



Select Committee on Economic Affairs

Uncorrected oral evidence: Evidence session with the Chancellor of the Exchequer

Tuesday 11 September 2018

3.30pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (Chairman); Lord Burns; Lord Darling of Roulanish; Baroness Harding of Winscombe; Lord Kerr of Kinlochard; Lord Layard; Lord Sharkey; Lord Turnbull.

Evidence Session

Heard in Public

Questions 1–17

Witness

I: The Rt Hon Philip Hammond MP, Chancellor of the Exchequer.

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Examination of witness

Philip Hammond MP.

Q1 The Chairman: Chancellor, welcome to the Economic Affairs Committee. We appreciate your taking the time to join us. I see that this morning you announced the extension of the Governor's contract. Given that the fixed-term appointment rules were there in order to guarantee the independence of the Governor, can we be sure that in future people will be appointed on the basis of an eight-year term?

Philip Hammond MP: The appointment, as you know, is a single eight-year term. This particular incumbent made clear at the very commencement of his appointment that he would not, for personal family reasons, be able to serve the full eight-year term. He has already agreed to extend his term once, for which we were grateful, and he has now agreed to extend it by a further short period. I think that is very much in our interest.

The Governor was due to leave office at the end of June next year. If we leave the European Union without a deal on 29 March next year—that is a contingency planning scenario that we have to consider—we could expect a period of some turbulence and some issues arising for financial services businesses in adapting to the new situation they found themselves in. A Governor who was leaving at the end of June with his bags already packed would be in a poor position to represent the UK in what might be quite critical, and time-critical, negotiations over that period, trying to find practical solutions to situations that might arise. So getting him to agree to stay on for another seven months is very welcome.

Of course, when we go out to the market, as it were, to appoint a successor, the normal processes for that appointment will apply. But as I think you have implied in your question, what I have announced today is not actually an appointment; it is merely a statement that we have agreed with the Governor that he will continue in office within his formal eight-year appointment for an extra seven months.

Q2 The Chairman: I am grateful for that. The principle is that it should be an eight-year appointment that covers more than one Parliament but guarantees his independence will be followed in future appointments. That is very helpful.

The second question is an administrative question. Are you in a position to tell us when the date of the Budget might be? We have an interest in this, because our sub-committee has to complete its report on the draft Finance Bill, and we have read in the newspapers that it might be brought forward. Would we be safe in assuming that the memorandum with the OBR, which says that it has to be given 10 weeks' notice, means that we can plan on the basis that it is at least 10 weeks away?

Philip Hammond MP: No. I would not urge you to give yourself that assurance. I am afraid that I am not in a position to announce the Budget today, and I am acutely conscious of the dangers of creating precedent

and of the fact that I announced the Budget date at my appearance in this Committee this time last year.

The situation this autumn is complicated by the fact that there are some very significant political events, including potentially one the timing of which is as yet indeterminate: the continued speculation that there may be a special European Council in November. Clearly that makes it difficult to fix the date of another event in our own political calendar.

The 10-week convention with the OBR is a minimum, not a maximum, period of notice, and I have asked the OBR to begin planning for an autumn Budget but on the basis that we cannot give them a firm date at this stage. I am very grateful to the OBR for showing some flexibility and understanding of the position that I find myself in at the moment. As soon as we are able to fix a date, I will, of course, announce it to Parliament.

Q3 The Chairman: I did note that the joint memorandum of understanding says that in exceptional circumstances you do not have to give 10 weeks.

Perhaps we can move on to the main questions. How confident are you in the assumptions behind the forecast for the no-deal scenario, which you have just mentioned and which was highlighted to the Treasury Committee chairman last month? What improvements have the Government made to their forecasting since the EU referendum?

Philip Hammond MP: Let me answer the second part of the question first. At the time of the EU referendum, the Treasury produced both short and long-term forecasts. Since that time, the Treasury has overseen the construction of a new model for long-term forecasting. This is not something that the Treasury has done on its own; we have a cross-government professional team drawn from the department of trade, the Department for Exiting the European Union, the department for business, the Home Office and the transport department, as well as the Treasury.

This is a computed general equilibrium model. It is a different model from the one that was used by the Treasury in the run-up to the referendum, and the Treasury has not attempted to update its modelling capability for short-term forecasting because it is not something that the Treasury needs to do; both the Bank of England and the OBR have very significant short-term modelling capabilities.

So the cross-government model to which you referred in the question is a computed equilibrium model. The leak of preliminary work using that model in January was followed by the publication by DExEU of that work, but with the caveat that it was ongoing work and that the output represented preliminary results. More work has been done since.

I should also say that the modelling that was done at the back end of last year into January modelled three scenarios: an EEA scenario; a no-deal WTO-terms Brexit; and what was termed a standard free trade agreement, which sought generally to mimic the effects of a Canada-style—a CETA-style—free trade agreement. None of those, of course,

represents the Government's aspirations in the White Paper model, the so-called Chequers model, and the updating of that modelling between now and the time when Parliament is invited to conduct the meaningful vote will centre on modelling the outcome of what is currently being negotiated or is to be negotiated with the European Union.

The Chairman: Okay. I am just a bit puzzled as to why you feel that you do not need to do something about the short-term modelling by the Treasury. I looked from the third quarter of 2016 to the second quarter of 2018 and the forecast for the Budget, and only once—in the third quarter of 2016—was it correct. Before the referendum in May 2016, the forecast was that unemployment would rise by between 520,000 and 820,000 if we left the EU and that real wages would fall by 2.8 per cent to four per cent. Neither has occurred. Are you telling the Committee that you are happy with that kind of forecasting and that you think your long-term forecasting is much more accurate than your short-term forecasting?

Philip Hammond MP: The latter is certainly true. Long-term forecasting is intrinsically easier to get right than short-term forecasting. The problem with the short-term model was that the assumptions were wrong. The Treasury assumed no fiscal response, no monetary response and the immediate service of an Article 50 notice upon completion of the referendum. None of those things occurred, and the fiscal and monetary response and the delay in implementing the Article 50 process fundamentally changed the circumstances.

The more important point here is that under our current arrangements we have effectively outsourced to the OBR and the Bank of England the responsibility for short-term modelling. The OBR produces the growth forecasts for fiscal events, and the Bank of England, through the Monetary Policy Committee and the Financial Policy Committee, looks at other aspects of the short-term economic trajectory. We are very comfortable with the capabilities of both those bodies, and we see no logic in seeking to replicate them in the Treasury.

