

# Treasury Committee

## Oral evidence: Spring Statement 2019, HC 2056

Wednesday 24 April 2019

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Steve Baker; Colin Clark; Charlie Elphicke; Stewart Hosie; Alison McGovern; Catherine McKinnell; John Mann; Wes Streeting.

Questions 252-354

### Witnesses

I: Rt Hon. Mr Philip Hammond MP, Chancellor of the Exchequer; Dan York-Smith, Director, Strategy, Planning and Budget, HM Treasury; Conrad Smewing, Director, Public Spending, HM Treasury.

## Examination of Witnesses

Witnesses: Rt Hon. Mr Philip Hammond MP, Dan York-Smith and Conrad Smewing.

Q252 **Chair:** Thank you very much indeed for being here this morning for this final oral evidence session on the Spring Statement, which seems some weeks ago now. Chancellor, you do not need any introduction, but perhaps I can ask your officials to introduce themselves.

**Dan York-Smith:** I am Dan York-Smith, the director of strategy, planning and budget.

**Conrad Smewing:** I am Conrad Smewing. I am the director of public spending at the Treasury.

Q253 **Chair:** Thank you all for being here. Shall we start with the announcement that was made this morning about the recruitment search starting for the next Governor of the Bank of England? Are you going to insist that the next Governor serves a full eight-year term?

**Mr Hammond:** As you know, the appointment is routinely, normally, for an eight-year term. In the case of the previous Governor, special arrangements were agreed to because the candidate in question was not able to commit to a full eight-year term. It will be our expectation that we appoint for an eight-year term but, if an outstanding candidate, for some reason, presented him or herself and was unable to commit to an eight-year term, we would want to consider the matter, but my preference is for an eight-year term. Stability has a lot of value.

Q254 **Chair:** Is there anything more broadly you would like to say about the candidates you are looking for or the particular issues you expect them to address in the course of their tenure?

**Mr Hammond:** We are looking for a candidate of the highest calibre. As we leave the European Union, it is very important that the UK continues to play an important role in global fora. The Governor of the Bank of England, as I have discovered in carrying out this job, plays a significant role in the international discussions between central bank governors. It is very much in our interests that we have somebody who is recognised and respected at the highest levels of the international central bank circuit, as it were. We know from the experience of the previous crisis that it is through co-operation between central banks that we ensure stability and protect our financial stability. Therefore, it is very important that, as well as having someone who can do a first-class job at home, we have someone who commands respect in the international arena.

Q255 **Chair:** The previous Committee recommended, "This Committee agrees with its predecessor, and with the Parliamentary Commission on Banking Standards, that giving Parliament the effective veto over the appointment



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and dismissal of the Governor of the Bank of England would bolster his or her independence". I understand the Government are still opposed to that.

**Mr Hammond:** There are no plans to change the current arrangements, whereby the Committee will have the opportunity of a pre-commencement hearing with the appointee.

Q256 **Chair:** Will you give us plenty of notice and time? There is a pretty detailed questionnaire, as part of the appointment process and the pre-appointment hearing, that we will be asking the candidate to complete.

**Mr Hammond:** I hope that we will be able to make an appointment in October. The appointment will commence in February next year. There should be adequate time.

Q257 **Chair:** When do you expect us to have a name, so we are able to send a questionnaire to that candidate?

**Mr Hammond:** I cannot answer that at the moment. The closing date for applications is 5 June. We will want to see what range of candidates applies for the role, before precisely scoping out how to move forward from there.

Q258 **Chair:** Let us move on. This session is more about the Spring Statement and the state of the public finances. I want to start with what the OBR said in the *Economic and Fiscal Outlook* about the latest data on UK business investment, which showed it to have fallen for six consecutive quarters and to have been stagnant overall since 2016. What is your assessment of why private investment has been declining, when it has been rising in other G7 countries?

**Mr Hammond:** It is definitely the case that business investment is significantly below where we would expect it to be, at this stage of the cycle. The Bank of England estimates it is about 20% below the figure it expected before the referendum, and it is pretty clear to me that the principal reason is uncertainty created by the continuing process of working out how we will exit the European Union. Where businesses are able to defer investment decisions until they are clearer about the future, many are deciding to do so. We know that anecdotally, from both our own engagement with businesses and the reports from Bank of England agents.

Q259 **Chair:** The article 50 process has now been extended until the end of October. What is your assessment and the Treasury's assessment of what that is going to do to business confidence and investment? What feedback are you getting from businesses about that extension?

**Mr Hammond:** The first point to make is that the extension is possibly until 31 October. Very importantly, we obtained agreement from the European Union that, if we are able to complete the process of ratification of the withdrawal agreement earlier, we can bring our membership of the



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European Union to an end earlier. It is very clear to me that the sooner we can bring this process to a conclusion, the better, both for the state of our politics and for the state of investment in our economy.

The second thing to say is that, in all the engagements I have had with businesses, without exception, they believe that the extension of article 50 was a far better outcome than the potential alternative. Of course, business shares the view I have just expressed that the sooner we can bring this to a conclusion, the better, so that investment can resume and people can get on with their day jobs.

**Q260 Chair:** In a recent interview you said a Brexit deal will allow us to “spend more of our bandwidth focused on growing our economy”. Can you share with us any policy interventions that, should we get the Brexit withdrawal process over the line, you would be focusing on to grow the economy and get business investment back, to start to see productivity growth back on track?

**Mr Hammond:** Yes, we have a major and continuing productivity challenge in this country. We have been investing large amounts in infrastructure, particularly focused on productivity-enhancing infrastructure, since 2016 when I became Chancellor, but there is more that we can do. Once we have resolved the Brexit issue, we will be able to decide the way forward on the future trajectory of public spending. We can make decisions there.

To give you a sense of the bandwidth challenge, the Treasury has approximately 1,500 full-time-equivalent staff. At the most recent check, about 400 full-time equivalents were working on Brexit-related matters. A huge chunk of the Treasury’s capacity is focused on the Brexit task and, clearly, once we are able to redeploy most or all of those people on to other tasks, it will make a difference.

**Q261 Chair:** We are going to come on to talk about both the comprehensive spending review and preparations across Government for various Brexit outcomes. Is it not the case that Brexit is a process and it will not be over when the withdrawal agreement is approved or even when we get to the end of the transition period, should that be secured? There will have to be civil servants, and one would expect Treasury civil servants, heavily involved in future relationship discussions, but also negotiations of trade deals.

**Mr Hammond:** You are quite right that a lot of the work that is being done at the moment is specifically related to the challenge of a potential no-deal exit, where preparations continue. A lot of the work has to be done at pace, because of the risk of a future cliff edge.

