

Treasury Committee

Oral evidence: Budget 2018, HC 1606

Monday 5 November 2018

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

Questions 179 - 341

Witnesses

I: Rt hon. Philip Hammond MP, Chancellor of the Exchequer; and Dan York-Smith, Director, Strategy, Planning and Budgets, HM Treasury.

Examination of witnesses

Witnesses: Philip Hammond MP and Dan York-Smith.

Q179 **Chair:** Welcome to our post-Budget scrutiny session. Thank you to the Chancellor and to Mr York-Smith for being here today. We have a lot to get through, and I am assuming the Chancellor does not want to spend the entire evening here before the Committee—I can see him looking delighted at that prospect—so I am going to ask for short answers to questions and the Committee will be asking short questions as well.

I want to start, Chancellor, with the Office of Budget Responsibility's economic and fiscal outlook and, in particular, the foreword where—and as Robert Chote said last week to us—the forecast process for the outlook was “unusually challenging”. It reflected repeated failures to observe the forecast timetable initially agreed between the Treasury and the OBR, and that resulted in a regrettable but thankfully relatively small inconsistency between our economy and fiscal forecasts. What were your thoughts when you read that?

Mr Philip Hammond: First of all, as Robert Chote said to you, this was a compressed timetable. The decision around the Budget date was finally taken relatively late. As you know, it was driven in significant part by the crowded nature of the parliamentary timetable—or the expected crowded nature over the next few weeks—and the desire to be able to hold the Budget and get the Budget debate completed before we go into recess, rather than carry it over recess, so we always knew that it would be a challenging process.

As again I think Robert Chote confirmed to you, it was made more challenging by the significant size of some of the forecast revisions and some of the consequent measures that we took, such that, at the end of the fiscal process—which as you know has four rounds to it—we were left looking at economy changing outputs from that process. I think that is what he means by the mismatch at the end.

We were left with some economy numbers moving in a rather large way at the very end of the process, whereas the more normal process—having done this three times now—is that each round is a gradual refining so that you get to smaller and smaller movements at the end of the process, so it was an unusual process.

Q180 **Chair:** What will you do to make sure that it is not repeated?

Mr Philip Hammond: On both sides, I am sure OBR will be hoping not to have such large revisions to the forecast. In consequence, I very much doubt that many budgets will contain such large, in aggregate, policy initiatives from Government. As you know, this was a very large budget in terms of the value of the total policy initiatives.



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Q181 **Chair:** In the foreword OBR says, “We were provided with details of policy decisions with a potential wider impact on the economy forecast on 17 October. These should have been final, but on 23 October we were provided with details of significant changes to several measures”, so what changed between 17 and 24 October?

Mr Philip Hammond: I cannot answer that question precisely. I am not sure whether, as a matter of policy, we would give detail about the process within the Budget-making exercise.

The way it works is I meet regularly many times a day with groups of my officials working on different parts of the Budget. Decisions are made and passed back. They then, quite separately, have an interaction with the OBR passing information and updating the information that is fed to the OBR, so I am not in a position to comment precisely on what measures are being referred to in that statement.

Q182 **Chair:** Were there any external factors?

Mr Philip Hammond: In terms of?

Q183 **Chair:** External factors that changed what the OBR was saying or having to work on between 17 and 24 October?

Mr Philip Hammond: I am not aware of any external factors. Obviously we are acutely sensitive to the representations that we are receiving throughout the Budget process, from colleagues across Parliament and also from groups outside Parliament. I don't think any completely new representations were made but, clearly, where people provide additional information by way of evidence in support of representations that will be interesting to us as we go through the process itself.

Q184 **Chair:** Moving on, you will not be surprised to know that Brexit will be raised at various points this afternoon—

Mr Philip Hammond: I thought it might.

Chair: —although we are looking forward to your appearance before us at some point, hopefully in the next few weeks, after a final deal.

I did write to you on 10 October informing you about Professor Stephen Nickell, who is going to provide expert evidence and assistance to this Committee, and last week I asked Tom Scholar if he could confirm that Sir Stephen will be given access to the Treasury's modelling once a deal has been done and that is ready to be put to Parliament. Can I ask: after the deal how quickly will the Treasury be producing its analysis?

Mr Philip Hammond: First of all, I am sorry this is a ritual process but I do have to correct this description of this process as Treasury analysis. It is not Treasury analysis. It is a cross-Whitehall group of economics professionals. It is DExEU that has the lead responsibility for this, but of course the Treasury provides a lot of technical input to it because we hold a lot of the technical capability.



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As you know, the work is ongoing and preliminary work will be being carried out even now but, until we know the final shape of any deal, we will not be able to model that deal with any precision. What the group will be doing of course is looking at counterfactuals, which they can be doing work on now in the meantime.

Q185 **Chair:** Can you tell us how much time Parliament will have to digest and scrutinise this cross-Government analysis before we are asked to vote?

Mr Philip Hammond: Adequate time.

Q186 **Chair:** Is this adequate, as in the OBR having adequate time to prepare the economic and fiscal outlook?

Mr Philip Hammond: I cannot answer the question because it is a matter for the business managers when the debate will be scheduled. Indeed, the duration of the debate will be a matter that will be agreed through the usual channels, but we are absolutely conscious of the fact that Parliament will want to have a chance to digest and question the analysis published by the cross-Whitehall group.

It is quite possible that other external parties will attempt to publish some kind of analysis as well, so there will be a tension between the desire to get on with this—for Parliament to have the debate—and for the need for people to be able to study the material that is available, and we will have to resolve that in a sensible way.

Q187 **Chair:** I want to move on to PFI, because in your Budget speech you made a thing of abolishing PFI and you have not signed any PFI deals. I am sure we will return to this as a Committee quizzing Ministers, so I do not want to get into the details of problems with PFI, but I do want to ask you whether you believe there is a role for the private sector in investing in the country's necessary infrastructure going forward.

Mr Philip Hammond: Yes, absolutely, in two ways. First of all, about half of our £600 billion infrastructure pipeline, set out by the National Infrastructure Commission, is private sector projects in areas where the private sector leads: for example, in the rollout of the fibre broadband network, in the delivery of power generation and transmission, in the management of waste ports and airports, those kinds of areas. The private sector has a very large role in the provision of infrastructure that is used by the public in the UK and will continue to have that role.

Also, in the area of infrastructure, which is delivered by Government, there will still be a role for the private sector in partnership with the public sector in financing and delivering some of those projects, but only where it can be demonstrated that we meet the two crucial tests: value for money for the taxpayer and appropriate transfer of risk from the public to the private sector. What I said in the Budget speech—and I am absolutely clear about this—was that the way PF2 was working was not delivering clearly either of those objectives.



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Q188 **Chair:** You will appreciate—as I am sure you have the same conversations that I have—that there are insurance companies and asset managers who are looking to invest in long-term projects providing long-term and reliable returns. Therefore, do I take it from that that investment in interest is still welcome but that the Treasury is working on the best model in order to harness that investment by the private sector?

Mr Philip Hammond: Yes. If I may, I would make a distinction between investment in long-term operating assets that are generating cash flow, and investment in infrastructure development and construction. Many of those insurers—particularly those you are talking of—will not wish to invest in the development and construction phase, but where a project is up and running and generating cashflows there will be many options for refinancing such projects.

One model that the Government are very open about is for public sector control of the project during the development and construction phase and the initial operational phase, and then, once we have an operational asset that is generating reliable cash flows, at that point offering the investment to the private sector. That is what was done with HS1. It is arguably the way that generates the best return for that public sector investment, because you get the finest yields on an existing cash flow generating project.

We will look at all options in the future, but the crude approach of passing over to the private sector a project at drawing board stage and saying, “Deliver and finance this” will not automatically be our choice. There will have to be a very clear demonstration of the benefits.

Q189 **Chair:** Thank you. I want to move on to the broader sweep of the Budget statement. In your Budget speech you said, “The era of austerity is finally coming to an end”. Now, I think it has become clear that “austerity” means different things to different people. As the Chancellor, how do you define “austerity” and how is it coming to an end?

Mr Philip Hammond: It is a very good question and there are different definitions. I said in my Budget speech—and the Prime Minister has subsequently repeated—that, from our point of view, austerity is not only a measure of public sector spending. It also refers to broader issues.

As austerity comes to an end, I would want to see our public services being financed more generously than they were over the period of fiscal consolidation. I would want to see real wages growing sustainably, so that households could plan on and expect incomes and living standards to be rising year on year and, as part of that, I would want to see them being able to anticipate keeping a larger proportion of the income they earned in their own pockets, all of which of course implies sustained economic growth over a period of time.

Q190 **Chair:** Previously I think you set out the fiscal objective of running a budget surplus in the next decade. Has that now been abandoned, as



some economists have said, in favour of ending austerity?

Mr Philip Hammond: No, it hasn't been abandoned. Since the autumn of 2016, I have said that I would operate a balanced approach, recognising the need to reduce and ultimately eliminate the deficit in order to get debt falling sustainably—something we have now achieved—but also the need to support our public services, to keep taxes low and, crucially, to invest in infrastructure, skills training, research and development, to support the future productivity of our country. That is the only way we are going to get sustained real growth in incomes and rising living standards over the medium term.

Q191 **Chair:** When Paul Johnson of the IFS said, "Any idea that there is a serious desire to eliminate the deficit by the mid-2020s is surely for the birds", was he wrong?

Mr Philip Hammond: The deficit on the OBR's forecast by 2023-24 will be down from almost 10% in the aftermath of the crisis to 0.8%, so we are within touching distance. It will be a policy decision, at successive fiscal events, as to how to balance whatever available fiscal headroom there is between reducing the deficit, reducing taxes, increasing spending on current public service consumption and investing in capital infrastructure for the future.

Q192 **Chair:** Thank you. Before I hand over to others, I want to move on to fixed odds betting terminals. In the Government's impact assessment, published in May this year, having taken into account conversations and consultation responses from independent bookmakers, it says, "Following the publication of the consultation response we will engage with industry further on an appropriate implementation period, which is initially expected to be nine to 12 months". Why is this change to the maximum stake now not coming in until October 2019?

Mr Philip Hammond: Just to be clear, October 2019 will represent a period of 12 months from the Budget statement.

Q193 **Chair:** But not from the impact assessment, which says, "nine to 12 months" from the impact assessment and that will be May 2019.

Mr Philip Hammond: We have engaged with the industry. The decision was made to reduce the stake to £2. As you know, there has been a great deal of debate about the appropriate stake. Those who felt that the stake needed to be reduced to a level that effectively would eliminate these machines—and I have absolutely no love for these machines, I think they are terrible things—but the Government have to manage this process in an orderly and sensible way.

We are looking at a measure that will have very significant impact on the industry. The industry's own estimate is that between 15,000 and 21,000 jobs will be lost as a consequence of the elimination of fixed odds betting terminals. Members of the Committee might take a view about that estimate, but it is very clear that there will be a significant number of



jobs lost and that there will be a significant number of high street betting shops that will close. That is, people will have to go through the process of losing their jobs. By giving a sensible period of time for this to happen, we will be able to ensure that as many as possible of those job losses are dealt with through voluntary redundancy processes rather than compulsory redundancy processes.

As ever, with difficult decisions that the Government takes, there has to be a balancing of the different interests involved and the different concerns. People who have campaigned against these machines want to see the stake reduced and, therefore, the machines eliminated as quickly as possible. People who are affected by the change, either the high street betting industry or the online gaming industry—which will have to face higher taxes to make up the revenue losses—obviously want the maximum amount of time to adjust.

Originally, when we were consulting with the industry and with stakeholders, we were looking at April 2020. Those who were campaigning to remove the machines as early as possible were clear that they felt very strongly that we needed the 2019 date, and October 2019 was arrived at as a sensible compromise between the different interests.

Q194 **Chair:** I am told that the implementation is basically about changing software, so it can certainly be done within no more than a matter of months. The Member of Parliament for Chatham and Aylesford—the former DCMS Minister who resigned last week—has said in her letter that two people will take their lives every day due to gambling-related problems. It is the case that the Government have prioritised the preservation of jobs in the gambling industry over the addiction of those who suffer from these machines.