The Chairman: Despite the lack of reliability in these forecasts.

Philip Hammond MP: I think that, in the models that the Bank of England and the OBR are using, the margins of forecasting error are in line with what economic forecasters expect to see. We base our Budget arithmetic on the OBR's work. It would not really be helpful for the Treasury to run a separate model, since it is required to base our fiscal arithmetic on the OBR's model.

The Chairman: My last point is on the new model that you have which you believe. Would you be prepared to make that model available to the committee and to the public?

Philip Hammond MP: Did you say "which you leaked"?

The Chairman: I said the new model which you believe.

Philip Hammond MP: I thought you said “which you leaked”, and I just wanted the opportunity to clarify that it was not me. Would I be prepared to—?

The Chairman: Would you be prepared to make it available to the Committee and to the wider public so that they can look at its tenets and assumptions.

Philip Hammond MP: The model itself or the output from the model?

The Chairman: To make public the make-up of the model and the assumptions that are being used.

Philip Hammond MP: The model is based on a standard economic model, a computed general equilibrium model, which is known and widely used. In the run-up to the meaningful vote we have committed to publish appropriate analysis to inform Parliament. Clearly to be useful that analysis will have to include the assumptions that have been used in generating the output.

Q4 **Lord Burns:** Will you provide estimates of margins of error in the various scenarios, as has become customary in the production of economic forecasts by the OBR and others? What do you think the range of error might be, not just for different scenarios but for each scenario?

Philip Hammond MP: You will have seen from the information that was published in February that it is presented in that way as a range of outcomes with a mid-point.

Lord Burns: At one stage of my life, I was involved in economic forecasting for quite a long time. The statement that long-term forecasting is easier than short-term forecasting slightly takes my breath away. Obviously it depends on what you are measuring and what your baseline is, but what is the evidence for that statement?

Philip Hammond MP: I did not want to make a deeply philosophical statement. It is just my observation that, because of volatility, making short-term forecasts is an intrinsically higher-risk business.

Lord Burns: Let us apply that to weather forecasting. Would you say that long-term weather forecasting is easier than short-term weather forecasting?

Philip Hammond MP: Yes, in the sense that I can predict pretty confidently that, at the end of 2019, as we move into 2020 it will be winter, but I would not like to predict that on any particular day next week it will rain.

Lord Burns: But is predicting the average temperature over part of that year really going to be easy? I will not press it.

Philip Hammond MP: I was not seeking to make some very deep statement. I think it is generally accepted that when producing a long-term equilibrium forecast, and looking at what the steady state of the

economy is likely to be, we have a trend rate of productivity growth and we know certain things about the economy. We cannot predict how the short-term cycle will work, but we can be somewhat more confident about how things will pan out over the longer term.

Lord Burns: In 2007, it was said that the medium-term growth rate and the long-term growth was perhaps 2.5 per cent. Today, we are talking about the growth rate being 1.5 per cent. That is not quite the same as saying that winter will come.

Philip Hammond MP: The economy suffered a shock, which has created a structural change. We have to factor that in. The question in each of these potential Brexit scenarios is whether there is a structural external shock that has a long-term impact on the economy. Clearly you will have seen the early output from the cross-Whitehall analysis which suggests that there would be, and that the less trade access there is the greater that shock is likely to be. You may also have heard Professor Minford's analysis today, which suggests the exact opposite. We can go into that if anybody is interested.

Lord Layard: Is the nature of the long-term forecast a comparison between what would happen under one scenario and another, so it is not a forecast of what is going to happen under one scenario but a forecast of the difference between two scenarios? I feel that is point that one could argue is reliable. It is when the system has settled down. Even though one would not know exactly where it would be on either scenario, you could say with some reliability what the difference between the two scenarios would be.

Philip Hammond MP: We are attempting to model, *ceteris paribus*, the impact of a specific event 15 years down the line.

Q5 **Lord Darling of Roulanish:** I will not criticise you in view of the Budget. I only wish I could ever have given 10 weeks' notice of when my next Budget Statement was going to be. I should refer the Committee to my entry in the register. In particular, I am a director of Morgan Stanley.

I shall ask you about Brexit. In the past 24 hours, Mr Barnier is quoted as saying that he is optimistic that an agreement can be reached in between six and eight weeks. Do you share that optimism, and are we talking about an agreement as in "everything has been fixed", or an agreement as in "these are heads of agreement, but more work needs to be done"?

Philip Hammond MP: First, if you look at the history of EU negotiations on difficult issues, six to eight weeks is probably quite a large timescale. The EU has a track record of addressing quite thorny issues in quite short periods of time, so I think it is doable.

For the withdrawal agreement, we are talking about legal text, something that will become an international treaty. Alongside that will sit, as we have always been clear, a political declaration about the future relationship between the European Union and the United Kingdom. That will need to have enough detail in it for both sides to be able clearly to

understand where we have agreed to go and for Parliament to be able to take a view about the package as a whole, but it will not need to be legal text or even draft legal text.

Lord Darling of Roulanish: When we are talking about optimism about something being in the next six to eight weeks, we are really talking about the exit agreement rather than the exit agreement plus a political agreement on where we might be going for the next—

Philip Hammond MP: No, we are talking about both. Both will have to be agreed before Parliament can vote. We have always been clear that we would not expect Parliament to vote on the withdrawal agreement unless it also had the text of a future economic partnership agreement.

Lord Darling of Roulanish: In relation to the future economic partnership, how detailed does that agreement need to be? It seems to me that the problem is that you could reach an agreement like the one the Government agreed at the end of last year over money, Ireland and so on, but it soon becomes apparent that both sides agreed to it but chose to draw different things out of it. I wonder how specific we are likely to be in, say, six to eight weeks' time on a political agreement that has so far evaded us for the past two years.

Philip Hammond MP: It will need to be specific enough to satisfy both the UK Parliament and the European Parliament and specific enough that the negotiating teams who then work up the detailed text can use it to guide their work.

I would see the commercial world equivalent as a heads of terms that is agreed and initialled and is clearly intended to bind the parties but is not a detailed text. As to how much detail goes in, that will be a matter for negotiation. There is merit in having quite a bit of detail, but clearly we do not have enough time to negotiate the full draft legal text in what will be quite a complex future partnership agreement.