**Q262 Chair:** We will come back to that. Do you think the Treasury should step up public investment to offset the weakness of private sector investment?

**Mr Hammond:** All indications are that this is not investment forgone; it is investment postponed. The economy is operating at pretty much full



capacity. As the numbers show, the output gap is very small. Therefore, increasing public sector investment would not be the right solution at the moment. We need to ensure and plan to accommodate an increase in private sector investment, which will be needed to support the continued efficient operation of the economy, as soon as we are able to deliver the degree of certainty that business needs to start making that investment.

**Q263 Chair:** One of the inquiries we did last year was on household finances. We had evidence from John Glen and Guy Opperman. The household savings ratio remains at a historically low level of below 5%. We mentioned that as a Committee in our latest report on last year's Budget, and the Treasury response to us was that the data on the saving ratio may be revised upwards and, in any case, the Government do not actively target "achieving a higher saving ratio". Does the Treasury think that the current saving ratio data is accurate and that household finances are stronger than they appear? Mr York-Smith, do you have an answer?

**Dan York-Smith:** In terms of the accuracy of the data, the issue is that the savings ratio is particularly volatile and somewhat prone to revision. Indeed, the OBR's forecast has changed based on historical data and its judgment. As we said in response to that report, we do not target a particular level of savings ratio, but the Government have introduced a lot of policy to support household saving. The increase in the ISA limit and the personal savings allowance help those on lower incomes to save. We recognise that there is a role for the Government to play in supporting saving but, given the overall macroeconomic framework, inflation targeting and so on, it does not seem appropriate to target a particular level of household savings ratio, not least given the volatility of the data.

**Q264 Chair:** I want to move on to something else that has come up in the evidence we have taken on the spending review, particularly from the Institute for Fiscal Studies, the Resolution Foundation and also NIESR, which we had a private session with. This was about more access to the Government Economic Service analysis. The point that the IFS and the Resolution Foundation made is that there are 2,000 economists working for the Government Economic Service generating, as they put it, interesting economic analysis that is rarely published. If this Committee were to ask for the economic analysis supporting the spending review to be published, what would your response be? You might want to come back to us on that.

**Mr Hammond:** I would have to take advice on that. A lot of advice to Ministers is produced during the course of a spending review or Budget. Knowing that that was going to be published might constrain some of the advice from being given. There is always a balance here between the general interests of transparency and the need to protect the policy-making space and ensure that officials feel unconstrained in providing advice to Ministers on a wide range of options. If you do not mind, I will take that away and we will write to you.



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Q265 **Chair:** The point they are making is the difference between advice to Ministers and underlying analysis. This is an issue not just for the Treasury. As the IFS was saying, it is an issue in health, and education data is becoming more difficult to get hold of. A lot of DWP data would be very useful for people outside Government to see. Do you agree that, overall, it would be good to get as much of the underlying data out as possible while, potentially, as you say, the advice might not be as frank if it were going to be published?

**Mr Hammond:** Generally, there is a presumption in favour of transparency. As you have correctly analysed, since there are only 1,500 people working in the Treasury, the majority of those 2,000 economists are not in the Treasury; they are across Government. As this is a cross-Government issue, I would need to talk to colleagues in the Cabinet Office and come back to you.

Q266 **Chair:** The other issue was about access to the Government's CGE economic model in order to perform their own analysis, using the Government's numbers. How would you respond to a request allowing the Government's CGE model, and models generally, to be made public?

**Mr Hammond:** My instinct is that we would not want to make that model public, but my understanding is that other outside bodies have very similar CGE models.

**Dan York-Smith:** I believe that the national institute uses the CGE model for its modelling. We will have to check for you, but certainly one of the think tanks uses something equivalent to the CGE model.

Q267 **Colin Clark:** Chancellor, can I bring you back briefly to something you said about investment postponed as opposed to forgone? Is there an estimate of the pent-up investment? Has the Treasury or OBR managed to do an estimate of what is pent up in the system?

**Mr Hammond:** This would lie more in the Bank of England's ambit. Does either of you know if the Bank of England has an estimate of this?

**Dan York-Smith:** In its February *Inflation Report*, the Bank of England produced a sensitivity analysis of GDP growth relating to uncertainty and inflation expectations. All other things being equal, they estimated that lower uncertainty and looser financial conditions could boost GDP growth, next year and the year after, by 0.7 and 0.4 percentage points respectively. That is both uncertainty and its impact on investment, but also the financial conditions.

**Colin Clark:** That is investment it expects to kick in if this uncertainty ended. That would effectively be some sort of deal.

**Dan York-Smith:** Yes, it is the positive impact of ending the uncertainty.

Q268 **Colin Clark:** Chancellor, good morning, by the way. Going back to my questions, in the House you told the Chair of this Committee, "Whether



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we choose to get the deficit down to zero or choose to do other things is a choice". Are you aiming to run a surplus or have the choice of running a surplus?

**Mr Hammond:** The Government's stated position at the moment is that our medium-term objective is to balance the budget in the middle of the next decade. The numbers published by the OBR at the Spring Statement show that that is definitely a deliverable trajectory. In 2023-24 we are down to a deficit of less than 0.5% of GDP. We have clear targets in the short term, by 2021, to have debt falling as a percentage of GDP and the deficit below 2% of GDP, all of which look on target to be met at the moment.

But I emphasised in the Spring Statement the benefit of optionality. The key thing for me is that, probably for the first time in a decade, we are in a position where we have choices. We have significant headroom, about £27 billion of headroom, against meeting the deficit target in 2021, and we are clearly on a trajectory that would allow us to get to a balanced budget sometime in the mid-2020s, if we choose to do so. As a nation, as a Government, as a Parliament, we have options about what to do. That is a good place for us to be.

Given there is very significant uncertainty about the future trajectory of the economy right now, and it will remain until we have resolved the Brexit issue, it does not make sense to plump for one option or another, and rule out our optionality at this moment. Once the future trajectory of the economy is clearer, it will be appropriate for us to consider how to use the optionality we have. I should also say that, with a set of short-term fiscal rules that bite in 2021, pretty soon we will have to set out some new rules that cover the period beyond 2021.

Q269 **Colin Clark:** Whether we run a surplus is dependent on our tax take and equally our spending. The OBR forecasts that the share of tax revenues in GDP will rise to 34.6% this year, a level that has only been exceeded once since 1950. What is your reaction to this rise in the overall tax burden and do you have a view on what it ought to be in an international context?