I go back to the point about the impact assessment. The impact assessment clearly says implementation nine to 12 months from May 2018. That is May 2019. You could, Chancellor, have taken a decision to bring forward the imposition of Remote Gaming Duty to spring 2019, if you really wanted to balance up the revenue loss.

Mr Philip Hammond: Yes, I could. That is clear. This is not about the revenue loss because the two measures will have to be implemented simultaneously and, although it would be harsh on the online gaming industry to give them such short notice, it is not impossible and not unprecedented to have a tax increase on that sort of notice.

I do not have the impact assessment with me, but I will look at it and I will write to the Committee. I cannot comment on what was said in the impact assessment now. All I would say is that I think my honourable friend, the Member for Chatham and Aylesford, is perhaps missing the point in saying that it is only a software change.

Chair: No, she has not said that. That is what I have been told.



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Mr Philip Hammond: Okay. The industry has always been clear that a stake level of £2 means the machines are going. They will no longer be part of the business model of high street betting shops because they will not generate revenues that are sufficient to make an appropriate contribution, so they will be going. Those that have campaigned have always been clear about that: getting the stakes down to this level is effectively saying, "Let's get rid of these machines" and that is a perfectly legitimate decision for the Government to make.

If I may say so, that is a tribute to the campaigning tenacity of my honourable friend, the Member for Chatham and Aylesford, who has always been clear that that was her objective. She and those who campaigned with her have won this argument. The stake will be reduced to a level that will effectively eliminate these machines. The job of the Government, I am afraid—and it does not always win plaudits—is then to implement these measures in a way that is balanced and fair and allows for an orderly transition. That is what we believe October 2019 will do.

Q195 **Chair:** I am going to hand over to Alison McGovern who I know wants to come in on this, but the trouble with that very rational analysis, Chancellor—and I would perhaps expect nothing less from Treasury and Treasury Ministers—is that it does not help the expected 300 people a day who may end up taking their lives, suffering mental health problems from gambling addiction. We know this is a social harm. The House has taken a decision to end it. The Government have taken a decision to end it and yet there appears to be a delay in implementation.

Mr Philip Hammond: With the greatest respect, there are very many social harms that we know about, and very many things that drive mental health problems and, sadly, occasionally suicides. In everything we do we are focused on trying to reduce that impact, but there are many other examples I could give you of steps that could be taken that would no doubt have a positive impact in some areas but, because they would have wider impacts, are not taken. We can all think of examples across the tobacco and alcohol sectors, for example.

Q196 **Alison McGovern:** Briefly, Chancellor, just further to that, you say that the Member of Parliament for Chatham and Aylesford has effectively won her campaign, which sort of begs the question as to why she has resigned. Can I make a suggestion: was it that there was an earlier draft of the Budget that had April 2019 as the implementation date in it and did somebody in the Treasury take that out of an earlier draft?

Mr Philip Hammond: Obviously I am not involved in the drafting of documents within the Treasury, so I cannot comment on what may or may not have been drafted by officials.

Q197 **Alison McGovern:** Are you aware of an earlier draft?

Mr Philip Hammond: No. As far as I am concerned, the original agreement between stakeholders was that we would go to the lowest consulted stake, which was £2, and we would give the industry the time



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it needed to adjust, which was April 2020. There was then quite a considerable pushback—not least by my honourable friend, the Member for Chatham and Aylesford—arguing that it was essential to have a 2019 date. After consulting again with stakeholders, we decided to bring the date forward to October and that is what I announced in the Budget.

Q198 **Alison McGovern:** She must have been under the impression that it was April 2019, otherwise why has she resigned?

Mr Philip Hammond: You will have to ask her. I cannot—

Q199 **Chair:** It was in the impact assessment and, Chancellor, you have agreed to go back and look at the impact assessment—

Mr Philip Hammond: I will.

Chair: —and we would like to hear from you once you have had a chance to do that.

Mr Philip Hammond: I think the Prime Minister made very clear in her letter to my honourable friend, following her resignation, what the Government's position is on this; what our understanding of the sequence of events is.

Q200 **Chair:** It seems an unnecessary row to pick with the House, at a time when the Government need all the friends in the House they can have.

Mr Philip Hammond: Honestly, I do not see it as a row picked with the House. This is a very important, very substantial measure with very significant consequences. The most extreme version of the set of proposals that were consulted on has been agreed to, which should be a cause for celebration by those who want to get rid of these machines.

The only issue that we are debating now is the process by which we implement it. We recognise that there are many thousands of people who will be negatively impacted by this, through losing their jobs, or through having their businesses closed down. That is not to minimise in any way the damage that the machines themselves are causing, but just to recognise that we have to look at the interests of all stakeholders.

All of us will have constituents who are working in high street betting shops who will be negatively affected by this. If we can possibly manage this through a voluntary redundancy process, rather than a spate of compulsory redundancies, that will be very much beneficial.

Chair: Thank you for setting out your thinking on that. I am going to move on. Stephen.

Q201 **Stephen Hammond:** Chancellor, good afternoon. The fiscal loosening in the Budget is broadly based on the fact that borrowing is lower because of, as the OBR describes it, the unexpected strength in tax revenues. It begs two questions. The first one is: is it sensible to have this scale of fiscal loosening on unexpected tax revenue, or does the Treasury think that those tax receipts are going to continue into the future? In your



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response to the Chair, I think you disagreed with the view that certain witnesses said last week that your objective of a fiscal surplus has been pushed into the long grass but would it be fair to say that it has been postponed for five years?

Mr Philip Hammond: First of all, the OBR clearly thinks that this trend of fiscal revenues will be sustained. It is largely driven by employment and the remarkable performance that the UK economy has delivered in creating jobs and the forward projection of that performance, another 800,000 jobs over the next three or four years.

As we have seen on this occasion, but also, as we saw in relation to the underlying productivity growth figures, the OBR is quite slow to change its position. It looks very carefully at forecasts that are repeatedly out of sync with the outturn, and it takes great care before it decides to change its modelling assumptions. I would not expect the OBR to be changing the assumption about the relationship between fiscal receipts and the economy any time soon.

Probably there is one other point that I have to make at this stage, which is: you will recall that, by the time we got to prepare the Budget, we had effectively already made an £84 billion commitment over the course of the forecast period. Having been delivered of this fiscal benefit—

Q202 **Stephen Hammond:** An unexpected bonus.

Mr Philip Hammond: I will not call it “an unexpected bonus” because it was clear that the employment performance of the economy was driving better receipts. We see them in the monthly and quarterly data, so it is not entirely unexpected but, when it was delivered, a large part of that improvement was already accounted for by the announcement that had been made by me and the Prime Minister earlier in the summer, around our commitment to the NHS.

Q203 **Stephen Hammond:** Yes. I take your point that you have seen a trend, but it is quite a big difference between a forecast in March and a forecast in October. That is the point that I think is key here in terms of the unexpected nature of it.

Given that you are now forecasting a deficit of 0.8% in 2023-24, how much more slowly will debt fall as a result of that rather than running at a 1% surplus?

Mr Philip Hammond: Clearly, if we were to run a surplus, debt would fall faster than if we are running a deficit, but look—

Q204 **Stephen Hammond:** Do you have an estimate of what that percentage is?

Mr Philip Hammond: I don't know if Dan has some figures.

Dan York-Smith: I think the OBR may publish—



Mr Philip Hammond: While you look for those, let me just make another point. We have to get debt down as a percentage of GDP, and there is a very hard way of doing it, which is running a budget surplus every year and paying off the cash debt. There is a much easier way of doing it, which is get the economy growing faster with higher trend productivity growth, so that the denominator increases. That is the smart way to shrink our debt as a proportion of our GDP: grow the GDP, strong real wage growth, rising living standards.

Q205 **Stephen Hammond:** I do not think that anybody would disagree that getting the economy growing is as good a way as running anything other than a fiscal deficit.

The OBR also said in its book that the discretionary fiscal loosening will push GDP above potential over its forecast. Is there any concern in the Treasury that this Budget is going to be inflationary?

Mr Philip Hammond: No. The model to change the positive output gap goes from 0.2% to 0.3% before dropping back on the OBR's numbers. The OBR is showing CPI inflation at 2% average over the course of the next year, so we do not see an inflationary risk from the Budget package as a whole. Dan, do you have those numbers?

Dan York-Smith: Yes. It is in table 1.4 in the OBR's blue book, page 19, and has the underlying change to the forecast for debt and then the impact of the Government's policy measures.

Q206 **Stephen Hammond:** Thank you. The last question from me is: in your Budget speech you said that, in the event of a successful Brexit deal, you would release some of the headroom that had accumulated. Won't you need to release some of that headroom whether it is successful or not?

Mr Philip Hammond: That is a very good question, so let me answer two separate questions there. In the event of a successful negotiated exit deal with the European Union, I would expect confidence to return to the UK economy very quickly. I would expect us to no longer need to hold the kind of level of headroom against meeting our fiscal rule in 2021 and, indeed, it is not just a single year. We have a profile of headroom against that metric across the whole five-year period. If we chose to, we could allow borrowing to rise a little and eat into that headroom. That would be a choice to be made at fiscal events in the future.

The counterfactual question: what if we did not get a good deal? By the way, I am very confident that we will, but if we didn't—

Chair: You can take that as read, I think.

Mr Philip Hammond: You can take it as read, but you will forgive me if I say it at every opportunity.

If we didn't of course there would be an impact on the economy. We can speculate on what that impact might be and what the transmission mechanism might be for delivering it, but actually we would have to wait



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and see what happened in the real world: how markets reacted; how consumer and business confidence behaved in the UK. Then, working alongside the Bank of England, who would have responsibility for any monetary policy response, we would have to look at what the appropriate fiscal policy response was in the given circumstances.

The key point is that I have deliberately preserved—and you will have noticed—punctiliously, in the sense that in 2021 I have maintained to the nearest £100 million exactly the headroom that I had in the Spring Statement. I do not believe now is the appropriate time for reducing that headroom. I very much hope that, by the time we get to the next fiscal event, we will be in a much clearer place with a much greater clarity about Britain's future relationship with the European Union and our future economic prospects. Then, if we deem it appropriate, it will be possible to release some of that headroom.

Q207 Wes Streeting: Thank you. Good afternoon, Chancellor. When will the next Spending Review be?

Mr Philip Hammond: In 2019.

Q208 Wes Streeting: When in 2019? That is a long time.

Mr Philip Hammond: It is a long time.

Wes Streeting: Are we looking at October 2019? We are all excited.

Mr Philip Hammond: I am glad you are excited and I would not want to keep you in suspense for too long. Certainly, it will be our intention that we are able to report the outcome of the Spending Review at the autumn Budget in 2019; when we actually start that process has not been decided yet.

Q209 Wes Streeting: The reason I ask is because I want to focus particularly on the spending priorities that you have set out in this Budget. Why did you choose to spend more money on potholes than schools?

Mr Philip Hammond: We will deal with this one now. First of all, this Budget was not an event for setting out departmental spending. Departmental spending totals are set through to include 2019-20—longer in the case of health—and the Spending Review will set departmental totals for 2021 onwards. That will be an opportunity for us to have a proper discussion about the Government's priorities going forward: about how we spend the envelope of available resource between the different Departments competing for it.

As I prepared my Budget for October 2018, what I had was a very significant reduction in the forecast borrowing in 2018-19. That allowed me to look for opportunities to put some money back into the economy in 2018-19 where there are opportunities to spend in year. It is not as easy as you might think to find opportunities to spend public money in year. Clearly, if it is a one-off in year funding, it cannot be used to fund things



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that have recurring costs, like salaries. It can only be used to fund capital items that are by their nature one-off. Pothole repair is such an item.

There is an established track record of being able to put money in on quite short notice and get it spent effectively in doing minor street repairs. Many local authorities are very well geared up to deliver this, and I put the maximum amount of money in that I felt could be appropriately used and spent with good value for money.