Lord Darling of Roulanish: If we take one example, as I understand it the agreement reached at Chequers and the Government's policy at present is that, in relation to goods, we will not be part of the customs union but there will be some sort of common rulebook. If you translate that into a political agreement, are you saying that we will have an agreement on what that actually means, or a political agreement that we will work towards some sort of common rulebook?

Philip Hammond MP: For something as central to the proposition as that, we will need to spell out what it means.

Lord Darling of Roulanish: And when Mr Barnier said this could be done provided we were realistic, do we have any clue what "realistic" might mean?

Philip Hammond MP: I think I can confidently predict that it will mean different things to different people, but that will clearly be an issue for the negotiation over the next few weeks.

Lord Darling of Roulanish: Do you still anticipate a transitional arrangement?

Philip Hammond MP: Yes. The implementation period is central to the withdrawal agreement.

Lord Darling of Roulanish: And how long do you think that will be?

Philip Hammond MP: It is agreed that it will run until 31 December 2020.

Lord Darling of Roulanish: That remains the Government's position?

Philip Hammond MP: That remains the Government's position.

Q6 **Lord Kerr of Kinlochard:** I would like to ask a question about the withdrawal agreement, but first I cannot resist taking you up on your offer to comment on Professor Minford's modelling. As I understand it, your cross-Whitehall exercise, as you reported it to our counterpart committee in the Commons, suggested that over 15 years the effect, *ceteris paribus*, of a no-deal Brexit—WTO terms—would be a decline in GDP of between five per cent and ten per cent relative to what it would otherwise have been.

Professor Minford says, on the contrary, that over precisely the same period it would go up and Brexit would produce a boost to our GDP, assuming we had no deal with the European Union at all, only WTO terms, and it would rise by £1.2 trillion. Can you tell us how he gets there?

Philip Hammond MP: Yes, I think I can. He has assumed a four per cent benefit to UK GDP by unilaterally liberalising our trade system—that is, abolishing our tariffs unilaterally—notwithstanding that that would leave us with no leverage to negotiate free trade deals with any third countries, which I think is the objective of many of his supporters, and notwithstanding the studies done by others; for example, the LSE found that the boost would be 0.3 percentage points, and Open Europe found that it would be 0.75 percentage points.

His model makes no allowance for difference in the quality or safety of imported goods, not does it make any allowance for distance-related transport costs. He assumes that all standards imposed on imported goods will be abolished. He assumes that there are no additional non-tariff barriers to trade between the UK and the EU in a no-deal scenario, which is frankly not plausible.

For financial services, he assumes that an equivalence arrangement delivering a similar effect to passporting will exist between the UK and the EU in a no-deal scenario, notwithstanding the fact that we have heard very loud and clear noises to the contrary from some of our near European neighbours who have other aspirations about our financial services industry.

I am sure his model is very effective, but the assumptions he makes are wildly out of line with assumptions that are used by other economic modellers, and frankly I believe they are not sustainable.

Lord Kerr of Kinlochard: Some of them are assumptions that would be quite a surprise to the country as a whole if they were generally known; for example, in the farming community the idea that there would be absolutely no tariffs, quotas and duties on foreign agricultural imports—

Philip Hammond MP: I suspect you may be right.

Q7 **Lord Kerr of Kinlochard:** Let me ask my question about the withdrawal agreement. This is a question on which the Chairman and I have crossed swords from time to time.

In our Chamber today, Lord Callanan repeated something that he and I think from time to time Mr Raab has said, which is that the £39 billion, or a number in the range £35 billion to £40 billion, which as I understand it has been agreed between us and the EU as the cost of our past commitments, would not on the face of it be paid except in the context of a withdrawal agreement.

If there is no agreement, we do a runner and do not pay the bill. As I understand it, the £39 billion was computed as the total of past commitments and has nothing to do with the price of future access—that is a separate issue—so it would be quite odd to do a runner. I understand that the NAO has said, following something Mr Raab said, that we are committed in law to pay the whole bill whatever. Who is right, Chancellor?

Philip Hammond MP: I do not think my colleague Dominic Raab has said quite what you have characterised him as saying. The situation is that we undoubtedly have legal obligations to the European Union on exit. The quantum of those obligations may be open to discussion, even dispute, and would ultimately, in the normal course of events, be resolved through some kind of arbitration, which may take quite a long time.

What we negotiated in December—a negotiation that was subject to the caveat imposed by the European Union that nothing is agreed until everything is agreed—was a kind of lump sum, a range, which skipped over the potentially protracted and tedious process of negotiating and arguing every element of the claimed amount and simply agreed a range, a sum and a methodology for arriving at a sum in the context of a negotiated exit.

I think what Dominic Raab is saying is that in the context of no negotiated exit, that agreement, like all the other agreements that were settled between December and March, subject to the caveat that nothing is agreed until everything is agreed, would fall. What would not fall is our legal obligations under international law to make payments of sums that were due to the European Union, but quantifying those sums could require a complex and time-consuming process of arbitration.

Lord Kerr of Kinlochard: Yes, and the Court of Arbitration takes years and years. I would imagine that during that time the European Union would be reluctant to enter into any legal arrangement with us, not just over Galileo or Horizon 2020 but across the board, including in the area of free trade.

It seems to me that if we are seen by them as having welched on paying the bill and that if we engaged in a lengthy legal arbitration procedure it would not be until that procedure had come to a conclusion and we had accept that conclusion that the future relationship, which is supposed to be spelled out in the framework declaration, would go ahead.

Philip Hammond MP: You are positing a behavioural response, and you may well be right that if the EU takes the view that we have an obligation to it that we appear not to be willing to discharge, it may well take a view about discussions that it does or does not want to have with us.

I think it is probably right to say that this is not necessarily a zero or 100 position. There may be elements within the overall sums claimed where we might agree that the amounts are undisputed or that a large proportion is undisputed, and we need to look for some kind of arbitration only at the margin as to the exact amount. There may be other areas where the principle is more contestable, so I do not think it is quite as black and white as that, but I agree that if we were to say that we are going to sit on our hands and pay nothing, we would probably expect a very hardnosed response from the other side.

The Chairman: On that note, I would like us to move on from Brexit.

Q8 **Lord Sharkey:** I turn to student loans. In July, the OBR published a paper on student loans and fiscal illusions. It described the system as a “pyramid of fiscal illusions” that will always have a flattering effect on the deficit. You disagreed when I asked you the same question last year, but do you now accept that a loan system that costs a significant amount of money in reality will always make the recorded deficit figure lower and does indeed constitute a fiscal illusion?

