I suspect you may be looking at a residual unallocated number.

Clare Lombardelli: I do not recognise your numbers.

Q396 **Stephen Hammond:** The came from the Red Book, but I will find them. Perhaps you can have a look at it and come back to us, if you do not recognise them.

Clare Lombardelli: We can follow up.

Q397 **Stephen Hammond:** Can I ask you two quick topical questions? There has been a lot of concern this week about the words “regulatory alignment”. You talked about the services sector and its growth earlier on. One of the big issues, particularly for financial services, is the perception that regulatory alignment will move to regulatory equivalence after we leave the European Union. Are you concerned that the discussion of regulatory alignment will further cause uncertainty in the City of London and other financial services centres in this country?

Mr Hammond: People in the financial services sector understand very well that a well-regulated financial services industry that operates cross-border needs a high level of collaboration between supervisory and regulatory authorities, in all the jurisdictions in which it is operating. At the moment, that is achieved within the European Union under the framework of EU law. Once we leave the European Union, it will no longer be able to be delivered under that framework of EU law. If we are to continue to have a vibrant cross-border financial services sector, we will need to develop a new approach or paradigm for regulating and supervising cross-border activity. For example, we have in London a very large German bank carrying out global business, but operating as a branch of its parent bank in Germany. At the moment, the arrangements for supervising such a bank depend on close collaboration between the Bank of England and the eurozone supervisory authorities.

Q398 **Stephen Hammond:** That implies that the Treasury is having ongoing discussions, fairly immediately, about materiality and deviation.

Mr Hammond: It is fair to say that the independent regulators have spent a great deal of time thinking about this challenge, on both this and the other side of the channel.

Stephen Hammond: I have one last topical question. I see in the papers today, following on from Mr Jack’s questions, some talk about the scale, the size and your view on the defence budget. Presumably, as a former Shadow Secretary of State, you might wish to comment on those. I am giving you the opportunity to comment on rumours being pushed around in the papers today.

Mr Hammond: I have not read the papers today.



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Stephen Hammond: That is very wise. I find that certain of them carry quite a lot of inaccurate information.

Mr Hammond: It is my general policy approach. There is no greater champion of defence than me. I was Defence Secretary for almost three years. I am a huge advocate for our armed forces. We have Europe's largest defence budget. We are one of the very few countries committed to the 2% of GDP NATO target. We have a defence budget for the next three years that grows by at least 0.5% in real terms in each of those years. That is at least £1 billion of extra cash in each of the next three years. I too have read stories about the defence budget being cut. There is no question of the defence budget being cut. The defence budget is being increased.

I recognise also that defence is facing some pressures, particularly around currency movement. A lot of defence procurement is denominated in US dollars. Defence is probably the most complicated budget area in government, with very long-gestation capital programmes, often with very high levels of technical risk in the execution of those programmes. It is very difficult to predict exactly what defence will be doing at a point in the future, because the threat pattern and the response to it change.

I expect that, once he has had a chance to understand the situation in the Ministry of Defence and get his head around the defence budget, the new Defence Secretary will want to come and talk to me, and he will find no one more sympathetic to the challenges of defence than I am.

Q399 **Stephen Hammond:** Thank you. That is very helpful. One of the other things with a long capital-gestation period is transport projects. In response to Mr Mann, I understand you are going to write him a letter with the right figures or point him to them. Could we please make sure that you add in the GVA figures? Two-thirds of the Crossrail supply chain was beneficial to regions outside London. These numbers in particular cause a lot of concern. Can we have the GVA numbers as well?

Mr Hammond: Yes. There are many complicating factors in looking at the regional breakdown of transport spending. Transport spending does not benefit people only in the region in which the spending occurs. People travel across regions of the country. London, for better or for worse, plays a particular role in the operation of the economy of the UK. Many people will use the transport infrastructure of London on a routine basis as they travel from their places of work and residence to places they need to be for various other reasons, for example to represent their constituents in Parliament. Therefore, some of the transport investment made in London has a much wider impact on the economy of the UK than when regarded as a narrow regional investment.

Chair: That would be a very interesting set of figures.

Q400 **Catherine McKinnell:** One other key element of our productivity in this country is childcare and the ability for parents to get to work and know



their children are being well looked after. The number of people claiming tax-free childcare, the Government's flagship policy, by October was just 30,000, when the OBR estimated it at 415,000. I know there have been some IT problems, but outstanding nurseries are being forced to close across the country because the 30-hour-a-week scheme is clearly significantly underfunded and is therefore unsustainable for many providers. What are the Government doing to put these issues right?

Mr Hammond: On the rollout of tax-free children, you are right. There have been some IT issues around the early rollout of the programme. It is in a much better place now. The Government have not yet conducted a paid-for advertising campaign to raise awareness of the tax-free childcare programme. We are doing social media advertising, but not a wider paid-for programme. There will be such a programme in the new year, and we expect that to increase registrations and use of the programme.

I do not have the note in front of me, but it is also the case that the childcare vouchers scheme closes to new entrants in April next year. Once that scheme closes, because the tax-free childcare scheme will then become the most attractive scheme available to parents, we expect that that will increase the level of interest and take-up of the scheme as well.

Q401 **Catherine McKinnell:** Chancellor, you are admitting there that the voucher scheme is currently more attractive than the tax-free scheme, and the only way to make the tax-free scheme look more attractive is to close the voucher scheme.

Mr Hammond: The voucher scheme is closing next year, and we expect that uptake of the tax-free childcare scheme will then increase. At the moment, they are alternatives to each other. There will be one route available.

You talked about the supply side of the industry. I recognise that there are challenges here, and we need to work closely with providers to understand where those supply-side challenges lie, to ensure that there is a supply of affordable childcare available to the system.

Catherine McKinnell: We will keep it under review.

Chair: Chancellor, you will be pleased to know that, at the end of this session, you are not trending on Twitter, unlike your Brexit Secretary colleague, David Davis, who is trending after his appearance this morning.

Mr Hammond: I suppose that is good.

Chair: The words "spring statement" are trending, so that puts us all in our places. Can I thank you and Ms Lombardelli very much indeed for being here this afternoon? I am sure that we will see you before the Committee early in the new year. For now, thank you for your time.

Mr Hammond: Thank you.