Similarly, I looked at schools and I looked for a level of average contribution to schools that would be worthwhile. Despite various comments that have been made by various people, I maintain that for most secondary schools receiving a cheque for £50,000, which they can spend on an item or items in year, will be something worth having. I am sure that for anybody who feels it is not worth having, there will be plenty of other schools that will be willing to receive the cheque on their behalf.

Q210 Wes Streeting: The first part of your answer is well understood, which is why I asked when the Spending Review would be. In terms of the second part of your answer, around potholes and schools, I am afraid you will have to forgive my cynicism but it looked rather like you looked across the range of Departments and sprinkled a few hundred million here, a few hundred million there, a few hundred million it seems everywhere except for the policing budget, in order to attract precisely the headlines that you achieved the day after the Budget. Congratulations on that. The problem is that I do understand the challenges of spending resources in year, particularly in schools, having been a school governor.

There is now, what, five months for schools to spend this money in year? Will the Treasury allow the schools to rollover that capital resource if they are not able to spend the money well in year?

Mr Philip Hammond: This is a matter for DfE but I understand that the guidance going to schools will guide that they should seek to spend it in year, but that there is an understanding that it will not be possible in every case to spend it in year and there will be provisions allowing it to be carried over.

Q211 Wes Streeting: In terms of the reaction to your comments about the nice little extras that schools have to spend money on, do you understand why there was such a ferocious reaction from school leaders in the teaching profession given that, you are absolutely right, the money you provided does not provide a single teacher or teaching assistant in any school—

Mr Philip Hammond: No, and it is not intended to.

Wes Streeting: —and it is frustrating to see the Government apparently able to find £500 million to sprinkle out to schools for some headlines, but it does not make a substantial difference to those items of school expenditure and it does not make a real difference to learning.



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Mr Philip Hammond: It is nothing to do with headlines but it is a great deal to do with the tenor of money, as the Treasury would describe it. You cannot use an in year underspend or an available fund in year. Unless it repeats every year, you cannot use that to fund recurring costs. You can only use it to fund one-off capital.

I was quite surprised by the reaction and I was quite surprised because, while I understand that schools are operating under pressure—and of course we will look at schools funding in the Spending Review next year—we did put £1.3 billion in, in the summer of 2017, in order to maintain real-terms per pupil funding. According to OECD data, real-terms per pupil funding shows that the UK is the top spender in the G7 on schools and colleges delivering primary and secondary education as a percentage of our GDP. It also shows that we spend more on primary and secondary education than Germany, France, Japan and Australia, both as a percentage of GDP and on a per pupil cash basis.

Therefore I am surprised by those comments, and disappointed by them, but our intention remains the same: we will look at schools' funding in the round as part of the Spending Review next year.

Q212 **Wes Streeting:** I am tempted to have a further argument with you about schools' funding. I do think, again, that the tone and tenor of your response does not equate at all with what I think most of our experience would be as constituency MPs, whether complaints about the lack of resource for pupils with special educational needs and people laying off, classroom assistants, teaching staff. I think that is why there has been such anger in response to the Budget, but let us turn to the—

Mr Philip Hammond: Is there anger in the school system in Germany, France, Japan or Australia? I don't think so.

Q213 **Wes Streeting:** I don't care about the school system in Germany, France and Japan. That is fascinating.

Mr Philip Hammond: I do think you should do.

Q214 **Wes Streeting:** What I do care about is the fact that class sizes are going up, the fact that parents are receiving begging letters to pay for basics in schools and the fact that teachers are being laid off and are leaving the profession in droves because of workload pressures. It frustrates me to see an enormous amount of public money spent on training teachers to teach who then leave the profession after a few years. That is what makes me angry.

What also makes me angry is that, in terms of your initial introduction to the context facing the UK, we have a growing population, an aging population, and technological change where it is going to dramatically change the workforce. The fact that we have a further education funding system that is about to topple over, no vision for further education and lifelong learning whatsoever from this Government, and not a single penny for further education in this Budget that makes me angry too.



Where is your focus on further education?

Mr Philip Hammond: Let's just deal with a couple of things there. First, you talk about class sizes. Clearly, within a funding envelope, a schools' budget, there are going to be decisions to be made by school leavers—and it is entirely appropriate that they should be the decision-makers—which will determine class sizes. If you employ more teaching assistants so that there is more than one adult in a classroom, class sizes may be larger. There would be a choice that could be made to have class sizes smaller.

Q215 **Wes Streeting:** I am sorry, Chancellor, this debate is about two or three years old. We are going well beyond this point now where head teachers are deciding between teaching assistants or classroom teachers—

Mr Philip Hammond: I am going to finish my point.

Q216 **Wes Streeting:** Well, bring it up to date. These are two years old these points.

Mr Philip Hammond: I am not a teacher and I don't claim or profess to tell head teachers how they should organise their budgets. That is a matter for them, but some of these decisions will result from the way in which the envelope of funding available is used, and there are choices around how it is used.

In relation to further education, as you know, we have introduced T-levels. We have put funding into the process of delivering T-levels, but this is not an overnight process. It cannot happen overnight. It is taking time to develop. It will take time to implement, but it will be a very significant change in the way we deliver technical education at 16 to 19: £500 million of additional commitment, significantly increasing the contact hours of learners, and learning the lessons—to go back to the earlier point—from successful systems elsewhere in the world, in Scandinavia, in Germany, in North America, to make sure that we have the skills available to support the technological revolution in the future. We absolutely are committed to the skills agenda, both at that age group and for those in later life with the first £100 million now committed to the national retraining scheme.

Q217 **Wes Streeting:** I am afraid the rhetoric does not match the reality there at all. Let me just conclude with a final question, which is about priorities. You are quite right, in terms of the difference that a one-off capital allocation can make compared to ongoing increases in spending, whether in schools or public health or local authorities or policing, a whole load of areas where I would suggest that a spending commitment of over £2 billion could make a real difference. You have chosen to cut taxes, which will mean about £2 billion less for the Exchequer, which largely benefit the very wealthiest. I am sure colleagues will have questions about the digital services tax, how little that is going to raise.

The frustrating thing is that what little you are raising you are giving back



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to those tech giants through corporation tax cuts. I would argue that those things would be better spent on policing, on the NHS and on schools. The problem is, as a legislator, I have no means of trying to persuade you and to win my colleagues across the House behind amendments that would take expenditure from one area and put it to another, because you have contrived, very cleverly in the Treasury, by failing to table an amendment to the Law Resolution, an ability for this Parliament to adequately scrutinise and amend your Budget as we might see fit.

Why are you going to such lengths to avoid parliamentary scrutiny, and, in a hung Parliament, to give Parliament the ability to properly influence the direction of Government policy? I would like to think it is just because you are terrified of the official Opposition. I think it is also to do with the fact that, sat over your shoulder, we have the Member for High Wycombe, formerly of this parish, and you know that there are about 30 or so of your own Back-Benchers who do not agree with your priorities on a whole range of things, whether fixed-odds betting terminals or anything else.

Isn't the point that you can come forward and bring forward your Budget, Chancellor—we have reviewed it and it is very interesting—but we should have the right as Parliament to amend your Budget so that it better reflects the priorities of the people? I can tell you my constituents and I suspect—

Mr Philip Hammond: Let me answer this question.

Q218 **Wes Streeting:** Let me just make this final point. The reason I make this point is because my constituents, and I suspect yours too and most other people's constituents—given where we are in terms of policing cuts, school cuts, public health and social care cuts—would much rather that we spent money investing in those areas, rather than giving away tax cuts to the richest taxpayers and the biggest corporations. Why can we not amend your Budget?

Mr Philip Hammond: You are entitled to your opinion, and we are members of different political parties so one might expect that we would have different views about the balance to be drawn. I have taken a balanced approach, looking across the demands for public money for paying off and reducing the debt, keeping taxes low, supporting our public services and investing in the infrastructure of the future.

The choice that we have made at this Budget is to invest in our health service, with a massive increase in health funding: £20.5 billion extra in real terms by the end of the forecast period in 2023-24.

Q219 **Wes Streeting:** Which the OBR said may be inflationary.

Mr Philip Hammond: If you don't mind, I will just finish the answer and then you can maybe make a supplementary.



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That is the choice that we have made. You refer to the question of increases in the personal allowance and higher rate threshold. These were manifesto commitments made by the Conservative Party in its election manifesto, and we formed the Government. It is generally recognised practice that parties making manifesto commitments, when then go on to form a Government, are expected to deliver on their manifesto commitments and I think it is right that we do so. We believe that this should be a balanced process, improving the funding of public services but also keeping taxes low, as well as getting the debt down and investing in the future.

If I may say, on your last slightly tortured point around the amendment of the law issue, Parliament has never had control through the Budget process of the allocation of funding between Departments. That is an issue for estimates. There is an estimates process, of course. People have different views about how effective Parliament is in the estimates process. I know when I was an Opposition spokesman I looked long and hard at whether there was any way that we could make more use of the estimates process, but that is not a proper issue for the Budget. It is an issue for the estimates process. We have not used an amendment to the law motion in the last two Budgets.

Q220 **Wes Streeting:** Yes, and only on six occasions have other Governments—including the two that you mentioned under this Government—ever failed to table this resolution. Regardless of your point, my point is: I suspect I command the majority for the positions that I have outlined in line with the views of my constituents, rather than the tax cuts and giveaways that you have outlined in this Budget. If you thought otherwise, you should surely have put it to the test by enabling Parliament to properly hold you to account.

Mr Philip Hammond: Let me just make an important point about the Budget process, because the Budget process in our constitution is different, for example, from the budget process in the United States.

Q221 **Wes Streeting:** Yes, we know how it works, but you have limited the limited scope we have for Parliament to properly scrutinise and amend your Budget. I wonder why you are running scared.

Chair: Chancellor, answer the question. We are going to move on.

Mr Philip Hammond: It is the role of the Government and it is the role of the Treasury to propose a Budget for Parliament to vote on. It is not our constitutional tradition that Parliament, line by line, amends the Budget in the way that the US Constitution allows Congress to do. That is the way the Budget process works here. It has worked very well, I would suggest.

Q222 **Wes Streeting:** It does not explain or excuse your failure to table this particular resolution, does it?



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Mr Philip Hammond: There is no obligation on the Government to table an amendment to the law motion.

Q223 **Wes Streeting:** No obligation, except maybe a moral one.

Mr Philip Hammond: No, I do not think there is a moral one either. The proper process here is that the Government table a budget and Parliament debates it and votes on it in due course.

Q224 **Chair:** I think Wes has made a very good bid to be a future Chancellor of the Exchequer, but for now we have the current Chancellor in front of us, so I am going to hand over to John.

Mr Philip Hammond: He is in the wrong party, for the moment.

Q225 **John Mann:** Not since Don Revie picked Stan Bowles for England in 1977 has there been such a flamboyant flair from such an unexpected quarter as line 4.70 in the Red book. Can I congratulate you for your wisdom in including orphan waste sites and money for them and overcoming the bureaucratic resistance of the Treasury?

Mr Philip Hammond: How could I resist?

Q226 **John Mann:** In 5.56 you have allocated some money, for the first time, for repairs of miners' welfare facilities. Is that money immediately available, and which Department will be accepting bids for it?

Chair: Mr York-Smith is racing to his Red book.

Mr Philip Hammond: I do not think it is 4.65.

John Mann: Is it 5.65?

Mr Philip Hammond: Yes. We wanted to allocate some money to recognise the fact that many village halls throughout the country were built to commemorate the ending of the First World War. Quite a number are being refurbished to celebrate the centenary, and this is an opportunity to give back the VAT on that refurbishment.

When we looked at it a little bit further, of course, many parts of the country miners' welfare clubs perform many of the same functions that village halls provide in other parts of the country: a community hub, a community centre. We included support for them and also I think other similar institutions; Royal British Legion clubs.

Q227 **John Mann:** Some were built immediately after the end of the First World War, such as Manton Miners' Welfare. If it is possible at some stage to know which Government Department will be accepting bids?

Mr Philip Hammond: It will be DCMS.

Q228 **John Mann:** DCMS. Is that money available in this financial year?