Philip Hammond MP: Those are not my words, but I recognise the quote. The ONS is involved in a discussion with Eurostat and other international statistical organisations. At the moment, we do not have any choices on this. We are accounting for student loans in accordance with the ONS’s decision about how they should be treated. If the ONS were to change its position, the Government would, of course, treat those loans differently.

I should probably remind the Committee—I know the Committee is well aware of this—that alongside this process we are carrying out a review of post-18 education, led by a panel led by Philip Augar, and we will receive his recommendations in due course. He will also be looking at how post-education is funded, how it is offered to students and the value for money that students and taxpayers get from the system.

Lord Sharkey: Can I ask you about one of the effects of the current

system? A recent inquiry—I think we published the paper in June—found that, in real terms, lower-earning graduates may well pay back more than higher earning graduates. Do you remain confident that the student loan scheme is in fact redistributive?

Philip Hammond MP: Yes. It is significantly redistributive overall. As we have made changes, for example to the rates of interest, we have carefully maintained the redistributive nature of the scheme. I would not want to sit here and guarantee that it will be smoothly redistributive across a lifetime income curve in every case, and I certainly would not want to argue that the system is incapable for further improvement, but many international commentators have observed that what we have put in place is on the face of it a very effective system delivering support to students up front.

As we all know, the consequence of that has been to increase the participation of the most disadvantaged students in higher education, which is clearly a major objective achieved, to ensure that higher-earning students eventually contribute more to the cost of their education and that the cost of that education is borne by the taxpayer in the case of the lowest-earning students who for one reason or another, possibly ill health, do not achieve a lifetime career of graduate earnings or those who chose to go into low-paying, but perhaps worthwhile for other reasons, professions.

There are many characteristics of this system which we should be very proud of and very reluctant to lose, but that is not to say that the system is perfect.

Lord Sharkey: Many of the students we have talked to are concerned about the size of the debt arising not only from student loans but from maintenance loans. We heard evidence that the withdrawal of maintenance grants had deterred disadvantaged students from applying to university. The IFS calculated that the reintroduction of means-tested maintenance grants for students would increase the deficit by £1.7 billion, but that in the long run it would cost only £400 million. Is the reintroduction of maintenance grants something you are prepared to consider?

Philip Hammond MP: We have an ongoing review into post-18 education, and I do not think it would be sensible for me to comment ahead of the delivery of that review.

The Chairman: The terms of reference of the review prevent it making any recommendations that would have an impact on the deficit. Would you be prepared to change the terms so that it can look at the kind of points that Lord Sharkey makes?

Philip Hammond MP: It is not for me to change the terms of reference of the review.

The Chairman: How can the review address these issues if it is

specifically precluded from doing so?

Philip Hammond MP: The review is looking widely at how the system works. From my discussions with Philip Augar, I can say that.

The Chairman: That is not what we were told when we as a Committee had our discussions with him and with the Secretary of State.

Philip Hammond MP: The review will not be able to make recommendations that will have the effect of increasing the deficit overall, but it will be able to comment on the way the system is working. I was about to say to Lord Sharkey that I do not think the evidence of numbers supports the suggestion that the withdrawal of maintenance grants has deterred disadvantaged students. We have seen an increase in the number of disadvantaged students going on to post-18 education.

Q9 Lord Layard: I want to change the subject to HS2, which has again reared its head in public discussion because of the ever-mounting estimates of the cost. Can you comment on where HS2 ends? When this Committee did its report in 2014, we asked for an estimate of the cost saving if it ended at Old Oak Common rather than going through to Euston. The Government have never provided that. An estimate has been provided to the Select Committee by Michael Byng of £8 billion, which is a lot of money out of the total bill. HS2 has never denied that estimate.

Given the fiscal situation and the fact that many people think it would be as convenient if it ended at Old Oak Common as elsewhere, given the Crossrail connection, or at least it would not be significantly worse, I wonder whether it is not time for the Government to reconsider this. It is such an obvious source of savings.

Philip Hammond MP: No, I do not think so. First, this is a strategic project. HS2 will form the backbone of our rail system. It is a strategic game changer and will be a significant influence on this country's major problem of regional variation in productivity performance.

Let me make two points. First—this is digging deep into my memory from my period a long time ago as Transport Secretary—I think the problem with termination at Old Oak Common, notwithstanding Crossrail, is the capacity of the conventional system to distribute passengers effectively across London and to onward journeys. Although there would be a saving on the cost side, there are significant benefits in the cost-benefit calculation that come from the regeneration around Euston that is delivered through this project continuing into Euston and the benefits that are achieved that way.

In the Treasury and in our discussions with the Department for Transport, we are focusing on ensuring that the project is delivered within the funding envelope of £55.7 billion in 2015 prices, and that it delivers the benefits of more than £90 billion in 2015 prices that it is projected to deliver making it good value for money for the taxpayer.

Lord Layard: Those estimates were based on estimates of passenger

numbers that were not very consistent with the consistent fall in the rate of growth of passenger numbers over recent years. Is that not a problem?

Philip Hammond MP: That is a function of the economic cycle. While I do not have the modelling in my head or in my folder, the modelling of passenger numbers for HS2 will have looked at the long-term growth in the number of rail passengers, and, as the Committee will know, since 1994 rail passenger growth has been very strongly upwards.

Obviously there is a cycle, and in periods of slower economic growth rail passenger growth slows down, but I would expect rail passenger numbers over the lifetime of this project to be broadly in line with the forecasts that were made in 2015.

Lord Layard: Does what you say imply that another forecast of the estimates is being made now that could differ from the previous one?

Philip Hammond MP: I am not aware of any new forecast being made.

Lord Turnbull: The formulation of this is that the use of Old Oak Common as the terminus is not for all time. It is for maybe 10 years while traffic is being brought down from Birmingham only, and that once you get the whole system draining down to London you need a bigger capacity. First, in those 10 years, there is an opportunity to avoid spending a lot of that money; and, secondly, many people feel that the plan for the development of Euston is unsatisfactory.

There are basically two organisations—HS2 and Network Rail—developing side-by-side stations, and their integration has never been satisfactory. I would propose that it ends at Old Oak Common in the initial period. I contest the view that Crossrail and the other connections are insufficient. I suspect they would be, but they would remain sufficient until such time as the system is fully developed. In the meantime, as well as postponing a lot of expenditure, we have an opportunity to rethink what many people think is an unsatisfactory Euston solution.