**Mr Hammond:** As you will know, 34.6% is below the OECD average tax burden, and I would like to think we will be able to keep ourselves at or below the OECD average. The tax share of GDP has been rising across the OECD and the reason is fairly straightforward: it is a function of an ageing population. We have to recognise that, as the population ages, pressure on public services and spending will increase. The OBR long-term forecast suggests that that pressure will go on rising to the forecast horizon, 50 years out, as a result of demographic change in the population.

Q270 **Colin Clark:** It is enormously important that our economy remains competitive. Do you feel that the tax level is competitive, as you have just said? Considering that spending will carry on escalating in the system





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we have at the moment, can we remain competitive with other countries, or are you simply relying on the demographics being the same in every other developed country?

**Mr Hammond:** If we had a demographic profile that was hugely different from our competitors it would be a real challenge for us, but it is broadly in line with those of our developed market competitors. We are all facing the same challenges and wrestling with the same questions about how to support a growing older population and deliver technology-enabled healthcare, on the back of a relatively smaller base of working-age people. That is a universal challenge.

Q271 **Colin Clark:** On that point, Chancellor, we have been gradually moving towards a narrower and narrower tax base. The OBR pointed out that 31,000 taxpayers account for around 8% of total income tax and national insurance, and 1% of the taxpaying population is paying nearly 25% of all income tax.

**Mr Hammond:** It is 28%.

Q272 **Colin Clark:** That rise in revenues last year was due to increased income inequality. Are you satisfied that the current breadth of the tax base is sustainable and robust? Are we at risk of squeezing out some of those taxpayers, in that they have choices about where they pay tax or live?

**Mr Hammond:** One of the things one has to be mindful of in designing and maintaining the tax system is that many of the people who can provide the richest tax harvest have the greatest opportunities for international mobility, both of themselves and of their taxable activities and assets. The trick, in any tax system, is to get the balance right. If taxpayers who are paying large amounts of tax were not grumbling, we would not have got it right. Equally, if they were all deserting the country and moving outside the jurisdiction, we would not have got it right. The trick is to get the levels and scope of taxation just right, such that we can raise the revenues we need to support public services and the functioning of Government, while making sure the UK is still an attractive jurisdiction for people who have choices to locate themselves, do their business and incur tax liabilities.

Q273 **Colin Clark:** On that point, *Forbes* magazine said that the UK is the No. 1 country in which to do business, so we are clearly an attractive country with the highest inward investment now. With devolution there comes some disparity in tax. Obviously, Scotland is my issue. Are you concerned that higher levels of the top rate of tax could have a detrimental effect? Is there a concern, as you have said, that if we are not competitive internationally we could create an issue within the United Kingdom as well?

**Mr Hammond:** The issue there is an issue for Scotland. Everything I have said about the potential mobility of highly taxed people applies, a fortiori, to taxpayers moving between England and Scotland. Locational decisions are much less dramatic across the England/Scotland border.





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Although of course it is a matter for the devolved Administration, there will be consequences from any discrepancy in tax rates between the different jurisdictions within the United Kingdom. I am sure the relevant authorities will keep a close eye on the consequences of any such discrepancies.

**Q274 Colin Clark:** This is my last question. Independent economists have told the Committee that the currently elevated levels of taxation are likely to need to be maintained or increased in the long term. Do you agree with this analysis? Will you take the opportunity of the spending review to consider the scale of public spending in the long term? We have mainly spoken about raising money and taxation, as opposed to spending.

**Mr Hammond:** One thing I have learned in this job is that it is generally the same colleagues who tell me that taxes need to be lower and public spending needs to be higher. The trick is not to passively accept that the choice is simply more tax or more spending. The challenge is to grow the economy and particularly to grow the productivity of the economy. I have said this a thousand times, but I will say it one more time: there is no other way. The only sustainable way to raise living standards and support high-quality public services, while still having sustainable and affordable levels of taxation, is to grow our economy and, more particularly, the productivity of our economy. It must be the absolute laser focus and relentless task of the economic Departments in Government to ensure that, as we move on from this current period of Brexit uncertainty, we get back to focusing on growing the productivity of the UK economy, through investment in infrastructure, addressing regional inequalities and particularly investment in human capital to ensure that we have the skills required for the economy of the future.

**Q275 Chair:** You rightly mentioned the ageing population. As I understand it, the Government's Green Paper on social care has been sitting on the Minister's desk since at least the end of last year. When do the Government plan to publish it?

**Mr Hammond:** We will publish the Green Paper as soon as we can. It raises some complex issues. I am stating the blindingly obvious. The UK Government, in their generic form, have been wrestling with this question since at least 1997, and we will publish that Green Paper as soon as we are able to, hopefully very shortly.

**Q276 Chair:** Do you accept this is an important issue? Is it not better to get it out there and have it debated, with experts poring over it, while, as you say, Government bandwidth is focusing particularly on Brexit and no doubt on other issues as well?

**Mr Hammond:** It is of course an important issue and, as soon as we are able to, we will publish the Green Paper.

**Q277 Stewart Hosie:** Chancellor, two weeks ago you told the BBC that, until a Brexit deal is done, "We cannot make decisions about the spending review". Can you explain why you cannot make decisions?



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**Mr Hammond:** The spending review will set a trajectory for public spending and allocate it between different priorities for a three-year period. It seems to me that we need a clear understanding of where our economy is likely to be going over that three-year period to carry out that exercise.

Q278 **Stewart Hosie:** Clearly, certain things must be done that are Government priorities. Would it not be possible, for example, to set the housing budget for MHCLG to give certainty for people building houses independently of the spending review or in advance of the final Brexit decision?

**Mr Hammond:** It would be possible, but I do not think it would be a good idea at all. The point of a periodic spending review is an opportunity for Government, Parliament and society more widely to debate priorities, to look at how we allocate scarce resources across the vast range of potential avenues for spending those resources, and to decide what our priorities are for the next period and how we want to allocate resources. Setting allocations for a single Department or subset within a Department would pre-empt what should be a proper balancing discussion across the range of public expenditure.

Q279 **Stewart Hosie:** That is precisely what you have done, because the NHS settlement was announced in advance of the Brexit outcome. That contradicts the argument you have just made about not doing one Department or a subset. How was it possible to set the NHS budget, but not other important priority areas?

**Mr Hammond:** As I said in response to your initial question, it would be possible to set a Department's budget or sub-budget out of the context of a wider spending review, but I would not recommend it. In the case of the NHS, an exceptional decision was made around the 70th anniversary of the NHS to make a commitment that would allow the NHS to do some long-term planning, which we judged to be necessary to address some of the challenges it is facing, particularly around workplace planning.