Mr Philip Hammond: Yes, it is. They will be issuing guidance. If they have not already done so, they will be issuing guidance.



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Q229 **John Mann:** Excellent. On 4.71, with tree planting, obviously the most famous forest in Britain is Sherwood Forest, and that is statistically proven by the Tourist Board. Chancellor, I presume you will be fully supportive of bids for reforesting Sherwood Forest as part of the generous allocation that you have put in for that.

Mr Philip Hammond: Fortunately, it will not be my decision to allocate the funding. That will fall to DEFRA, and I am sure it will be very interested to see the bid from Britain's preeminent forest.

Q230 **John Mann:** In 4.75, a significant amount of money for the Future High Streets Fund. Again, is that money immediately available and over what period of time is that £675 million to be spent?

Mr Philip Hammond: There is a profile of funding over four years, from memory.

Dan York-Smith: It begins from next year with £25 million and then it rises over the score card, so the following year it is £90 million, the following year it is £235 million, then £250 million, then £200 million. It runs across the full five years. It starts next year.

Q231 **John Mann:** Is there a little bit of time for people to put bids in?

Mr Philip Hammond: The expectation here is that we have provided some money to support local authorities in preparing plans for their high streets. They may be statutory plans in the formal planning system sense or may be just clear statements of how they will manage the process of transforming high streets. Then, as a result of those plans, we expect them to have a framework with which to move forward, and to be able to come back and bid for support funding, where they need it, to facilitate the change the high streets will have to undergo if they are going to remain sustainable and viable in the future.

Q232 **John Mann:** A very welcome fund. Congratulations again on that, Chancellor.

Mr Philip Hammond: I feel there is a sting in the tail somewhere.

Q233 **John Mann:** Praise where praise is due. The distributed ledger technology and monies for that: is any of that money available for work on putting health records on to the blockchain, or for London property and systems for putting London property on using this new technology?

Mr Philip Hammond: From memory, the fund was focused on supporting the use of blockchain in the ports and logistics industry. That is an area where the broader debate about how we manage our borders and our logistics through the Brexit process may be relevant. Certainly, supporting the development of new technologies in this area may be of importance in that context.

Q234 **John Mann:** I say there a future bid for the next Budget, using the same concept.



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There have been two decisions to reduce the discount rate on public sector employees' pension contributions. The House of Commons Library estimates this will cost Departments £4 billion a year in additional contributions. Why isn't it on the full score card?

Mr Philip Hammond: The first decision was made in 2016. The SCAPE rate has to be reviewed to ensure that public sector pensions are being properly funded and properly accounted for. The changes that have occurred will mean more generous public sector pensions in the future, in accordance with the deal that was made with the public sector trade unions by the 2010 Government. The 2016 changes that were made represent about £2 billion of additional pressures for Departments, and Departments were notified in 2016 and told to make provision for those pressures.

Subsequently, in 2018, the Government decided that it was necessary to reduce the SCAPE discount rate still further, but on that decision we decided that the Treasury would absorb the additional cost. We have added a sum to the reserve, and Departments will be reimbursed for the additional costs of the 2018 SCAPE change.

Q235 **John Mann:** Will that be for every year ongoing?

Dan York-Smith: It is actually for every year. The allocation from 2019-20 is in paragraph 1.60 of the Red book, but then the OBR in its document has measures that do not appear on the score card, which are mentioned elsewhere in the Red book, and it has a line all the way through the forecast period for the additions to total departmental spending to cover the cost of the SCAPE changes. I can—

Q236 **John Mann:** I raised that with the OBR and it did not seem to have quite that clarity, Chancellor. If that is the case that Treasury is meeting the full departmental contribution, then obviously there is no issue. If it is not the case, then there is a significant sum of money that will have to be cut.

Mr Philip Hammond: As Mr York-Smith has said, the Treasury intends to fund that and the OBR has sought—

Dan York-Smith: Yes. I will try to find that and take that for you.

Q237 **John Mann:** No. If the Treasury is funding that, ongoing, and so there is no risk to departmental budgets, that is very welcome.

My final question: there are quite a lot of costs that are not included on the score card this year. The five-year forecast: £7.6 billion costs have not been included. Why is that?

Mr Philip Hammond: Of what? Which costs are these?

Q238 **John Mann:** These are costs to the Exchequer that have not been included in the score card.

Mr Philip Hammond: Could you give me an example?



Q239 **John Mann:** I gave you one there.

Mr Philip Hammond: Do you want to answer that technical question, difficult question?

Dan York-Smith: For things like the public sector pensions change, because it is completely offsetting, because there is additional AME from the contributions and then we give Departments additional DEL to cover that, we do not show it on the score card because it is a completely neutral policy. We mention it elsewhere in the Red book instead.

There are a series of conventions about the policies that we include on the score card, which are primarily the ones where there is a net fiscal impact. Changes that we also do not include on the score card include things that are changes to assumptions about total public spending. Where it is allocated to Departments and it is an ongoing allocation, we will show it in the score card. Where it is merely allocated to the total envelope, by convention we do not.

Q240 **John Mann:** There is no change to the approach towards the score card, then? No. Thank you.

Dan York-Smith: The table showing public service pensions is on page 231 of the OBR's book, the very first item in that table.

John Mann: The first line, yes.

Q241 **Stewart Hosie:** Chancellor, before I ask some questions on digital tax, can I just follow up something Wes Streeting said about the estimates process? We have both been here long enough to know that in the estimates one can discuss anything except the money, and as a process it is quite inadequate but this is not a debate for today. It is merely an observation about how utterly inadequate that process is to discuss the money being spent.

However, in your speech at your party conference you said that—

Mr Philip Hammond: I am glad you were there.

Q242 **Stewart Hosie:** It is not something I have ever sought to attend, your conference. You said that the time for talking about taxing global tech giants and digital platforms is coming to an end, and that the stalling has to stop. Who is doing the stalling? Is it the US? Is it anybody else?

Mr Philip Hammond: In the interests of continuing to pursue an international solution to this problem, which I have committed to do, I think it probably would be best if I do not discuss the individual discussions that have taken place. In the G7 format, and more widely in the OECD and in the G20, there is a continuous focus on this issue. At every formal meeting it is on the agenda. A digital services tax will be discussed at ECOFIN in Brussels tomorrow. We continue to work with international partners.



Let me say this. It is the case that the US Tax Reform Act has moved the goal posts a little bit in that it has changed the perceived interests of the US versus non-US players, where some at least of the companies in question would historically have been booking profits in offshore jurisdictions. The expectation is that some of those profits will now be booked in the US, as a result of the US Tax Reform Act. That clearly places the US in a slightly different position when it is looking at these propositions for reform.

Q243 Stewart Hosie: I will come back to the US, but I think this is exactly the place where we should discuss who is stalling, first, because you said it in your conference speech, and secondly, because you introduced a digital platform tax at the Budget last week. Can I take it that your answer was a rather less than veiled criticism of the US, or is someone else stalling the international negotiations?

Mr Philip Hammond: No, not at all. For example, in the European Union, there has been a proposal on the table from the Commission that has not so far progressed because not every EU member state has a similar view on the way to deal with this problem. Everybody recognises a problem, including the US. The US recognises that there is an issue that has to be dealt with, but we do not all have a similar approach as to how best to deal with it.

Q244 Stewart Hosie: On the US, then, President Trump—were he to decide that your proposed digital services tax was discriminatory or extra-territorial on US corporations—would have the power under US law to double the US tax rate applied to UK businesses and citizens. Is that a concern you have?

Mr Philip Hammond: Ensuring that we implement a digital services tax in a way that is proportionate and that does not transgress our obligations under international tax treaties and international tax law is very important to us. That is why we have proceeded with our own digital services tax. Of course, the US does have tax measures in its tax code that have extra-territorial effect, and in the Tax Reform Act has introduced measures that are arguably discriminatory against non-US companies. All of these things are the subject of debate between the parties.

Clearly, what we would hope for is to find a resolution where everybody agrees a compromise that can then be enforced internationally. Any such tax will be far more effective and enduring if it can be agreed internationally.

Q245 Stewart Hosie: You began by talking about things being proportionate. You ended by talking about compromise. The European Union has a 3% revenue proposal. The UK proposal is a 2% revenue proposal or thereabouts. They are not that far away. In terms of numbers, they are not huge.

Mr Philip Hammond: That is quite a big difference.



Q246 Stewart Hosie: Between £400 million and £600 million revenue based on a 2% or 3% model in the UK. It is a substantial amount of money in the real world, but it is a drop in the ocean compared to the revenue of the UK, if it can be achieved.

Is it not the truth that the UK is likely either to fall in line with the EU proposals, in due course, or simply implement the OECD proposals when the final compromise agreement is reached in 2020, which I believe is their target?

Mr Philip Hammond: As I said in the Budget, we will continue to lead the international debate. This is not the end of the story with digital services tax. If we can reach international consensus around a tax that all the parties are willing to agree to, then we will certainly look at that. I cannot guarantee in advance that we will suspend our digital services tax in order to implement an international tax, but we will certainly have a strong disposition towards working with international partners if there is a credible proposal on the table. Equally, we will look at the EU's proposal as it evolves.

At the moment we think the EU's proposal could be improved, and I think—looking at the comparison between what we have announced last week and what the EU is proposing—we will point to some of the areas where we think improvements could be made. These are improvements particularly to ensure the resilience of the tax against challenge from international partners.

Q247 Stewart Hosie: I am tempted to say if only the UK had some leverage inside the EU to make its proposal better for all 28 countries, but we are almost past that, aren't we?

Mr Philip Hammond: The greatest form of leverage is having a good idea and sharing it. I can report to the Committee that, since my announcement last Monday, I have had conversations with EU colleagues who have asked me for just such an analysis of our proposal against the current EU proposal, so that they can understand the areas where we have concerns about the EU proposal and can consider them.

Q248 Stewart Hosie: I am tempted to say the ERG will hate hearing that, because that is real discussion and dialogue with European colleagues.

When this was introduced, it was clearly to implement some kind of basic fairness in the tax code. Those high street chains, with the bricks-and-mortar costs, simply cannot compete with some of these big platforms. You are planning to take around £400 million from the biggest tech companies. What real difference will that measure make, though, to high street businesses with the fixed bricks-and-mortar costs? How will they see any benefit even from that modest increase in equity between them and the digital companies?

Mr Philip Hammond: First of all, the two are not directly connected. The DST is addressing a fairness issue. There is a lot of evidence that there is a very widespread view in the UK that it is simply unfair that these very



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large players in our economy are not contributing anything—or at least anything like enough—to the provision of public services in the UK. It is a measure that stands alone on its own merits.

On the high street, we have already discussed this afternoon some of the measures that we have put in place to help the high street through what is a very difficult period, but I should be absolutely clear—as I know the Committee will understand, but for others outside—that a digital services tax is not an online sales tax. An online sales tax is quite a separate thing. There is a perfectly respectable argument for an online sales tax but we would need to be very clear-eyed about what it is. An online sales tax is a tax that would be paid by consumers purchasing goods online.

Many of the high street retailers that we are concerned about have developed very strong hybrid business models, where their online business and their high street presence interact in a symbiotic way. At least one of the major high street fashion chains generates 50% of its revenue throughput in its stores, through click-and-collect sales that are placed online and then collected in the store. There is some very welcome development and evolution of business models towards using a high street presence to reinforce and underpin an online presence. I suspect that that is where the future lies.

Q249 Stewart Hosie: Just one final question. Spain introduces its new digital services tax on 19 October. It is meant to be passed into law this year. It understands and clearly is suffering from the same problems. Why are you waiting until 2020 to move this forward?

Mr Philip Hammond: Two reasons. First, this is a novel area of taxation. It is very challenging to get it right because the international tax codes and frameworks within which this has to operate were designed for a non-digital age, so it is a challenging exercise. We will carry out a consultation about how we implement this, which both protects us from legal challenge and helps us to ensure that we get it right. We have a tradition in this country that, where we are doing something in the area of taxation that is novel and potentially contentious, we carry out extensive consultation and do a lot of work to design it and get it right.