Philip Hammond MP: I do not agree that the Euston solution is unsatisfactory. You are inviting me into a level of technical detail that would have been reasonable had I still been the Transport Secretary, but I will just share with you something that I recalled as you were making this proposal, as I think I looked at this myself.

There is a technical reason why it would not be practical to build the tunnel that is required into Euston after the railway was operating. If I remember this correctly, the spoil from this tunnel has to come out to the west. We have to build this tunnel to the west. You cannot build it into an operating railway. It may be helpful if I ask the Transport Secretary to drop the Committee a line on this technical issue. I can say with certainty that it is one of the many options that we looked at, when I was Transport Secretary, for reducing the cost or changing the cost profile of

the project. I am sure it was a technical reason that moved us away from it.

Lord Turnbull: All Lord Layard and I are asking for is re-examination in the light of the latest position on costs, passenger numbers et cetera. I do not care who does it; whether it is you, your officials or the Department for Transport. I will accept your invitation that somebody will look at it again.

Philip Hammond MP: I will talk to the Transport Secretary and write to the Committee to update you.

Lord Layard: If we could have some of those numbers in public, it would improve the acceptability of the proposal.

Lord Darling of Roulanish: You will remember from when you were Transport Secretary, as I do, that all these big projects have one thing in common, which is that they always cost far more and always take longer than anybody thought. Crossrail has just announced that there is a year's delay and it is going to cost more. In the summer, the *FT* published a document, which I think was prepared by an adviser to the infrastructure board, saying that the cost could rise to £90 billion. Evidence has been given, I think by Jim O'Neill, a former Minister in your Government, saying that it is now very apparent that if you really want to help the English Midlands and the north of England you are far better spending the money on improving links across England rather than from London to the north.

Given this and other projects such as Hinkley Point, which is now wildly off any of the promises that were made about cost and delivery and so on, might it not be better, before too much more money is spent on this, to concentrate on smaller projects that might be delivered more quickly and with greater benefit for the whole country?

Philip Hammond MP: The Eddington agenda. I am a big fan of high benefit to cost, small-scale projects that can be delivered quickly. If you look at the portfolio of transport projects that we are delivering, a significant amount is committed to the kinds of projects that often have a very significant impact on local productivity, but you also need strategic projects.

Let me address the points that you raise. I do not recognise the £90 billion figure, but I should emphasise that the £55.7 billion is in 2015 prices, so of course by the time this project is finished in the 2030s a significantly higher nominal price tag will be attached to it.

I also do not accept that there is a choice between east-west and north-south. Two of our significant industrial cities are Birmingham and Leeds. Try getting from Birmingham to Leeds on the current railway. HS2 is not just about London to Birmingham or London to Manchester but about Birmingham to Manchester or Leeds.

Of course, we fully expect HS2 to integrate into the northern powerhouse rail project. Indeed, I allocated money—hundreds of millions of pounds—in last year's Budget for passive connections from HS2 phase 2b to interconnect with the trans-Pennine route and the future high-speed rail link across the Pennines. We also expect connections between HS2 and the Midlands rail infrastructure. These things go together. They are not alternatives; they are complementary. The way to generate higher growth in our northern and Midlands cities is by improving both the strategic links south to London and north to Leeds and Manchester, and the east-west links within the regions.

Lord Darling of Roulanish: Yes, but if your forecasts, which we talked about at the beginning, are right, we will be constrained as to the amount of money we can spend. You will be spending it either on HS2 or on these other projects, many of which, as you know, have been postponed—electrifications, exploratory studies and all the rest of it, which I expect you remember all too well. It is doubtful that we will get both within a timescale that people would find acceptable.

Philip Hammond MP: These are strategically important projects. Curtailing HS2—cutting it off at Birmingham, for example—would fundamentally undermine the case for the railway. It is a piece of strategic infrastructure, and improving connections to the north is critical. This is slightly anecdotal, but when travelling around the world and talking to inward investors about opportunities in the UK outside London, the first question is always: how do I get there? Being able to say that it will be an hour away on HS2, or an hour and a half to more distance places, is a game-changer in the way international investors will see the UK.

I made this point many times when I was Transport Secretary, and I do not want to overlabour it, but just as the original Victorian railway fundamentally changed the geography of Britain—if a place was on the railway, wherever it was geographically it suddenly became within reach—HS2 will have a similarly transformative effect. Places that are within reach of an HS2 station will become closer to other major centres—the West Midlands, the northern powerhouse, London—in a way that will transform their fortunes.

Q10 Baroness Harding of Winscombe: I refer the Committee to my register of interests, particularly my membership of the Court of the Bank of England.

I want to take us back to education and our recent report. Whatever our views on Brexit, I think we can all agree that, as we look ahead, the training for our domestic workforce as we head off into the future on our own but also the technological revolution ahead of us are really important. In April 2017, the apprenticeship levy was introduced. In the year prior to that there were 457,000 apprenticeship starts. In the first year of the apprenticeship levy we have seen a significant reduction to 320,000. Is it a concern that since the new apprenticeship levy system was introduced we have seen an immediate reduction in the number of

people starting apprenticeships?

Philip Hammond MP: Yes, it is a concern, but it is not entirely unexpected. We always expected a dip in apprenticeship starts after the introduction of the new scheme. Firms have two years to spend the money that they are accumulating in their levy accounts, and we always expected that it would take some of them some time to work out their strategies and what they wanted to do.

But we have also seen another phenomenon that, frankly, we did not predict: a qualitative change in the types of apprenticeships that are being undertaken. I am looking for the right page in my notes. Here we are: we are seeing a shift from Level 2 to Level 3 apprenticeships. There has been a 26.5 per cent increase to date in the number of apprenticeship starts at the higher level—Level 4 plus—compared to the same point in 2016–17.

To put it in plain English, now that people are using their own money to do this, they are choosing higher-level apprenticeships. Those higher-level apprenticeships are significantly more expensive. They have a significantly higher cost attached to them. But, clearly, in terms of the skills they deliver into the economy they also have a greater value. So we are seeing a pattern that is slightly different from the pattern we predicted.

We are working closely with industry, talking to the businesses that are paying the levy and have levy accounts to spend, to try to understand exactly what is going on. The Department for Education is keeping this under very close scrutiny and will make sure that we deliver the right skills through the right level and the right quality of apprenticeships to get the outcome we are looking for. A Level 2 apprenticeship boosts your earnings by 11 per cent on average. A Level 3 apprenticeship boosts earnings by 16 per cent on average. We expect our reforms to increase that premium at both levels.