Q280 **Stewart Hosie:** Does this mean that, if the UK does not conclude a deal until the end of October, the conclusion of the spending review cannot happen until next year?

**Mr Hammond:** We will keep an open mind about how the process should unfold as we go through the next few months. If we are going to do a full three-year spending review, we need to formally start the process before the Summer Recess, carry it on through the summer and bring it to a conclusion around the time of the autumn Budget. My own view at the moment is that, if we had not clearly found a solution to the Brexit conundrum that put us on our way to delivering an outcome, it would probably not be appropriate to go ahead with a three-year spending review. That is a decision we will consider more carefully and make in final form over the coming months.

Q281 **Stewart Hosie:** Given you are waiting to see the outcome of the Brexit



negotiations, it implies you have no confidence in the medium-term forecast of the OBR book. Otherwise, you would simply proceed with the review on that basis.

**Mr Hammond:** No, it does not imply that at all. I set a base-case trajectory of public spending in the autumn Budget last year. I said at the time and repeated in the Spring Statement that I expected that, once we had removed the risk of a no-deal exit from our planning, we would have the possibility, if we so chose, of releasing some of the headroom we have in the fiscal arithmetic. The ability to do that will define the envelope we are working with at the spending review. I am interested in the Committee's views, but it feels to me that making a three-year settlement in a world where we have not yet determined whether we will be leaving the European Union on a smooth trajectory through a transition period with a deal, or crashing out without a deal, is an unwise thing to do.

Q282 **Stewart Hosie:** Let me move on. The IFG told us that Treasury staff turnover has averaged nearly 25% since 2011. Is that correct?

**Mr Hammond:** I cannot answer that question. That is more a question for the Permanent Secretary, unless anybody has any stats to hand. I am happy to look at it.

Q283 **Chair:** Could you write?

**Mr Hammond:** I would need to ask a supplementary question about whether that means turnover in the sense of people leaving the public service or moving to other Departments. There is a lot of interchange between the Treasury and other Departments and, if it is the latter, it would not surprise me in the slightest.

Q284 **Stewart Hosie:** Let me move to that latter point. We have also heard evidence that "Treasury officials do not have the solid base of knowledge and understanding to be effective challengers of Departments", and that there is "a huge lack of people who understand front-line and operational public services". Whether the turnover is high or not so high, are you concerned that there is an impact on the effectiveness of the Treasury and a lack of understanding of direct front-line public services?

**Mr Hammond:** I will ask the director of public spending to answer that but, anecdotally, as a former Secretary of State for two spending Departments, my experience was not that the Treasury spending teams who oversaw our activities at the Ministry of Defence and the Department for Transport lacked understanding of what we were doing or a detailed understanding of the numbers.

**Conrad Smewing:** That is right. The other thing to add is that it is a bit narrow to focus just on the Treasury spending team concerned, when thinking about assessing a departmental bid for a spending review and their plans. Over the last few years, the Government have developed functional capacity at the centre of Government, creating a commercial



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function in the Infrastructure and Projects Authority, and these sorts of centres of expertise at the centre of Government. The intention for this spending review is to draw on that expertise in the way that we assess the plans that Departments present to us. The core understanding of public services that each spending team has is pretty strong and, frequently, the people we appoint to run the spending teams in the Treasury have come from Departments or interchange with those Departments.

**Q285 Stewart Hosie:** I assume that expertise allows you to measure spending on economic performance. Does it allow you to measure other practical outcomes from the money the Treasury makes available to spending Departments?

**Conrad Smewing:** It will do. Departments have a great deal of information about the outcomes they are delivering, which they publish and track in their single departmental plans and annual reports. The intention for this coming spending review is to have more of a focus on those measures and outcomes. Michael Barber produced a review for the Treasury a couple of years ago to set up the public value framework, which is a means of looking at how you translate from cash and inputs to outputs and outcomes. The intention of the spending review is to use that framework to assess what Departments are going to deliver.

**Q286 Stewart Hosie:** Do you issue guidance to the spending Departments about how they might meet the best objectives? Is that done when their budgets are set?

**Conrad Smewing:** I would not describe it as guidance. It is a discussion with the Department and the people who are running the public service.

**Stewart Hosie:** Presumably it is written down somewhere that you expect X, Y and Z from this amount of cash you are giving somebody.

**Conrad Smewing:** It depends how the spending review is conducted. What tends to happen is the Department receives its budget; there would have been a discussion about what it will be delivering with that budget. Then it would set out, in its single departmental plan, the more specific outcomes and outputs it will be delivering.

**Q287 Stewart Hosie:** The single departmental plan is published, but your expectations of what you are getting for the taxpayers' money are simply a discussion, which is not a published document.

**Conrad Smewing:** Those expectations will be reflected and published in the single departmental plan.

**Q288 Charlie Elphicke:** In our system, Chancellor, we debate Finance Bills at great length, in a Committee of the whole House. They go to Committee and come back for Report. As a result, there is a lot of interest and discussion about tax policy and what taxes should be applied, but we do not have the same with spending, because we do not debate spending in



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this House of Commons, do we? On 27 February, the House of Commons had the Second and Third Readings of the Supply and Appropriation Bill. It authorised £300 billion of spending. Probably half the Members of this Committee do not know that that happened, and taxpayers' money was ordered to be spent without any debate or vote in Parliament. Do you not think the time has come for real, proper House of Commons involvement in spending reviews and decisions?

**Mr Hammond:** The House of Commons has the opportunity to scrutinise main and supplementary estimates. I have been here for 22 years now and, if I had a pound for every time we had a discussion about whether the House of Commons spends as much time as it should scrutinising estimates, I would be a rich man. I can remember countless colleagues from all parties, over that 22-year period, making the point that you have just made, Mr Elphicke. It is a perfectly legitimate question about whether the House of Commons should immerse itself more in scrutinising the estimates, both main and supplementary, but that is a matter for the House of Commons. I know of no impediment to the House of Commons deciding to take the time to scrutinise the estimates in greater detail. I recall from my experience historically, from my days as a Back-Bencher, that it was always quite difficult to get people prepared to put in the time and effort, because it takes quite a lot of time and effort to understand the estimates.

Q289 **Charlie Elphicke:** The reason I have raised this is that the OECD has said we have the weakest spending oversight system in the entire OECD. America has the Congressional Budget Office and budget committees. Germany has budget committees. We have a super system for after the event, under the Public Accounts Committee and the National Audit Office, which come along and say, "You built that airport in the wrong place, and you should not have done it". Would it not be better to have better oversight and prioritisation discussions for spending decisions before taxpayers' money is spent? Would it not help you to push back on officials in your Department and across Government more widely to get a better quality of decision-making, if there were greater scrutiny and debate here, in the House of Commons?