The other aspect of this, of course, is that we very much want to encourage the continued international dialogue during the course of 2019, and I very much hope that it will be the case that an international consensus does emerge between now and 2020.

Q250 Catherine McKinnell: Chancellor, I was not at your party conference either but I did note some of your comments there—and you also repeated them in your Budget speech—about the deal dividend that you are confident the economy is going to experience once a withdrawal agreement with the EU is concluded. The OBR has stated in its forecast that the inclusion of the transition period “has no impact on our forecasts for net trade or GDP growth”, so it does not seem to think there will be a deal dividend. What do you know that the OBR does not know?



Mr Philip Hammond: The OBR has been explicit that it will only record these impacts when it sees them. It is not going to forecast them. It will need to see them manifest themselves before its eyes. I do not think the OBR would demur from the suggestion that getting a deal agreed with the European Union, which will allow an implementation period and a smooth transition to a future relationship, is likely to have a positive impact on business confidence. Business confidence is only one element. I hesitate to speak for it, but I am sure the OBR would say that, until it sees exactly what that future deal looks like—what impact it will have on migration, for example—it will not be able to make a full judgment about the impact of it on the UK economy.

Q251 **Catherine McKinnell:** It does actually say, Chancellor, the opposite of what you are saying. It says that it is not clear what substance the Withdrawal Agreement and any accompanying political declaration will contain about the UK's future trade and migration with the EU. It is saying that it does not believe that information will be available. What is it that you know that it does not know?

Mr Philip Hammond: I think we are saying the same thing; exactly the same thing. The OBR is saying that it does not anticipate being able to factor in the consequences of specific changes in our future relationship with the European Union until they occur.

Q252 **Catherine McKinnell:** Why do you feel confident to promise that?

Mr Philip Hammond: I feel confident to predict that, if we get a deal, which is a good deal and provides for a smooth transition, it will be positive for business.

Q253 **Catherine McKinnell:** Why?

Mr Philip Hammond: I have also noted the OBR's comment to you that anything that increases business investment may be fiscally negative in the short term. I am very happy to accept that short-term negative consequence if what we are seeing is a significant increase in business investment, sustainable over time, because on anything other than the very shortest term horizon that will deliver improved fiscal revenues from the consequences of that higher business investment.

Q254 **Catherine McKinnell:** I do not quite understand what you are saying, in terms of where that dividend is going to come from and why you are so confident we will get it.

Mr Philip Hammond: I have said two things. First—

Q255 **Catherine McKinnell:** I have heard what you have said but it does not quite clarify why you feel confident that dividend will come and, secondly, be real.

Mr Philip Hammond: Let me elaborate a bit further. If we get a good deal with the European Union—



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Q256 **Catherine McKinnell:** What will a good deal look like?

Mr Philip Hammond: From the point of view of the economy—and I am very specifically talking about the economy now—it will involve continued, friction-free access to European Union markets and reciprocal access for European Union companies to the UK's market. That is the key element that is required to reassure the business community and give a boost to the economy. A deal that will demonstrably allow existing supply chains to continue to operate successfully will give a boost to business confidence and will increase economic growth in the future.

Let me just finish this point. The second element is very much more within my control, and that is—as we have already rehearsed this afternoon—that I am holding significant fiscal buffers between what is required by our fiscal rules and what we are actually projecting to borrow. That is a reserve to be deployed should the economy run into any headwinds. Those buffers will not be needed in the same way if we have a good deal that gives clarity about a smooth path to a future relationship with the EU.

Q257 **Catherine McKinnell:** That is clearer. What you are saying is businesses will feel more confident to invest than they currently do. Investment currently is very depressed as a result of Brexit uncertainty. In the event of what you would define as a good deal being reached, there will be more business investment than there currently is, but really all it means is it will get better than it currently is. It is not really a bonus or an increase in terms of where we would have been had we not had all this uncertainty.

Mr Philip Hammond: Our baseline is the OBR forecast. We are required to build our budget off the OBR forecast. Anything that represents an improvement to that, and it is not whether I consider the deal to be a good one that will matter. It is whether business considers the deal to be a good one because business investment will be driven by the business perception of the outcome. It is not just businesses. It is also about consumers: consumers feeling more confident about the future, more sure about the security of their jobs, willing and able to go out and commit to big-ticket purchases like a car or a home.

Q258 **Catherine McKinnell:** The second part of your dividend basically is not to have to bail us out of a disaster.

Mr Philip Hammond: The second part of the dividend is to not have to hold a reserve for uncertainty. During a period of uncertainty it is appropriate to hold large fiscal—

Q259 **Catherine McKinnell:** The reserve being extra borrowing that you would have to use in the event of a downturn in the economy?

Mr Philip Hammond: The reserve being additional borrowing, which we could access without breaking our fiscal rules if there was a need for the economy.



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Q260 **Catherine McKinnell:** It is not really a dividend, is it?

Mr Philip Hammond: It is headroom that becomes available if we choose to use it.

Q261 **Catherine McKinnell:** It is not really a dividend, is it?

Mr Philip Hammond: I think most people would understand that as a dividend. It would be a choice. Let's say in a given year, 2021, if we had a deal agreed, signed and sealed, everybody was happy, business confidence was rising, it would be a choice whether in 2021 to maintain £15 billion of headroom to the fiscal rule or whether to borrow a little more and put a little more, for example, into the spending review envelope that year. That would be a choice that we could make.

Q262 **Catherine McKinnell:** I still don't think people would really think of it as a dividend. In terms of the use of the word "dividend", the Prime Minister has also talked about a Brexit dividend. I don't think you have ever actually talked about a Brexit dividend. She was very clear that she believed the extra spending on the NHS would be able to come from this Brexit dividend, and obviously you—as the Chancellor—must have crunched the numbers.

We took evidence in this Committee from the Treasury Permanent Secretary, who confirmed that nobody knows and nobody can know what additional funding for public services will be available post-Brexit. What have you done to calculate the Brexit dividend?

Mr Philip Hammond: We do have a forecast that does forecast the envelope for public spending post-Brexit—that is, post-March 2019—but the Prime Minister was making a narrower point. The Prime Minister was making the point that if we are not sending £9 billion or £10 billion a year net to Brussels, then we will have options about how we spend that money.

The OBR has made an assumption that we will spend that money doing things that Brussels would have done in this country—on agricultural support, for example—and that is a perfectly legitimate assumption for the OBR to make for the purpose of forecasting, but of course it will be for the Government to decide how in actual fact we want to spend that money.

Q263 **Catherine McKinnell:** What it has not forecast and what it is not able to forecast is what the additional costs will be to the Treasury, as a result of Brexit, in terms of the additional functions and the additional institutions that will have to be assumed, and additional payments as part of any withdrawal arrangement. That is correct?

Mr Philip Hammond: Of course, that is partly what the cross-Whitehall analysis will be doing, looking at the overall impacts in the round of different potential outcomes: direct payments that have to be made, contributions that will need to be made for continued participation in some circumstances, and also looking at the fiscal consequences of



economic impacts of each of the different potential outcomes. That is the point of doing this comparative analysis.

Q264 **Catherine McKinnell:** Yes. At the time of the Withdrawal Agreement, we will not know what those additional costs might be?

Mr Philip Hammond: I think we will be able to model those outcomes in the cross-Whitehall work and present it to Parliament in a way that is helpful.

Q265 **Catherine McKinnell:** When you appeared before the Committee in October 2017—this time last year—you were asked if any of the benefits of feasible future trade deals that we might agree after leaving the EU would outweigh the cost of leaving the single market and the Customs Union. At that point you were not able to give a clear answer of that analysis. Are you any clearer to giving that today?

Mr Philip Hammond: What I can tell you is that the preliminary cross-Whitehall analysis, which of course was preliminary—and further work is ongoing on that, and of course did not include the Government's preferred option for a long-term future partnership with the European Union—and was leaked in February, I think, and was subsequently published by DExEU, does have numbers for both lines, additional costs and impacts on the economy and benefits of being able to negotiate trade agreements. It makes a fairly generous assumption that we would negotiate major trade agreements effective 2021, which is quite a challenging timescale but that data is there, albeit, in a very provisional form, because this is early-stage analysis.

Q266 **Catherine McKinnell:** Under all Brexit scenarios, as modelled in the papers you referred to, the economy will take a downturn. Under all scenarios.

Mr Philip Hammond: Remember this is long-term. This is a computed general equilibrium model showing the long-term impact on the economy, so 15 years out, how the economy will react in the long term.

Q267 **Catherine McKinnell:** Yes and there will be a long-term, sustained impact on the economy under all Brexit scenarios.

Mr Philip Hammond: The leaked and subsequently published preliminary analysis showed that, for each of the outcomes that were modelled at that time—and none of those outcomes were the Government's preferred model—there was a reduction in GDP at the 15-year horizon, but it varied quite considerably in scale.

Q268 **Catherine McKinnell:** Yes, from the absolutely catastrophic to the quite bad. Are you saying that it has not yet been modelled for the Government's preferred scenario? Are we going to see some modelling that indicates that it is not going to see a downturn for the economy as a result of Brexit, and are we going to see a full assessment before MPs are asked to vote on any withdrawal agreement so that we are clear on



exactly what the impact on the economy is going to be?

Mr Philip Hammond: On the last point, I have said repeatedly—I think I have said it again already this afternoon—that we will publish cross-Whitehall analysis that will certainly include the proposed model, the deal that the Government are putting before Parliament for the meaningful vote. You will have that information.

Q269 **Catherine McKinnell:** Can I ask one more question? It has a very easy answer, which I hope is going to be yes. Line 5.24 of the Budget confirmed that the Government will be providing £21 million to establish a centre for public leadership, which will sit within the Cabinet Office in terms of responsibility. Is that location set in stone yet, and is there time for Newcastle to put in a bid to host that, given we have a lot of public servants in our local area, excellent universities that specialise in this, and a very thriving digital sector?

Mr Philip Hammond: As far as I am aware, a decision on the physical housing of this academy has not been yet made, but when we look for the location of any newly created Government body, we always look first at surplus capacity within the Government estate because that is the best use of taxpayers' money.

Q270 **Chair:** I want to follow up on one comment, Chancellor, just about the £9 billion to £10 billion a year—and how that could be reprioritised by the Government—not being sent to the EU. You talked about the OBR having assumed that might be for agricultural spending or making up—

Mr Philip Hammond: And the UK Shared Prosperity Fund.

Q271 **Chair:** I was going to ask you about that because—the OBR is assuming that—it could be that that current support is not going to be replicated. Is that something that the agricultural sector should be concerned about or, likewise, those who currently benefit from investment from the European Investment Bank should be concerned about? Most people are labouring under the apprehension that, if they are losing money from the EU, the UK Government are going to make that money up.

Mr Philip Hammond: The European Investment Bank is something slightly different, and I will come back to that in just a second. We have given guarantees to people and organisations that are bidding for European funds so that they could continue to do so without fear of being stranded halfway through the process. We have given even more generous guarantees to the agricultural sector that last through to the end of this Parliament. Of course, no Government can bind their successors but we have been clear about the level of agricultural support through to the end of the Parliament. This is for direct EU funding.

In respect of the EIB, most of the lending that the EIB does in the UK is for infrastructure. Most of it goes to players with big balance sheets who are perfectly able to fund themselves elsewhere. They choose EIB funding because typically it is, at the margin, more attractive in terms of cost, but



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it is not a problem for them to find alternative levels of funding. For example, the EIB funding for the Thames Tideway Tunnel, I think I am right in saying that they are contributing funds to the Thames Tideway Tunnel. Thames Water would have been able to fund that elsewhere.

There is one area of EIB funding, and that is the funding delivered through the European Investment Fund—a subsidiary of European Investment Bank—which is targeted at smaller, high-growth companies where we are worried that businesses may not be able to find alternative funding. That is why I set out in the Budget provision for a funding line through the British Business Bank to ensure that we can continue to fund high-growth UK businesses, typically tech businesses.

Q272 **Chair:** Very briefly, don't some of the housing associations rely on EIB or EIF money?