Baroness Harding of Winscombe: There is, of course, another interpretation of the data that you have just quoted, which is that there is a degree of rebadging going on. When you were here last year you said you did not think that the rebadging of existing training was taking place. But we heard in evidence from businesses that there was. One firm openly admitted that it had done so purely to reclaim levy funds. Are stricter requirements needed so that the levy is actually spent on genuine new apprentices rather than, as we heard, general management or MBA training for middle managers already in the organisation?

Philip Hammond MP: I do not think it is wrong for firms that have high-quality training schemes to adjust those schemes so that they fit within the criteria laid down by the levy, and can deliver nationally recognised qualifications and qualify for the levy. That is not wrong in itself.

Your question is interesting, because the pressure I hear all the time from industry is to relax the rules so that more of what they are already doing

can readily qualify for apprenticeship levy spending. I think we have probably got it about right. The key issue is that if levy funds are being spent on training, that training should lead to a recognised national qualification that is transportable, not some internal, single-employer training that is not recognised by employers in the sector more generally.

Baroness Harding of Winscombe: I want to push once more on the issue of higher-level apprenticeships, particularly those that are management degrees. We heard evidence that senior civil servants—one gave evidence directly—are being classified as apprentices when they are enrolled on career development programmes such as MBA programmes. Is there not a danger that that is being encouraged by regulations passed last year that set apprenticeship targets for public bodies? As a Committee we all worry that that is not what the desire for increased investment in apprenticeships is all about.

Philip Hammond MP: I cannot put my hand on my heart and say that such a thing has never happened, but I suspect that it has a very marginal impact and influence on the numbers. I have not heard that as a concern in the internal discussions that I have had in monitoring the programme, but I will certainly take it away and look at it.

Lord Sharkey: Chancellor, you have just mentioned high-quality training in the context of apprenticeships.

The Chairman: I am sorry to interrupt you, Lord Sharkey, but the official who gave evidence to us for an inquiry on treating students fairly said she thought it was a good thing and that she was benefiting from an apprenticeship herself.

Lord Sharkey: I am sure you know that when Ofsted surveyed the training systems, it found that nearly half of all the people providing training were unsatisfactory. It also said that it did not have the resource to continue to check the huge explosion in people offering training, at least half of which was not of high quality, as I have just said. Is this not an area of real concern? How do the Government satisfy themselves that this problem is going away if Ofsted cannot cope with inspection?

Philip Hammond MP: Obviously that is a concern, but moving to an employer-led training system introduces an additional control on the quality of providers. I would expect employers using their levy fund to train their employees to have a very strong interest in the quality of the provider.

Lord Sharkey: In other words, you are relying chiefly on the output to employers to make a judgment about the quality of the training.

Philip Hammond MP: I am relying to some extent on the operation of a market with highly competent buyers. These are large employers who are used to procuring services, and I would not expect them simply to buy apprentice training services without validating the quality of the services that they were buying.

Lord Sharkey: Except that, of course, the Government themselves also buy these services, and a lot of the money that has already been spent has been spent on contractors who do not themselves conduct training but subcontract it. Does this seem a sensible and reasonably safe method of proceeding?

Philip Hammond MP: I cannot comment in any detail on government procurement models for apprentice training as I have not looked at them, but I am very happy to talk to people in the Cabinet Office who have responsibility for this. I can envisage situations where it would be appropriate for the Government to use a contractor that provided a wide range of skills-related services to subcontract apprenticeship training as part of that package, but I have no detailed knowledge of the specific instances that you are talking about.

The Chairman: Chancellor, I know that you have a huge amount on your plate, but even a glance at chapter 6 of our report on treating students fairly on apprenticeships—if your official has it for you—would be worth while. We went out and talked to students and employers, and there is an issue to be addressed here that I think would be of interest to you.

Q11 **Lord Turnbull:** We move to the RPI. We have been looking at the RPI on the basis of two sources of pressure: first, people telling us that it is an inadequate or poor measure and, secondly, the sense of index shopping: that when the Government are paying out money they index on the CPI, which is lower, and when money is coming the other way in the shape of student loans or rail fares they use RPI.

The chairman of the statistics authority made two claims: one was that the RPI was not adequate and the other that it did not have the potential to become so. In other words, we are concerned that an index is being produced by a public body that is in some sense being disowned by it, but millions of people have contracts and their financial affairs are affected by it. Is it tenable just to leave this thing that is being criticised out there while making no attempt to reform it?

Philip Hammond MP: First, I was aware that the Committee had inquired into RPI. We are expecting your report in the autumn and we look forward to it. The shortcomings of RPI are well known and acknowledged. The ONS is independent. It consulted in 2012 and decided against changing the formula in RPI. So it is not for me to change the RPI formula; it is for the ONS to do so. I am sure you have the power to have the ONS appear before you if you want to quiz it again on its reasons for making the decision that it did.

I have to take issue with your view, though, that the Government are guilty of index shopping. We have moved business rates to CPI and in fact have accelerated that change to provide some additional support to business-rate payers. In the rail industry, where regulated rail fares are linked to RPI, the Secretary of State for Transport—who appears to be making a much larger contribution to our discussion today than I would

normally have expected—has been explicit that he would like to move away from RPI but will be able to do so only if cost drivers in the industry can also be moved away from it. Particularly, and notoriously, pay settlement in the rail industry has always been and still is linked to RPI.

The Government have said that once our fiscal consolidation is completed we will review the use of RPI for indirect taxes. We recognise the weaknesses of RPI, but of course there is a significant fiscal impact of moving indirect tax indexation to another index. There is also the question of what other index to use. CPIH has only recently—last year, in fact—become a national statistic again, and the Government believe we should allow time for it to bed in and become accepted by the public and other users.

The last point is that whether we like it or not there is a substantial appetite for RPI-linked debt, because our biggest buyers of gilts are very often people with RPI-linked obligations. So we have to think carefully about the balance between issuing debt, the interest payments on which could become onerous to government in certain circumstances, and the need to issue debt into a market where there is buoyant demand, which obviously ensures that we get attractive pricing. I hope we have got that balance about right at the moment. The Committee will know that for the current year we have directed the DMO to ease up slightly on the trend towards more RPI-linked debt.