**Mr Hammond:** It might do, but we should take care. At the risk of offending anybody, my observation would be that the quality of public spending in the United States is not necessarily higher as a result of the fingertip level of congressional involvement in making spending decisions.

Q290 **Charlie Elphicke:** The Institute for Government has said that easy efficiency savings could be made. Do you accept that is the case? Do you think that having a parliamentary budget committee review of prioritisation and efficiency could help surface issues and help Government systems be more efficient and effective?

**Mr Hammond:** It is very easy from the outside to say that easy efficiencies could be made. I would never want to suggest that there are no further efficiencies to be made when looking at any operation,



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whether a private business or a Government Department. You can always find more efficiencies. When you go back to it a year later and look at it again, you can find yet more. It is a constant process and, in general, the more people who are looking and scrutinising, the more likely we are to drive those efficiencies.

**Q291 Charlie Elphicke:** I raise this because it is pretty much the point that Lord Macpherson made on this subject in evidence to the Procedure Committee. He pointed out that the Treasury would have to raise its game and explain Government decisions better, and it would stop the Treasury cutting corners. Would you not therefore welcome that kind of system and involvement, as Lord Macpherson does now he is no longer in the role?

**Mr Hammond:** I do not think the Treasury cuts corners. If you talked to my colleagues in spending Departments, I do not think their experience would be that the Treasury cuts corners. It tends to have a default mode of "no" until it is satisfied. It does not say, "We have not done the work yet, so we will just rubber stamp it". It tends to say, "We will not sign this off unless and until we are satisfied". I think that is what most of my colleagues would say is their experience.

**Q292 Charlie Elphicke:** We have a history in this country of three-year spending reviews announced amid great theatre, which end up with hurried salami-slicing at the end. Do you not think it would be better if, rather than a three-year piece of theatre, we had a rolling system of spending reviews and continuous examination of spending and priorities, to keep up with the pace of evolving technology and systems?

**Mr Hammond:** First, I do not think we have a long history of three-year spending reviews. The spending review concept is a relatively modern invention that has taken root. It is not the only way to do it. It is the way we have operated for the last 20-odd years, but I do not think it goes back further than that. I do not have a strongly formed view, one way or another, on the question you are raising. I am happy to go away and look at it.

**Q293 Charlie Elphicke:** The question of HS2 is an example of the sort of thing that a budget committee and office could look at. Your deputy, the Chief Secretary to the Treasury, has queried whether this is perhaps the best spending of Government money. In Parliament, one could have a less political debate about whether, instead of HS2, which many people feel is a white elephant, one could instead invest in major road networks to benefit the regions, to Dover, Wrexham, Doncaster, Darlington, electric charging points to drive the revolution of electric cars, because the infrastructure is not being put in place, and northern rail. That debate could be had more effectively in a parliamentary budget office setting, rather than being a more partisan discussion.

**Mr Hammond:** You started your comment by saying that you could have a much less political discussion in Parliament. I am not sure that is the





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outcome I would expect. I am not sure I would describe the US system, which seems to be the inspiration for some of what you are suggesting here, as less politicised. If I may have an anecdote, I remember when I was Defence Secretary being told that the vertical take-off Osprey aircraft, the pride of the Pentagon, only ever managed to get approval through a procurement system that had at least one element of the build sourced in every single state of the union except Alaska. That made it very popular in Congress, but also one of the most expensive military procurements in the history of the United States Air Force.

- Q294 **Charlie Elphicke:** I do not think anyone is saying that we should move to a system of pork barrel politics. The question is whether you have a budget committee that looks at overall spending and whether the quality of spending decisions can be improved. Indeed, the German system is better in many ways and is equally rigorous. It is an issue that has been pointed out by the OECD, the Institute for Government and the previous Permanent Secretary to the Treasury. Would it not help to improve the quality of the debate, scrutiny and spending to drive efficiencies and get a better deal for the taxpayer buck?

**Mr Hammond:** I am not convinced that is the case, but am happy to go away and look at the evidence that various individuals have put forward, and also at the German system, which I am not terribly familiar with.

- Q295 **Chair:** I have one other question on public spending, perhaps more for Mr Smewing. It is about joint working between Departments and reducing the silo effect, which it will not surprise you to hear we have had evidence on, as there are great frustrations from outside Government. In the currently planned CSR—let us assume it will all go ahead—how is the Treasury going to ensure better co-ordination across Government on cross-cutting issues, knife crime being one that has been raised?

**Conrad Smewing:** As your question indicates, this is a long-standing issue. Previous spending reviews have always attempted to encourage Departments to put together joint proposals or joint bids, and we will do so again. In this spending review, we are also looking to take a more in-depth look at those areas of spend that cut across Departments, with national security being a clear example, to have a more in-depth process to look at the proposals those Departments could bring together. We have not completed our plans for what we will do here. We will decide when we launch in the summer, but there are other areas of spending where you could take a similar approach. Criminal justice is an example of where you could do that.

- Q296 **Catherine McKinnell:** Another example would be to address regional disparities in the economy, which are growing and have been for some time. I know, Chancellor, you have already said that the Department will have a relentless laser focus on addressing the productivity challenge. The regional disparities that the economy faces are a contributing factor to the inability to maximise our productivity as an economy. How do you plan to address the growing regional disparities in the next spending





review?

**Mr Hammond:** At the heart of our plan is the modern industrial strategy. You are right to identify one of the factors that constrain UK productivity as the extraordinary variation in regional productivity performance. When I say “extraordinary”, I mean in terms of international comparisons, but also the extraordinary underperformance of UK cities. In almost all economies throughout the world, cities are the drivers of productivity. Yet in the UK, apart from the capital, only two cities, Aberdeen and Bristol, have a productivity performance that exceeds the national average. That is completely contrary to everything one would expect of a modern developed economy. Understanding the challenges in our regional cities, why they are not powerhouses for their regional economies, driving productivity ahead and fixing it, is one of the key elements to fixing the overall productivity problem in the UK.

Q297 **Catherine McKinnell:** What are the principles guiding your approach? Will the priority be to focus investment and infrastructure capacity in high-growth areas, to get those cities that are currently below average reaching Aberdeen’s and Bristol’s standards, or will it be to take measures to boost productivity growth in areas that are lagging even further behind?