Mr Philip Hammond: Not EIF, I think. It may be that housing associations borrowed from EIB, but housing associations are readily able to borrow from the commercial banks. If they have been borrowing from EIB it will be because they can get slightly finer terms in doing so.

Q273 **Chair:** That is quite critical. It will be interesting to see how the housing associations will react to hearing that because I suspect that, given we need tens of thousands more homes a year in this country—

Mr Philip Hammond: Yes. I just remind the Committee that housing associations in England, Scotland and Wales are now classified off the public sector balance sheet. If they were to start borrowing from public sector sources that might compromise that classification, which would have significant impacts in terms of our capacity to get houses built within our available funding envelope.

Q274 **Charlie Elphicke:** Good afternoon, Chancellor. Just to pick up on some of the points that my colleague, Catherine McKinnell, was raising, can you just explain your sense of confidence and business investment in the current period and how that would change in a deal or no-deal scenario?

Mr Philip Hammond: We know business investment is going to be lower this year than it was last year. That is certainly the forecast outcome. There is anecdotal evidence—but it can only ever be anecdotal—that one of the significant causes of that is uncertainty about the outcome of the current negotiations. Business hates uncertainty almost more than anything else. I have discussions with business leaders who say, "Even if the outcome is not going to be the one we would prefer, we would like to know because, once we know, we can start to plan and we can start to make our investments appropriately". There is—

Q275 **Charlie Elphicke:** If there was no deal, does that mean business investment would increase because at least there is certainty and at least they know what to plan for?

Mr Philip Hammond: Obviously, I cannot forecast exactly what the business response would be to any given scenario. In a no deal exit,



where we did not have continued access on a frictionless basis or a low-friction basis to European markets, we can anticipate that supply chains would be significantly disrupted and, over a period of time, the economy would reshape itself.

Some businesses would find that their business model was no longer viable. Other entrepreneurs would spot opportunities, probably to substitute imports with domestically produced alternatives. There would be investment in some areas and scrapping of capital in other areas.

Q276 Charlie Elphicke: Let us unpack that a bit. You are saying that, in the current period, there has been uncertainty and that has had a negative impact on business investment and a negative impact on confidence. Yet at the weekend the Trade Secretary, Liam Fox, is busy saying we are second in foreign direct investment after China in the globe. He says that is some achievement for the UK and demonstrates that the people who know where to invest know it should be in the UK. They know we live in a dynamic nation brimming with potential so, as we leave the European Union, we should remember the many reasons investors choose to put money here in the UK. He seems to be saying that investors are brimming with confidence and that we have gone straight to the top of the FDI table.

Mr Philip Hammond: No, I think there are two different things here. Obviously, we welcome foreign direct investment in the UK but, as the Committee will know, portfolio investment—the acquisition of existing businesses or infrastructure, which does not add in any way to the capital stock in the UK—is classed as part of foreign direct investment. Obviously many things will drive foreign investors' appetite for assets, and price is one of them, and one factor in determining price for a foreign investor is the exchange rate. There will be many factors in play here.

Q277 Charlie Elphicke: You are saying that the exchange rate has driven an increase in investment into the United Kingdom?

Mr Philip Hammond: I don't think I said that. I said that price will be one of the factors and for foreign investors exchange rate is one of the elements that determines price.

Q278 Charlie Elphicke: In your Budget obviously you have set out a slightly different model to that followed previously. Is there a long-term economic plan and can you articulate what it is now?

Mr Philip Hammond: Yes. It is to drive Britain's productivity performance and to embrace the technological revolution that is already changing the way our economy works, because only by doing both of those things can we ensure that Britain remains competitive internationally and that our productivity performance begins, hopefully, to return to what was always its long-term trend before the financial crisis. That is the only way that we are going to see sustainably growing real incomes and rising living standards for the British people, and that is our clear and absolute priority objective.



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Q279 **Charlie Elphicke:** If there were no deal, would all the Budget spending commitments be honoured?

Mr Philip Hammond: No, not at all. The commitment on the NHS was made back in the summer. That is a clear commitment by the Government and a statement of the Government's priorities. If there were an external shock to the economy—a no deal Brexit is one such potential shock but it is by no means the only one that I can posit for the Committee; the collapse of a banking system in any major country or the outbreak of a major trade war between any two significant international trading powers could equally deliver a shock to the economy—we would need to react to that in the usual way, with monetary policy for the Bank of England and fiscal policy for the Treasury, in order to support the economy through whatever transition was needed to get to a new equilibrium that was appropriate after that shock.

Q280 **Charlie Elphicke:** I understand that, but let's assume there is no deal. Will the spending commitments in your Budget that you made be honoured or will there be a change?

Mr Philip Hammond: The Budget is made on the basis of the forecast that the OBR gives us and I have made a Budget that I will deliver on the back of that forecast. Clearly, if at a point in the future the forecasts change, the Government of the day will have to look at the next fiscal event and what measures they want to introduce in order to respond to changes in that forecast. As you will be absolutely well aware, there are many ways in which a Government could respond to any shock.

Q281 **Charlie Elphicke:** That is an understandable position, but I am confused because a No. 10 spokesman said that all spending commitments set out in the Budget later will be delivered irrespective of a deal on Brexit. Is this a case where they are saying something different?

Mr Philip Hammond: No, not at all. It is not contingent upon any future event, but obviously the Budget is the Budget and it sits on top of the OBR's forecast for a five-year period starting in 2021. Future Budgets will be built on future OBR forecasts and will do whatever the Chancellor of the day feels is necessary to respond to the OBR forecast at the time.

Q282 **Charlie Elphicke:** The economist Andrew Lilico, who is the Director of Europe Economics, says that the economy will grow faster in the case of no Brexit deal. There seems to be a—

Mr Philip Hammond: With the greatest respect to Mr Andrew Lilico, who I do not know, he is in a very small minority of respectable economists.

Q283 **Charlie Elphicke:** You think that if there was no deal then there would be a slowdown?

Mr Philip Hammond: My observation is that, looking at the universe of respected and regularly cited forecasters of the UK economy, the overwhelming majority of them expect a no deal Brexit would have a negative impact on the economy.



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Q284 **Charlie Elphicke:** The Government have analysis on that. Do you think the time has come for the Government to ensure full details of their EU exit analysis, including all assumptions and full detail of the operation of the CGE model—which you referenced earlier—should be available for public and parliamentary scrutiny so that we can all have this debate in the open?

Mr Philip Hammond: As I have already said this afternoon and on many previous occasions, we are committed to publishing this analysis and the underlying information that is needed to make sense of it.

Q285 **Charlie Elphicke:** When?

Mr Philip Hammond: When a deal is done and we are ready to bring that deal before Parliament. We will publish this analysis in good time for Parliament, and indeed this Committee, to make proper use of that data.

Q286 **Chair:** We look forward to you appearing before us, as we have already said, in order to answer questions, along with others as well.

Mr Philip Hammond: Yes.

Q287 **Charlie Elphicke:** My point is: you are saying the Government have this analysis and have modelling on it but will not publish anything to do with it until such time as we have a deal, and you say, “Here is the deal”, giving us no time to analyse the modelling. That is not an acceptable position, is it?

Chair: Adequate time, according to the Chief Whip.

Charlie Elphicke: What is adequate? How long is “adequate”?

Mr Philip Hammond: The Government have a computable general equilibrium model—

Charlie Elphicke: CGE.

Mr Philip Hammond: —of the economy that it uses for its long-term forecasting, including for the cross-Whitehall analysis of different Brexit scenarios. We will provide Parliament with a modelled output of the deal that is put before Parliament and appropriate counterfactuals at the time.

Q288 **Charlie Elphicke:** What I am getting at is that we need to see the full analysis, including the assumptions, not just what the Treasury is pleased to tell the nation.

Mr Philip Hammond: That is right. The output of any economic model is only really interesting if you can see the assumptions that were made. I completely accept that. The key assumptions will clearly need to be published.

Q289 **Charlie Elphicke:** Will you publish them sooner rather than later?

Mr Philip Hammond: No, because until we have the deal we cannot possibly know what assumptions we will need to make to analyse it.



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Q290 **Charlie Elphicke:** If there was no deal, is it not a realistic assumption to say that you would have an extra £39 billion to play with because, as a matter of law, we do not owe the European Union any money?

Mr Philip Hammond: I am not a lawyer and if you want to go into this I would suggest that you call the Attorney General.

Q291 **Chair:** I am sure he would be delighted to hear that you have nominated the honour.

Mr Philip Hammond: What I can share with you is the advice from Treasury legal counsel that, to the extent that we are in the settlement that we have provisionally agreed, subject to everything being agreed with the European Union, we are making good on commitments that have been entered into with the UK's acquiescence during our period of membership of the European Union. These are obligations that we entered into and they are obligations which will be due in any case.

What we have done in the negotiation is reached agreement on a formula for determining a number post-exit. That has been agreed by the UK in the context of a deal and we would not necessarily be prepared to agree that same formula in the context of no deal. However, it would not be plausible or credible for the UK to assert that, in the case of no deal, no money at all was payable in respect of these obligations that were entered into during our period of membership. If we were to do so, we would effectively rule ourselves out of being regarded as reliable partners in future international deals of any kind, including trade deals. That would not be something that I would recommend at all.

Chair: We need to move on. Charlie, you have one final question.

Q292 **Charlie Elphicke:** Sorry, one last question. The House of Lords looked at this. A Committee of many Remainer Peers and legal experts took advice from other legal experts. Martin Howe QC has also opined on this. As a matter of international law, they say that we do not owe the European Union anything, whatsoever. Should we not use this as leverage in the negotiations and—

Chair: I am conscious of time today. We are going to return to all of this in the context of the Withdrawal Agreement

Charlie Elphicke: Chair, I think it is an important question. I would like to be able to ask it.

Chair: We are going to return a lot to this. I am going to ask for a short answer before we move on to talk about the Budget.

Mr Philip Hammond: In response to Mr Elphicke, I think there is a point of leverage, which is the cash flow question. Clearly a long, drawn-out arbitration process might result in a lump sum of money being payable at the end of it. Lump sums are not that useful to the European Commission because they are not allowed to hold funds from one budget year to another. That would be a bonus for the member states rather than for the Commission.



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Clearly, the Commission's preference is for a pattern of payments over a period of time, which is what was tentatively agreed last December. There is a point of leverage. The Commission would clearly prefer what has been agreed to a process of confrontation, arbitration and then settlement by lump sum.

Charlie Elphicke: Thank you.

Q293 **Alison McGovern:** Chancellor, prior to the Budget there was clearly some lobbying going on by DWP. We had leaked Cabinet documents showing that the DWP were worried about families losing £200 a month and you clearly felt the pressure that you needed to put extra resources into Universal Credit. In this Budget you have found money for work allowances. Could you just confirm in which year that commitment to Universal Credit outstrips the money you found for tax cuts?

Mr Philip Hammond: No, not offhand. Let me just answer the underlying point that you are making. There are many leaked documents and stories, and I am not going to comment on them but I would ask you to judge me on my track record.

Q294 **Alison McGovern:** Yes, we will come to that.

Mr Philip Hammond: Since I took over this job in 2016, I have intervened, I think, at every fiscal event to support the Universal Credit system. I am a strong believer in Universal Credit. I have recognised that it needs more cash in order to manage the migration process. I have also recognised in the Autumn Statement 2016 that we needed to do something on the taper rate, and I reduced it from 65% to 63%.

The other big moving part of the stable state Universal Credit system is the work allowance. Having looked at it again, I was persuaded that we needed to do something on work allowance and I was able to make an announcement of an extra £1,000 on the work allowances in this Budget.

Q295 **Alison McGovern:** It will still leave some families as losers.

Mr Philip Hammond: Can I just say one more thing? I have always regarded these elements of Universal Credit as not being fixed in stone. I know that my Right Honourable friend, the Member for Chingford, who was very instrumental in designing the system in the first place, also thinks of them in those ways. There is no reason why the Government should not look at the taper rate and the work allowance—

Q296 **Alison McGovern:** Sure. Chancellor, the Chair had asked for short questions. I am conscious of my other colleagues' ability to ask questions.