Lord Turnbull: There are two points there. First, if you started to issue index gilts based on CPI, since they are auctioned we thought that the real rate of return of RPI-linked and CPI-linked would basically equalise out, so the cost of raising debt by one method or the other would probably not change very much.

Our concern was that the statistics authority told us that it is not asking for a change because it thinks you would not consider it. All we want is an assurance that the overriding consideration is that we have the best possible index that we can get that measures inflation, and it should not be vetoed. Changes in the RPI are made every year—weights change, and there are other small changes. Really, the ONS should be encouraged to pursue a process of continuous improvement whereby year by year it looks at what it is measuring and how it is measuring it, and it makes those changes, and if it is professionally advised that this is the best index that we can come up with then you would be prepared to consider it.

Philip Hammond MP: Just to be clear, the ONS is independent. It has not approached me, and I do not believe it has approached any of my predecessors to seek their or my approval or endorsement—

Lord Turnbull: I think that is the problem.

Philip Hammond MP: —of any plan to change RPI, although the power to change the way RPI is computed sits with the ONS. If it decided to make a change in a way that was detrimental to existing gilt holders,

there is a protection clause that would require the Chancellor to approve the change, because the Government have an obligation to redeem index-linked gilts issued before 2005 at par in certain circumstances where changes are made to the way the RPI is computed. So there would have to be a discussion, but it would be for the ONS to initiate, and it has not initiated any such discussion with me.

Lord Turnbull: What we think it is going wrong in this is that, although it is independent and can make recommendations, it appears to be anticipating, possibly wrongly, what your response would be. Therefore, "I'm not making a recommendation, because they think it would not be accepted". So what we really need is an open-minded view of a programme of progressive reform that would be constructively considered.

Philip Hammond MP: I have had no such approach, but I am sure that the ONS, should it wish to do so, would find its way to my office relatively easily, and I would be very happy to hear from them if they wished to talk to me.

Lord Turnbull: Fine. Thank you.

Q12 **Lord Burns:** I would like to press this general issue a bit further. The story we were getting was basically that we have an index that is not very satisfactory. Yet it is very important, as you have outlined, and indeed it has very far-reaching timescales for pensions and indexed gilts. Yet there is great inhibition about trying to improve it as issues emerge where there are problems with it; we were told about the problems that have occurred in the past.

Would you agree that it is very odd to have an index that is very widely used and that will be used for a long time, yet at the same time to say that it is not a very satisfactory index?

Philip Hammond MP: My understanding is that the ONS actively discourages the use of the RPI, in recognition of the weaknesses that have been identified in the way the index works.

Lord Burns: Yet we are ploughing on making contracts that will last for an enormous length of time in the case of indexed gilts.

Philip Hammond MP: We are still issuing RPI-indexed gilts. That is correct.

Lord Burns: And you do not see an anomaly in this approach.

Philip Hammond MP: On gilts, where the market is highly sophisticated, it is an eyes-wide-open situation, so long as the buyer—

Lord Burns: Buyer beware.

Philip Hammond MP: —and the vendor are both clearly aware of the implications of the index that they are using and of the biases that have been identified in it. If the market can price for that, clearly the DMO can

judge whether it is in the public interest that we go on issuing debt denominated in this way.

Lord Burns: Did the OBR's latest fiscal sustainability report give you any cause for concern?

Philip Hammond MP: The OBR's fiscal sustainability reports are always, I suspect, an intake-of-breath moment for any Chancellor, because they remind us of the fact, which we all know but because much of our work looks at a five-year forecasts horizon we tend too easily to forget, that we have some very big structural challenges. One is in the demography of our population, but perhaps one of the most striking things in recent years has been that, with healthcare expenditure for example, even demography is no longer the biggest driver any more; it is technological change.

While it is relatively easy to capture the costs that technology will impose, it may be less easy to capture on a long-time horizon the benefits that technology will bring. We just have to hope, but not only hope; we also have to actively engage to ensure that we are able to harness the benefits of technological change at least as quickly as we are confronted with the cost burdens of technological change in our public services.

Q13 **Lord Burns:** The subject that we are now just beginning to turn our attention to is social care and its funding. Some witnesses to the Committee last week had some pretty eye-watering accounts of what they regarded as some of the fiscal challenges that this might produce, along with various suggestions about tax changes.

Do you think that the current approach to funding of social care is sustainable?

Philip Hammond MP: The Government are working on a Green Paper that will look at options for making the social care system for older people sustainable over the long term. We need to have a conversation, to coin a phrase, about the wide range of options that might be available for doing that, and I think the Green Paper will be the catalyst for such a discussion.

Lord Burns: There was quite a lot of concern about adult social care being funded pretty much entirely by local government and whether that was sustainable.

Philip Hammond MP: Again, you mean older-age social care.

Lord Burns: Yes.

Philip Hammond MP: We have two distinct challenges: the care of elderly people and the care of an increasingly significant cohort of adults with disabilities whose life expectancy has increased very dramatically over the last 20 years. The characteristics of the two groups are very different: the former group in many cases will be asset owners; the latter

group in most cases will not be. The solutions will therefore need to be very different.

- Q14 **Lord Layard:** I want to go back to the RPI issue, because, as Lord Burns was saying, the situation is very unsatisfactory. Everybody knows that. A standard way of dealing with an unsatisfactory situation is to say that you will change it in 10 years' time, or something like that. Is that not the way to go about this, because then the capital market impact will be smaller and we will not go on for ever saying that this is an unsatisfactory situation. It just does not seem right to me that we go on, year after year, saying that this is not good and not having some terminus ad quem. I wonder whether that is not the kind of solution that you could live with.

Philip Hammond MP: The debate is between moving to other indices or trying to repair the index that we have. That is the question that we are debating here. The Government's clear intention is to move away from RPI over time to using other indices.

The question that has been posed to me is whether the ONS should not try to repair the RPI index, recognising that that might be quite a long transition process. My answer is that that is a question for the ONS. It has, as I understand it, decided not to do that, but of course it would be open to this Committee to suggest again to the ONS that it should look at that decision afresh.

Lord Layard: One way of doing that would be to repair the RPI in such a way that, in 10 years' time, it had converged on the CPIH—changing items bit by bit until you get to that point.

Philip Hammond MP: I am not technically qualified to say whether that would be possible. I rather doubt that it would, but it is a question for the ONS, not the Chancellor.