**Mr Hammond:** The priority will be to focus on high-potential areas. It is also about understanding the issue. For example, the northern powerhouse concept and rail project is not just a narrative; it is focused on trying to deliver greater agglomeration effects by, in practice, creating a single economic geography out of a belt of northern cities to create an overall area of economic activity that can rival centres like London and Greater Manchester. Initiatives like that have a clear economic rationale, where we can point to the economic drivers that we expect to deliver the benefits of investment. Those benefits will be measured in terms of productivity improvement. When we talk about productivity improvement, what we mean and what matters to people is rising wages in a vibrant labour market across those economies.

Q298 **Catherine McKinnell:** The most recent quarterly economic survey from the North East England Chamber of Commerce reports a marked slowdown in sales and orders, particularly for exporters, and falling confidence in the current workforce levels. It says, “We frequently hear from members that uncertainty over Brexit is delaying investment and hiring decisions for their businesses and their customers”. We see also that the north-east has the lowest employment rate and highest unemployment rate of any region. You have said that you want to focus on high-potential areas. That is a slightly nebulous term that it would be helpful to understand more, but this is all within the context of the ongoing Brexit uncertainty. How are you working to ensure we have the best investment, in terms of high potential, and that areas that are already being impacted the most by Brexit are brought within that investment strategy?



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**Mr Hammond:** First, the north-east has historically been identified as a high-potential area. The story of the last 20 years in the north-east has been one of success, with lots of inward investment, a marked improvement in the economy and a marked closing of the gap. As you are only too well aware, the north-east is also one of the most vulnerable economic regions to a no-deal Brexit.

**Catherine McKinnell:** Not just to a no-deal Brexit, but to any Brexit outcome.

**Mr Hammond:** Particularly to a no-deal exit. That explains why many businesses in the north-east will find good reasons to delay investment and hiring while they await greater clarity of outcome. A region where fewer elements of the economy are highly exposed to the Brexit outcome is less likely to be affected at this point in time. We recognise that the north-east is facing a challenge, and I can only keep repeating myself: the sooner we can resolve this by giving businesses and citizens clarity about the future, the better.

Q299 **Catherine McKinnell:** I am going to ask you about no-deal preparations and where the Government are with them, but I want to clarify that the Government's analysis shows that the north-east as a region is not only the most exposed to a no-deal Brexit outcome, but is also the most exposed to economic impact from any Brexit outcome. There will be an impact on the economy regardless of the outcome, and the Government need to prepare for that. I appreciate that the focus has been on a no-deal Brexit outcome, and I will come to that.

We look at local authorities, and I know colleagues will raise this in more detail later, but I asked you at the equivalent session last March what the financial viability of local authorities would look like post 2020. According to the LGA, councils are focusing on an overall funding gap of £8 billion: £3 billion more next year, rising to £8 billion by the middle of the next decade. We know that deprived areas, like Newcastle, have been hit the hardest. Up to 2020, we are looking at just under £2,500 per household, in terms of money taken out of the system. That clearly has an impact now. It is already having an impact and it will have a greater impact given all the Brexit uncertainties, whatever outcome we are facing. What has the Chancellor done, since I asked him last year, to address that massive funding gap and make sure that at least the public services that people currently rely on are maintained?

**Mr Hammond:** I do not accept the LGA figures. In the spending review, we will be setting forward budgets for local authorities.

**Catherine McKinnell:** You do not accept there is a funding gap.

**Mr Hammond:** I accept there is a funding challenge, but not the numbers that you have just quoted from the LGA.

Q300 **Catherine McKinnell:** Do you have alternative numbers for the funding



gap?

**Mr Hammond:** I do not have numbers that I want to share with the Committee at this stage, but we are looking at local authority funding ahead of the spending review. Local authority funding will be one of the key areas that we need look at. We have increased the spending power available to local authorities, and we recognise the pressure that they are under. If I may say so, we started this part of the discussion talking about the challenges of industry in the north-east.

**Catherine McKinnell:** I am about to go back to it.

**Mr Hammond:** A long period of successful inward investment was largely focused on manufacturing for export to the European Union, which has now left the region vulnerable to any disruption to our trade arrangements with the European Union.

Q301 **Catherine McKinnell:** Absolutely, and that is the big exposure. There is also the issue of local authorities that rely on and have made tremendous use, particularly in my region and others as well, of EU structural funding. Given that local authorities would currently be preparing their bids for the next period, 2021-27, the Government are supposed to have announced their shared prosperity fund that will replace that. With uncertainties, they have not been able to do that. That has left local authorities facing not only a disputed funding gap, but an inability to use the funding sources they were using to invest in and shore up some of that gap, in terms of the structural investments that local authorities can make. The Chancellor must acknowledge that this is completely unacceptable for local authorities and for the local communities that rely on those investments.

**Mr Hammond:** I hope and expect that we will agree a negotiated deal with the European Union that means we leave via an implementation period and that we continue to have access to EU funding sources during that period. The UK shared prosperity fund is our alternative mechanism, post Brexit, to provide a UK domestic source of funding in those areas, but we expect access to EU funding to continue.

Q302 **Catherine McKinnell:** Going back to the uncertainties around no deal, the Government have reportedly stood down preparations for no deal. Given that the new deadline for leaving the EU, potentially without a deal, is 31 October, only six months away, does it really make sense to step down those preparations, or is this an acknowledgement that a no-deal departure is off the table as an option?

**Mr Hammond:** Parliament has repeatedly made clear its view that we should not leave the European Union without a deal. It is the Government's clear view that the best interests of the country are served by leaving with a negotiated deal, but the legal default remains exit without a deal if we cannot reach an alternative conclusion. Therefore, it is prudent to continue planning.



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I should emphasise that much of the investment that is being funded by the Brexit funding the Treasury has made available will be relevant in the case of an exit with a deal, just as it will in the case of an exit with no deal. For example, the investment that HMRC is making in new IT systems to manage customs at the border will be needed in any circumstances.

To be clear, after the last European Council, the heightened and immediate work to prepare for a potential no-deal exit in the middle of April was stood down. Crisis management teams that were working on an emergency basis were stood down. If we approach 31 October without a resolution, that work will have to be stood up again, but it cannot be kept going at that intensity, because people were working incredibly long hours, seven days a week. That level of intensity cannot be maintained for very long. The medium-term work, for example building the IT systems, rolling traders and registration schemes, will continue and is continuing. With the extra six months, we expect a higher level of preparedness by the end of October than would have been the case in the middle of April.

**Q303 Alison McGovern:** I have a couple of questions that go back to the structural problems in our economy and the differences between the regions. You will be aware that, technically speaking, the UK's last recession was in 2008-09. Have any of the regions or nations of our country experienced a technical recession since then?