Mr Philip Hammond: —just as they look at personal allowances and income tax rates.

Q297 **Alison McGovern:** To come back to the tax cuts then, given that we know that, even with the Budget, families who are on Universal Credit



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will be worse off and there are some specific big losers—

Mr Philip Hammond: No, that is not correct.

Q298 **Alison McGovern:** Just to come back to the tax cuts, why did you implement them a year early? You made quite a song and dance about it. What was the rationale for going for them a year early?

Mr Philip Hammond: Because I am taking a balanced approach, as I have said before, wanting to keep taxes low. We think that part of bringing austerity to an end is allowing people to keep a little more of the hard-earned money that they earn. We were able to make a very large commitment to public services with the NHS funding commitment. We were able to put a significant amount of money into Universal Credit £1.7 billion a year when rollout is complete.

Q299 **Alison McGovern:** Can I just bring you back to tax cuts? We have talked about the NHS. You have acknowledged that you are spending much more on the tax cuts than you are on dealing with the Universal Credit problem, but it is worse than that, isn't it, Chancellor? Almost all of the money that you have put into these tax cuts will accrue to those in the top half of the income distribution and those who gain the most will be in the top 10% of earners in our country. Chancellor, do you feel satisfied that your priority is the top 10% of earners in our country?

Mr Philip Hammond: No, it is not. It manifestly is not.

Q300 **Alison McGovern:** This is the story that the numbers tell us.

Mr Philip Hammond: If you look at page 36 of the Red book.

Alison McGovern: That is the page I am on here, yes.

Mr Philip Hammond: If you look at 2023-24, at line 10 you will see that the personal allowance and higher rate tax threshold in 2023-24 costs £1.78 billion and the changes to Universal Credit work allowance cost £1.695 billion. It is around £1.7 billion in both cases at the end of the forecast period. What I have done on Universal Credit is not simply what I have done in this Budget. It is also what I have done at previous fiscal events. I think if I recall correctly—

Q301 **Alison McGovern:** Can I just bring you back to my question, Chancellor? Are you happy that this year, of £2.8 billion of our country's resources—it absolutely dwarfs the amount that you have found for Universal Credit—a significant amount accrues to the top 10% of earners?

Mr Philip Hammond: No, it does not. It does not absolutely dwarf it and it is a bogus analysis to look at a single fiscal event. You have to look at what we are building here and we are not always able to do everything in one go. I am sure you will recall that Paul Johnson, when he appeared in front of the Committee for the IFS, said that Universal Credit after these changes will be about as generous as the system it is replacing.

Q302 **Alison McGovern:** Let us come to what you are building then,



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Chancellor, the benefits freeze. I do think we probably need shorter answers.

Mr Philip Hammond: With respect, if you ask me a question for the record, I will answer it in the way I need to answer it in order to make sure that the record is correct.

Q303 **Alison McGovern:** I am just repeating the request that was made by our Chair. The benefits freeze is what has been built on since the RPI to CPI switch, the benefits freeze that began in 2016; yes or no, is it going to go on?

Mr Philip Hammond: The pre-announced changes to benefit uprating will continue as originally announced.

Q304 **Alison McGovern:** Working-age benefits will still be frozen?

Mr Philip Hammond: As we said at the time of the 2017 general election, we have no further plans to make significant changes to the benefits system. This was part of a rebalancing of the welfare system to deal with the gross distortions that had grown up in it under the previous Labour Government, where the amount of spending on welfare rose unsustainably and created disincentives to work.

Q305 **Alison McGovern:** Let's come back to what you are actually doing. You have confirmed that the benefits freeze will be going on, so working people will suffer from that. Chancellor, can you remember what Child Benefit was weekly—let's say for the first child—in 2010?

Mr Philip Hammond: No, and this seems a little bit like a game now.

Q306 **Alison McGovern:** It is definitely not a game.

Mr Philip Hammond: Right. You give me the number.

Q307 **Alison McGovern:** It was £20.30. This year, it will be £20.70. That is a real-terms reduction of over 15% in Child Benefit. Is that going to continue? Is the freeze in Child Benefit going to continue?

Mr Philip Hammond: No, the freeze is of finite duration and it will end in—2020?

Dan York-Smith: Yes. There is one more year.

Mr Philip Hammond: One more year of freeze and then benefits will resume being up-rated in the usual way. This is a one-off correction of a gross distortion that was driven through the system by the decisions taken by the previous Government.

Q308 **Alison McGovern:** Reducing the value of Child Benefit, we can argue on another day about high earners and Child Benefit but I am concerned with the vast majority of families in this country, who have seen the value of Child Benefit, under the Government since 2010, fall by 15%. That is a correction to a gross distortion? Can I just confirm that that is



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your view, Chancellor?

Mr Philip Hammond: Across the welfare system under the previous Government, the previous Labour Government, we saw welfare spending growing in a way that was unsustainable and that was squeezing other needed uses of public money. We have made a very large commitment to the National Health Service but we have had to make choices.

Q309 **Alison McGovern:** You are satisfied with the predicted forecast rise in child poverty?

Mr Philip Hammond: No, of course not. Nobody wants to see an increase in child poverty. As you know, the number of children in absolute poverty will be falling over the next few years.

Q310 **Alison McGovern:** As those on middle incomes fall back towards the bottom.

I just want to ask about a couple of detailed matters, Chancellor. We have seen in Scotland the use of split payments, which are very important for women who experience controlling and often coercive relationships. Financial abuse is on the rise. Why can we not do that for the whole of the UK?

Mr Philip Hammond: That is a question I am afraid you will have to address to DWP. I understand the arguments for it. I know that split payments are available in cases like the ones that you cite. The welfare system is, of course, built on households. The household is the basic unit for operating the welfare system but split payments can be made available.

Q311 **Alison McGovern:** You have no objection to it?

Mr Philip Hammond: I am afraid you will have to ask the DWP for detailed policy design questions.

Q312 **Alison McGovern:** Fine. On a totally different subject, in 2005, when having a pop at the last Labour Government, you apparently said that a taxpayer is entitled to know with certainty, be it an individual or a multinational corporation, what he—or, I would say, she—may or may not do in planning his or her own tax affairs. He is entitled to expect that his treatment be laid down in statute, not determined by administrative fiat.

Given your comments in 2005, can you explain what on earth is going on with the loan charge fiasco? Why we are retrospectively trying to recover money from people who were undertaking an activity, which we may or may not like, but that was entirely legal?

Mr Philip Hammond: It is not about whether we like it. HMRC was always clear that seeking to avoid payment of income tax through the use of loans was tax evasion and was not lawful.

Q313 **Alison McGovern:** Was that the situation at the time? I think there is some question about the situation that people faced then and, in fact,



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now.

Mr Philip Hammond: My understanding is that HMRC's position has always been that tax on these payments could not be avoided by describing them as loans.

I am astonished by this line of questioning. These are people pretending to make loans to themselves from their companies, loans that they have no intention of ever repaying, and then expecting not to have to pay any tax, even though they have enjoyed the money and been able to spend it as if it were income. That seems to me to be grossly unfair and something that imposes an unacceptable burden on all other taxpayers. It is quite right that we sort it out.

Q314 **Alison McGovern:** I am sure there are lots of people out there who disagree with you and that this will continue.

I want to ask you one final question that—forgive me—is very important to my constituents. The Government have found, quite rightly, £7.5 million for Salisbury after incidents there. You found £2 million in the Budget for Belfast after the Primark catastrophe there. In March 2017 there was a huge explosion in my constituency in New Ferry and the Government have done absolutely nothing. My constituents were very distressed at the Budget. They cannot understand why other places in the country have had help and they have had nothing. What is the problem with my constituents in New Ferry? Why will the Government not help them?

Mr Philip Hammond: I am sorry but I don't remember receiving a representation in the run-up to the Budget for help in the aftermath of that particular incident. I am afraid I am unsighted on what remaining outstanding issues there are that need to be dealt with there, but if you want to write to me about it I am very happy to look at it.

Q315 **Alison McGovern:** I will happily add to the letters that I have written to the Prime Minister and the Secretary of State and copy you into them in future, Chancellor.

Mr Philip Hammond: Yes. In the Budget process, many Honourable Members and Right Honourable Members on all sides are not at all shy in coming forward with ideas for supporting good causes or issues that need addressing within their constituencies. I do not remember having this one presented to me, although of course I am aware of the incident. I remember the incident very well.

Q316 **Rushanara Ali:** Good evening, Chancellor. You are going to be here for a bit longer.

Mr Philip Hammond: Yes. We did agree two hours, I think. I have a meeting at 6.30 pm.

Chair: Short answers.

Q317 **Rushanara Ali:** Short answers, yes, because I have quite a few.



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Chancellor, you talked about your definition of austerity and ending austerity. Since you have already mentioned the Comprehensive Spending Review, I am going to get my lobbying done in advance for the things that we did not see in this Budget. Picking up on Alison's points about welfare cuts, I wanted to draw your—

Chair: Chancellor, I should point out I have not been told that you are under any time restrictions. I am not intending to keep you here for much longer but I do not intend to have another incident like Caroline Nokes before the Home Affairs Select Committee. This is a really important part of democracy, scrutiny by the Select Committee. There are two more Members who want to ask—

Mr Philip Hammond: Yes, I am sure it is.

Chair: It is.

Mr Philip Hammond: I am sure it is. I agreed with your office a two-hour session and two sessions, unusually. We have agreed a second session—

Chair: On a completely different area.

Mr Philip Hammond: —to talk about Brexit issues. I do have another meeting with a number of colleagues convened at 6.30 pm.

Q318 **Chair:** That message has not been relayed. I asked at the beginning of the meeting if there were any restrictions and I spoke to somebody from your office this afternoon who could easily have told me that. I have two more Members who want to ask questions. They have sat here for a long time, listening to some of the extremely long answers to questions that have not been asked when you have answered the questions. Please do them the courtesy of listening to both Ms Ali and also Mr Clarke, and then we will let you go.

Mr Philip Hammond: I do not feel I have much choice, but I have to say, Chair, this will colour my view when you ask me to come before the Committee again. A two-hour session is a very long session. I think it is perfectly reasonable to have assumed that I would be able to make another meeting for 6.30 pm. Let us do what we can as quickly as we can.

Chair: Chancellor, I have been before Select Committees for more than two hours on your side of the table so I do know exactly how it feels, but it is important. This is a critical financial statement that you have presented to Parliament. What you will come back to discuss—and you will see that I have stepped in this afternoon when questions have strayed into that next session—is a totally different issue from what we are discussing now. I am going to bring in Rushanara.

Q319 **Rushanara Ali:** I will be as quick as possible, Chancellor. In the Budget, obviously the Universal Credit policy has already been discussed but I want to flag up one particular area that links to my concerns about child poverty as well, the two child policy limit. The transition to Universal



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Credit is going to mean that families with more than two children, a third child or more, will see their benefits being stopped. In due course, that is going to affect 3 million children.

Over 100 Members of Parliament wrote to the Prime Minister and yourself. As part of your thinking about Universal Credit, how to make it effective, I would certainly be grateful if this policy was taken into account because, if you are interested in ending austerity and improving life chances, this would seem a very unjust policy, especially as it gets applied retrospectively. I just wondered if you had any thoughts on that.

Mr Philip Hammond: I did look at it and I think I am right in saying that, for a given amount of funding, applying it to increasing the work allowance is the way that will make most positive impact on child poverty. That should be the driver, I think.

Q320 **Rushanara Ali:** Perhaps we could have a more detailed response to the letter. That would be really helpful.

Just moving on to a couple of points related to other services, education you mentioned earlier; on policing, you will have heard the debate over the weekend about concerns raised about prioritising and focusing on core services by Sara Thornton in relation to hate crime and misogyny. Many of us have been victims of hate crime and it is a symptom of the rationing that services are finding themselves having to do.

Given that there has not been an allocation of funding on those kinds of services and your focus, your definition—as you said earlier—of what ending austerity would mean, this seems like another area where there is a gaping hole that needs to be addressed, particularly if we are concerned about reducing knife crime and other crimes that people are very worried about.