The Chairman: Chancellor, we hope to produce our report in the autumn, as you said. Actually, we got on to this because the Governor of the Bank of England said in his evidence that a 10-year transition period, after which new and existing index-linked gilts have been switched away from RPI, might be desirable. I am not sure that he did us a favour, because it is an extremely complicated subject. No doubt you will look forward to receiving our report in due course.

Philip Hammond MP: He also said that the first thing to do would be not to embed RPI further into contracts.

The Chairman: Indeed. But there is an issue with RPI. We do not want to get drawn into this, but on the gilts point, for example, because of strappy tops the inflation as measured by RPI was overestimated and holders of gilts got a very substantial windfall, so it is not completely straightforward as you know.

We are back on social care with Lord Darling's question.

- Q15 **Lord Darling of Roulanish:** Sorry to jump around. We are indeed back

on social care.

Can you tell us where we have got to on the proposed cap on the amount that people will pay towards their care? You will remember that Andrew Dilnot suggested back in 2011 that there should be a cap. Then there was the Care Act in 2014. Then, at one point, the cap was to be raised further to £72,000 in 2020. However, at the end of last year it was announced that there would be no cap.

Given that this is such an important subject, and a very sensitive subject, to so many people, what is the Government's thinking at the moment as to whether there should be a cap, and, if there will be no cap, when we can expect alternative proposals?

Philip Hammond MP: First, the Government are clear that everybody must have access to the care and support that they need, but we are also clear that people should continue to expect to contribute to their care as part of preparation for later life. The Prime Minister has been clear that the Green Paper that we are going to publish will address options for capping the amount that people have to pay towards their care.

Lord Darling of Roulanish: So there will be a cap.

Philip Hammond MP: The Green Paper will be a consultative paper, and it will address options for introducing a cap.

Lord Darling of Roulanish: So there could be options on the size of the cap, but are you saying that there might be a cap or that there might be something else?

Philip Hammond MP: The Prime Minister has been clear that the option of introducing a cap will be included in the Green Paper. Because the Green Paper is consultative, it is not in the nature of the document to prescribe what will happen; it is in the nature of the document to set out proposals for consideration, and there are different ways of delivering and funding a cap, of course.

Lord Darling of Roulanish: Such as?

Philip Hammond MP: The taxpayer could fund the cap. A risk-pooling option could be presented. I do not want to speculate on the range of options which the Green Paper might cover, but it will look at options for delivering a cap.

Lord Darling of Roulanish: When will it be published? Do you know?

Philip Hammond MP: The commitment will be published later this year.

The Chairman: This is of particular interest to the Committee, because our next inquiry will be on this very subject.

Philip Hammond MP: Okay.

Q16 **Lord Darling of Roulanish:** May I ask you a question on a related question? Could you explain the rationale for transferring the funding of

adult social care to local authorities by 2020 or 2021? I ask, because I do not think you would dispute that local authorities are under increasing pressure on just about everything they spend money on, and the more you transfer money and responsibilities across, the less there is to go around.

Philip Hammond MP: I am sorry, I am not sure that I understand the question. Local authorities already have the responsibility for funding adult social care.

Lord Darling of Roulanish: The Government have a plan for adult social care to be funded entirely by local authorities. Correct?

Philip Hammond MP: No, the NHS will continue to make a contribution to adult social care.

Lord Darling of Roulanish: So the funding of it will continue to come directly from central government, albeit through the NHS?

Philip Hammond MP: There are different channels of funding available. At the moment, there are three basic channels of local authority funding for social care, apart from contributions which people receiving care make. There is the better care fund grant, which is a central government grant that is distributed to local authorities according to a formula. There is precept funding, which includes a special social care precept that is ring-fenced and which local authorities are able to levy. Then there is an element of NHS funding which the NHS makes available to local authorities through local care partnership arrangements to support local authority social services to relieve pressure on NHS hospitals.

Q17 **The Chairman:** A change of subject, Chancellor. Our 2011 report addressed the problems with market concentration and the role of auditors, and we were very grateful that both the Government and the European Union brought in changes in part because of that. Since then, concerns about the dominance of the big four have grown in recent years, and perhaps I should declare an interest here as a director of a company and chairman of a bank.

Do you agree with Lord Tyrie that something needs to be done about the audit market?

Philip Hammond MP: The Government have commissioned Sir John Kingman to lead an independent review of the Financial Reporting Council to ensure that its roles and powers are fit for purpose, and the Competition and Markets Authority has said that it continues to monitor the impacts of the remedies put in place since the 2013 inquiry, which aimed to increase competition in the industry.

This issue has come under increased scrutiny since the collapse of Carillion, of course, and the Committee will know that since the UK and EU reforms came into effect the big-four share of FTSE 350 has increased from 95 per cent to 98 per cent. So on the face of it there has been an increase in concentration. It is for the CMA to actively monitor the market, and we look forward to Lord Kingman's review—sorry, Sir John

Kingman's review; I am getting head of myself here; let us hope it is a good review—to recommend measures that will improve the regulation of the audit market.

The Chairman: Will that include looking at whether there is a case for breaking up the big four or for splitting their auditing functions from their consulting functions?

Philip Hammond MP: He is looking specifically at the powers of the Financial Reporting Council, so this is an indirect review. Does the Financial Reporting Council have the necessary role and powers to ensure that it can do its job properly? That, of course, goes directly to your question.

The Chairman: It does not deal with the problem of concentration, though, does it?

Philip Hammond MP: That is more an issue for the CMA, of course.

The Chairman: Will the CMA look at this?

Philip Hammond MP: That, of course, is for the CMA to determine. You would have to ask it.

The Chairman: The Government could have a view.

Philip Hammond MP: The Government have the power only in exceptional circumstances to make a referral to the CMA. It is normally the responsibility of the CMA to look at this. Various stakeholders have called on it to investigate the audit market and, indeed, to consider the break-up of the big four or to impose a cap on market share. Various stakeholders have also called for an increase in the powers of the Financial Reporting Council, which is why we asked John Kingman to look at this issue.

The Chairman: It is almost 5 o'clock. We have kept you for an hour and a half. We have asked you some quite tough questions. Thank you very much. Your grasp of detail is astonishing, particularly going back to your time as Transport Secretary—

Philip Hammond MP: It is nostalgia.

The Chairman: —and what to do with the spoil. We are extremely grateful.

Philip Hammond MP: Thank you. I will talk to the Transport Secretary, and he or I will write to the Committee on those issues.