**Mr Hammond:** I do not think we have regional recession data. Do we?

**Dan York-Smith:** I am not aware of any.

**Q304 Alison McGovern:** Is that a problem?

**Mr Hammond:** It would be a problem to try to collect it. There would be a huge statistical and data challenge in trying to disaggregate the economy into regions in that way, to look at macroeconomic performance.

**Q305 Alison McGovern:** Let us do a thought experiment briefly. You are doing a bit of door knocking, as we all do as politicians, in an area of our country that has not progressed well. Let us call it Town X, possibly in the north of England. You go and sell your message about the potential for growth in our country, and the person you are speaking to says, "I don't care. We've not grown for years round here". What is your answer to them?

**Mr Hammond:** I am the first person to recognise that growth performance has not been even across the country. Overall, the UK has not grown as quickly as we would like and that is down to a productivity challenge.

**Q306 Alison McGovern:** You just said it would be a difficult data challenge to know if regions of our economy have experienced a recession over the



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past few years, yet you acknowledge that growth is not even. We simply do not know where the problems in our economy are, do we?

**Mr Hammond:** We know some things. We do not have data that allows us to assess a regional GDP and identify whether it has fallen for two consecutive quarters. I doubt that has been the case in any of our regions.

Q307 **Alison McGovern:** But how do we know?

**Mr Hammond:** We have proxies. We have unemployment and employment figures by region, because they are collected in that way. We know that unemployment has fallen in all regions and nations since 2010. We know that the difference between the highest and lowest regional unemployment rates has narrowed since 2010.

**Alison McGovern:** It is still quite wide though.

**Mr Hammond:** We know that, of the 3.7 million more people in work since 2010, over 60% are in regions outside London and the south-east.

Q308 **Alison McGovern:** To go back to my thought experiment, you and I as politicians both know that those statistics are unpersuasive to people in this country who feel that their town, city or region has been allowed to fail economically, even as the country has grown somewhat. Growth has not been as strong as we might have expected over the past 10 years compared to the past 20 or 30 years. Those sorts of statistics are not persuasive to people who feel that they are not part of the UK's national economic picture, are they?

**Mr Hammond:** First, I suspect that unemployment figures are quite persuasive to people and that people notice them. If you have lived in a town where unemployment has historically been running at 7%, 8% or 9%, but it is now running at 5%, you will notice the way the town feels different as a consequence.

**Alison McGovern:** It depends on the kind of employment.

**Mr Hammond:** I probably should mention at this point that 90% plus of all new jobs created in the last year were full-time.

**Alison McGovern:** I could have said that for you, I have heard it so often at Treasury Questions.

**Mr Hammond:** It happens to be true.

Q309 **Alison McGovern:** From a certain point of view. Moving on, one of the Treasury's objectives is to deal with structural reforms to rebalance our economy. You talked a moment ago with my colleague about the modern industrial strategy, but could you say what these structural reforms will do specifically? You have already mentioned skills, but what do you see as the purpose of structural reforms?



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**Mr Hammond:** To raise productivity across the economy. It is a multi-strand approach. As you know, in the north-west we are running the Made Smarter pilot, where we are working with smaller and medium enterprises to get them to take up technology that will enable them to raise their productivity and profits, and thus the wages they can pay. We have initiatives across the UK to support R&D and encourage more investment to reach a shared target with industry of 2.4% of GDP invested in R&D. It is only by raising the value of our output and the productivity performance of the UK economy that we can lift all areas of the country.

Q310 **Alison McGovern:** I will come back to skills in a moment, if I may, but I want to ask a question about gender. Women are over-represented in low-productivity and low-paying firms. What is the gender approach you will take in raising productivity?

**Mr Hammond:** There is a historical tendency for women to be over-represented in lower-paid industries. I cannot put my hand on my heart on the correlation, but my understanding is that a key driver of this is that far more women are employed part time than men, and many of the lower-productivity jobs are part-time jobs.

Q311 **Alison McGovern:** What is your plan to deal with that?

**Mr Hammond:** The approach to the economy and skilling is gender-blind. We expect people coming into the economy, regardless of gender, to be able to compete for the highest-productivity and highest-paid jobs, but it is a fact that we have a legacy of women working in the economy in part-time jobs, not necessarily because that is the only job they can get. Sometimes that is the job they need to fit with other responsibilities they have. Those jobs have traditionally tended to be clustered in lower-productivity areas. As the economy changes, and as its digitalisation changes the way businesses work, it is possible that that equation will change and that part-time work that has higher productivity will be available.

Q312 **Alison McGovern:** If it does not change, what is your plan to deal with it?

**Mr Hammond:** I expect that, as the economy digitalises, we will see jobs across the economy increasing in terms of their productivity and wages they can pay across the economy. As automation and digitalisation take place, we expect jobs in traditional manufacturing environments to become higher skilled and higher paid.

Q313 **Alison McGovern:** With respect, Chancellor, it sounds an awful lot like you are saying, "We have a massive historical problem with women doing low-paid and low-productivity work, and my plan to deal with it is to let technology take its course". We are not doing very much.

**Mr Hammond:** That is a mischaracterisation completely. We have a historical problem of low-productivity work in the UK economy. That is





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our fundamental problem. I do not think this is a gender issue; it is an issue about the structure of the UK economy. Raising the productivity performance of the UK economy, across all areas of work—full time, part time, female employees, male employees—is an absolute priority.

**Q314 Alison McGovern:** You just said, Chancellor, that your economic policy would be gender-blind. Moving on to pork barrel politics, some commentators might say that the city deals that have relied on certain political arrangements and agreements with the Treasury, or funding for Northern Ireland, give a sense that the UK is moving towards more pork barrel-style politics for economic funding. From what you have said today, I do not hear that message from you or the Treasury. You said that investment would come from economic principles. You mentioned the northern powerhouse and the agglomeration effect there. That is one example, but could you spell out how the Treasury will use its power of strategic investment to rebalance our economy and which economic principles it will rely on to do so?

**Mr Hammond:** As I have already said, we need to understand the challenges facing specific economies. Let us take cities as an example. We have a number of city deals and growth deals, and we have made the first tranche of distribution of the transforming cities fund. There is significant evidence that investment in intra-urban transport infrastructure may be one of the highest value-for-money ways to raise productivity performance through infrastructure investment, and it is right that we focus some of our available investment on devolved structures, whether city mayors, city regions or growth deals for individual areas, to allow some of those smaller-scale, but potentially very high-value, productivity-enhancing investments to be made.

**Q315 Chair:** I have two questions in follow-up to Alison. First, when did you last sit down with your Cabinet colleague the Minister for Women to discuss the Government's forthcoming women's economic empowerment strategy?