Moving on to the topic of housing, last year I asked a number of questions in relation to house-building and also abolishing local authority borrowing caps, so I am very pleased that you have done that. In the 2017 Budget you set a target of building 300,000 homes a year by the end of the Parliament and, based on the OBR's forecast, this still will not be achieved in the next five years, despite some of the measures that you have announced. Why are we not meeting those targets? I asked a question about social housing as well in the previous appearance, where there is still a much lower number than needed to address the social housing crisis.

Mr Philip Hammond: On the question of police funding, a senior police officer has expressed a view about one of the underlying drivers of police funding challenges. There is no doubt that the base is broader than it was, that the police are investigating a wider range of crimes and incidents than they were required to do some years ago. That is not a Treasury issue. That is an issue for society and Members of Parliament to look at questions about how the police should prioritise within the funding envelope. My job is to look at the funding envelope and my Right Honourable friend, the Home Secretary, will be making a statement to



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Parliament around the provisional police funding settlement in early December, when he will address these issues. On the question of house-building—

Q321 Rushanara Ali: Sorry, just on that, do you accept that the police service is under huge pressure? In fact, the situation is so bad and the relationship is so bad the police service is taking the Government to court over the pensions' issue.

Mr Philip Hammond: No, the police service is not taking the Government to court. A police employee representative body is taking the Government to court.

Q322 Rushanara Ali: Employee representatives. Apologies. The point is that relationships are not in a good way and the pressure is mounting on police.

Mr Philip Hammond: The police are clearly under pressure and one element of that is funding. Another element is the breadth of activity the police are being asked to undertake. Ms Thornton's comments were addressed to that latter issue. My job is to look at the former.

On the question of house-building, just to be clear, the 300,000 annual target is by the mid-2020s, not by the end of the Parliament. Why does the OBR not think we will achieve that? If you look at the OBR's assumptions, the OBR has not taken into account the measures to stimulate house-building that we have announced. It considers that the impact of those measures is too uncertain for it to model and, therefore, it has said explicitly that it will only recognise the impact when it materialises rather than forecasting it in advance. We remain confident that we will be able to deliver that target.

Q323 Rushanara Ali: Turning to a related issue, homelessness and rough sleeping, you will be aware—like many MPs who are coming in through the entrance point outside of Westminster Station—that we see people sleeping rough. One person died earlier this year sleeping rough in Westminster Station and there are now 4,500 people recorded as rough sleepers. How confident are you that the funding and changes you have made in this Budget are going to address this issue, Chancellor, and are you aware of the number of rough sleepers who die every year?

Mr Philip Hammond: There is no doubt there is an issue, and there are a number of components to the issue. One of the elements driving the numbers is decisions that the courts have made about the ability to deport European Union nationals. We are supporting Housing First pilots in Manchester, Birmingham—I think there were three cities. I cannot remember the third one, I am sorry.

There is a lot of support for the Housing First approach. We have put more funding into delivering our targets. We have targets for both the halving of the number of rough sleeper and the elimination of rough sleeping. As you will know, a few weeks ago we announced an additional



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supplementary Stamp Duty Land Tax charge on residential property bought by non-UK residents, the proceeds of which will be used to provide additional funding toward delivery of those targets.

Q324 Rushanara Ali: According to the Bureau of Investigative Journalism, in the last year 440 homeless people have died on our streets. We need urgent action in this area and I certainly do not feel confident there is sufficient resource. There is obviously, as you mentioned, some money going in but not enough to deal with this issue.

I am just going to move on to a couple more questions. One of them is in relation to a question I asked you last year. I had 11 minutes allocated. I have two more minutes.

I am grateful for the response last year in relation to the allocation of funding you have found for those whose blocks are unsafe—those with similar cladding to the Grenfell tower—but there are private blocks that freeholders are responsible for and it is not clear what the Government, beyond applying a bit of pressure, is doing to address that problem. Can the Government look once again at what sort of advance funding could be made available that is then recovered from the private freeholders? It needs Government action rather than leaving it to leaseholders to deal with. It is something I raised before.

Mr Philip Hammond: You did.

Q325 Rushanara Ali: It is still a serious issue. People are still living with concerns about their safety.

Mr Philip Hammond: This is a matter for the Department for Housing, Communities and Local Government.

Q326 Rushanara Ali: You would appreciate it is related to finance as well?

Mr Philip Hammond: I do, but it is important to recognise—though this is not my job—that depending on the lease structures, it is quite likely that, in many of those cases, it will be the leaseholders who are responsible under the lease for repairs to the building. It is very tempting to talk about “the freeholder” as if there is somebody there with a pot of money that can be prevailed upon to finance—

Q327 Rushanara Ali: This is something that is recognised by the Ministry of Housing as a problem. I am talking about those cases where it is clear that the freeholder is not taking action, even with the Government writing to them and saying, “You must take action”. Something else needs to happen and that there is money associated to this. The Department has acknowledged this.

Mr Philip Hammond: I will certainly draw the Secretary of State’s attention to your comments.

Q328 Rushanara Ali: Thank you. Just one last question in relation to mortgage prisoners. You will be aware—and we have raised this with your Department—that those who are trapped in the assessment, in terms of



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what they pay, are paying more. Those who currently have mortgages with UKAR, for instance, are paying something like 5% whereas the competitive market rate is about 1.5%, and it is related to the affordability test. The Budget stated that UKAR will require that loans must be serviced by an FCA-regulated firm. This is in relation to further sales. What does this mean for consumers who still have mortgages with UKAR?

Mr Philip Hammond: For consumers who have mortgages with UKAR, with UKAR-owned entities, the standard variable rate is regulated by state aid rules. I think it is the average of the top 15 lenders that determines the standard variable rate that is applied. Clearly this is a Government-owned business. We cannot undercut the marketplace. We have to have a fair way of calculating standard variable rate.

The broader issue of trapped mortgagors is recognised by Government. We sympathise with the problem that this group of people are facing. We are working with the FCA to try to find ways of making it more possible for them to take up more advantageous deals, but you will understand that we are constrained by the European Directive on mortgage lending and by the peculiar circumstances of a book of these mortgages still being held in the public sector and, therefore, there being some state aid constraints around what can be done.

Chair: I think we will move on. We will come back to this. I am going to bring in Simon.

Q329 **Mr Clarke:** Thank you, Chancellor. Business rates. Lots of my constituents have welcomed the change that was announced in terms of the cut for those with a rateable value under £51,000. My question relates to the fact that, obviously, the underlying factors driving the need for that cut will not have changed in two years when this cut is due to elapse. Will we not need to just repeat this change again in 2020?

Mr Philip Hammond: No, I do not necessarily agree. Rateable values reflect rental values. Anecdotal evidence suggests that demand for high street units in many high streets—not all—is falling because of the difficult trading conditions that many high street businesses are facing. That, once might think, would reflect in lower rateable values at the next revaluation, which kicks in in 2021. That is why I went for a two-year period, to give businesses some certainty through to the next revaluation. Then we will be able to see what that revaluation throws up.

Q330 **Mr Clarke:** Okay. Looking ahead to the future, one of the themes we heard when we were taking evidence last week was that the IFS and the CBI both said that business rates can disincentivise investment. Obviously if you invest in your property you increase its rateable value and there is a perversity in that situation. Would it be a better idea to move to a land value tax?

Mr Philip Hammond: No, I don't think so, but that is probably a rather bigger subject than we can cover today. What I have done is introduce a



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structures and buildings allowance, which will provide fiscal support to people who are investing in extending or improving premises and plant.

Q331 **Mr Clarke:** One question I have had locally is: are pubs included? The House of Commons briefing note—

Mr Philip Hammond: Yes, they are.

Q332 **Mr Clarke:** They are, definitely? That is clear. Excellent. Thank you.

Mr Philip Hammond: Pubs, restaurants, cafés, are all included.

Q333 **Mr Clarke:** Excellent. That is very good news. Looking ahead to other issues, one of the issues I wanted to raise was duty-free on the other side of March 2019. We will be a third country for the purposes of the EU. Other countries, even those in a relatively close relationship with the EU, including Turkey, Iceland and Switzerland, all have duty-free arrangements in place. On the face of it, there is nothing that would prevent us from doing so. In terms of Brexit dividends, there are lots of people who would regard it as a tangible sign of our being able to do something that we fought against when the EU stopped us from having duty-free in 1999. Is this something that we can look forward to next year?

Mr Philip Hammond: There are no plans at the moment to review the duty-free situation. First of all, there is no guarantee that any arrangements that the UK made would be reciprocal and, therefore, they might not benefit UK nationals returning to the UK. Secondly, there would be a significant fiscal implication. Thirdly, there would be a significant implication for high street businesses selling alcohol in the UK. We would have to look at and consider the interaction of all of those factors.

Q334 **Mr Clarke:** On the fiscal implication, the UK Travel Retail Forum say that they sent modelling to the Treasury suggesting there was a £0.9 billion increase to the Treasury because the netting-off effect has to include, for example, increased employment and indeed increased footfall through airports, ferries and so on as a result of this. It is not a zero-sum game in terms of duty to Treasury, is it?

Mr Philip Hammond: Nothing is ever a zero-sum game but I would need to take further advice from the Treasury on what our modelling shows.

Q335 **Mr Clarke:** Will you take that advice and will you look into this as an issue, or is this just basically saying it is long grass?

Mr Philip Hammond: No, I can look into it but this will now be something for the next fiscal event to look at. Certainly I am—

Q336 **Mr Clarke:** Is that a commitment that you will look at it?

Mr Philip Hammond: If that is a representation for the next Budget, I will certainly take it as such.



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Q337 **Mr Clarke:** Thank you very much. Looking ahead as well, I just want to touch on analysis from Lord Lilley about the Facilitated Customs Arrangement.

Chair: We are going to come back to this. We are talking about the Budget today.

Mr Clarke: Can I ask one question? We have had several questions that have touched on this.

Chair: Is the Facilitated Customs Arrangement in the Budget?

Mr Clarke: The Facilitated Customs Arrangement will directly impact the next Budget, which is—

Chair: Very good. There is a link. Right, so the final question.

Q338 **Mr Clarke:** The selling point of the FCA is that only 4% of UK traded goods would be caught up in it. That was achieved by a very generous definition of the words “UK goods trade”. That is to say it lumped in UK imports from the EU, even though they are outside the scheme, and threw in UK exports to Europe and the world. If you take a real look at the FCA’s impact, it would actually capture up to 40% of UK trade because of the different factors that could fall within the aegis of the scheme. If that is the case, first, will our trading partners not see this as significantly compromising our ability to strike FTAs, and secondly, do you believe the Cabinet would have signed off on that model?

Mr Philip Hammond: This is not my area of responsibility. It is a matter for the Department for International Trade and the Department for Exiting the European Union. However, this is essentially about what proportion of businesses would have to go through a refund process in order to recover duties that had been paid that they were entitled to recover. I think this is essentially a question about how slick the process is. If we have a very effective digital system that can be hassle-free for business then I do not think it will be a significant deterrent at all, but of course we need to develop the technology around that system.

Q339 **Mr Clarke:** The point is that we do not have that system in place.

Mr Philip Hammond: Somebody mentioned earlier the potential support of block chain applications in this area.

Q340 **Mr Clarke:** I am an optimist, Chancellor.

Mr Philip Hammond: I agree that there are many technologies that could help us to ensure that the refund system is as smooth as possible.

Q341 **Mr Clarke:** Is it not the case that, in truth, your preference would be for us to remain inside the Customs Union?

Mr Philip Hammond: That is not the Government’s position. The Government’s position has been very clear that we will be leaving the Customs Union and the single market but we want to do so in a smooth and orderly way. We will look, with the European Union, at all options for



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making the transition from our current membership to a future long-term partnership as smooth and orderly as possible.

Chair: Thank you very much indeed for your time this afternoon. It was much appreciated and we look forward to seeing you before us about the whole Government analysis when, hopefully, a deal is achieved in the Brexit talks but, for now, thank you very much.