**Mr Hammond:** I cannot answer that question. I can check.

**Q316 Chair:** But you have not sat down with her to discuss it. My understanding is that the Government have a women's economic empowerment strategy, which again is sitting there waiting for something to give to have time to publish it. You, the Chancellor, do not appear to have discussed it with her.

**Mr Hammond:** I will have to check when and whether I have discussed it with her, but it is not my lead. It is her lead.

**Q317 Chair:** I would argue you should be interested in it. Your Department has also commissioned and recently published the Alison Rose review of female entrepreneurship, which recommended that improving female start-up and scale-up rates would contribute £250 billion of new value to the UK economy, so your economic strategy should not be gender-blind, should it?



**Mr Hammond:** We have taken an initiative to ensure that capital for start-up and growth enterprises is available. If there is any bias in the allocation of that capital, unintentional or otherwise, we will seek to address that with the private sector organisations that allocate that capital. That is an excellent piece of work and I met with Alison Rose a few weeks ago to talk to her about it. My colleague the Economic Secretary is taking forward that agenda.

Q318 **Chair:** The point I am making and that you are missing is that, if the economic strategy is completely gender-blind, here is a specific part of your economic strategy, a report commissioned by your own Department, which says that, if women entrepreneurs are given more support, an extra £250 billion can be added to the economy. It would be a mistake for your economic strategy to be completely gender-blind, when an additional £250 billion of growth is potentially available.

**Mr Hammond:** The conclusion of that report is that investors, providers of capital, are missing out on huge potential opportunities through a presumably unconscious bias against businesses headed by female entrepreneurs. By drawing attention to that and seeking to work with those providers of capital to ensure that they address that unconscious bias, we can unlock a win-win situation. These are businesses. They are looking for ways to make a return on their capital, and the report has helpfully shown them that they are missing an opportunity to earn better returns on their capital and, from our point of view, to fund businesses that can make a very important contribution to the economy. It was an excellent piece of work, which we are taking forward, but the primary action required is by the providers of capital. They have clearly taken that message on board.

**Chair:** I would not be sure it is always unconscious bias, but that is a debate for another day.

Q319 **John Mann:** Chancellor, you have slipped between two terms in putting forward how you see economic growth in the country move to dynamism. You have used the terms "city" and "city region", and you have cited the evidence from abroad that growth comes from cities. I put it to you that the evidence from abroad is that growth comes from city regions. When you use the term "city", do you mean "city region"?

**Mr Hammond:** In the Treasury, we normally look at this from the perspective of economic analysis, in terms of a coherent economic geography. Our political arrangements are not always coterminous with coherent economic geographies, but the economists at the Treasury would probably prefer us to look at everything as city regions. That is the most significant economic geography unit we would use.

**John Mann:** I have been citing evidence from Germany and the Netherlands that city regions are critical, rather than the concept of cities as politicians often see them, which is whatever elected diameter is created.



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**Mr Hammond:** Let us take probably the best example in the UK of Manchester. It is clearly not the case that the political entity of the city of Manchester is itself the relevant economic geography. It is clearly the Greater Manchester region that is the relevant economic geography.

Q320 **John Mann:** That is helpful, because you understand that some of us who represent towns get sensitive, because Government Departments—and I am not talking Treasury here, but spending Departments—sometimes see city regions as being cities, as opposed to city regions. That dates back over many Governments. If you change that, it will be a huge and significant economic boost to the country.

Can I ask you about green policy and coal-fired power stations? There is a trajectory of closure at the moment. Do you intend to make any decisions that mean, for example, that West Burton coal-powered station in my constituency—due to close in the next 18 months unless Government make policy changes—will close or do you expect to keep with current energy policy?

**Mr Hammond:** It is not my area of responsibility. I am not aware of any plans to change energy policy in this area, but this is a lead for the Department for Business, Energy and Industrial Strategy.

Q321 **John Mann:** I am sure the Treasury will be all over this, because it is a big one for the country if we are or are not changing it. If we are not, one small matter that comes under your providence is about business rates and the closure of large power stations. Your colleague Mr Jenrick had the closure of Cottam, which happens to be in the Bassetlaw district, in his constituency in the last month. Do you recognise there is a problem with the allocation of business rates when it comes to power stations and the disproportionate impact on small local authorities when large power stations close?

**Mr Hammond:** Whenever a large business rate payer, whether a power station or another large industrial site user, closes or goes out of business, it has an impact on the business rates base of the area in question. Our overall policy is to phase out the use of unmitigated coal as a source of electricity generation. That is necessary to meet our carbon targets.

Q322 **John Mann:** I raised the funds for a premanufactured sports changing room, which opens next week. It is a third of the price of the Sport England/Football Association, et cetera, suggested price for building a changing room, so significantly cheaper and of course it is significantly more environmentally efficient. The same changing room could be a bungalow, without any manufactured changes other than the fixtures and fittings inside it. Will Government look at how to give a proper boost to a fledgling industry of manufactured housing, which has been dormant for the last four years, waiting for orders from local authorities or others, which do not seem inclined to take the risk on such properties?



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**Mr Hammond:** The Government have a policy of encouraging off-site manufactured housing and using the procurement of public housing, affordable housing and the activities of Homes England to stimulate the growth of this industry. Quite a lot of the development that is going on in this area is within the vertically integrated supply chains of major housebuilders, but you are right; it is also necessary to stimulate independent manufacture, so the wider industry has access to it. It is going to happen, for the simple reason that the construction industry will not be able to recruit the skilled trades that it needs for a traditional building approach, as we move towards the 300,000 housing units a year that the Government have set as a target. It is clear that only by using off-site manufacture, modular construction and other innovative techniques will we be able to make the labour supply stretch to deliver the housing ambitions the Government have set.

Q323 **John Mann:** Do you agree with me that there is an economic argument that has not been properly employed by any of us for why this is a good thing, which is that such buildings are significantly more energy efficient? Therefore, the impact on the balance of payments by having less imported energy is an additional economic boost to the economy if there is a significant move towards housing or housing units that are significantly more energy efficient.

**Mr Hammond:** Off-site manufactured housing can be highly energy efficient. Traditionally manufactured housing can be highly energy efficient. The question about the balance of payments is more complicated, because many of the materials used in off-site housing construction are themselves imported. Some of the modules may be imported, so the overall impact on balance of payments may be more complex. But for many reasons this is going to be the future, not least because I am told by major housebuilders and construction companies that it is increasingly difficult to recruit young people who want to work outdoors, on open building sites, in all weather conditions. It is easier to recruit people to work on off-site construction inside a controlled factory environment, where the working conditions are generally better.

Q324 **John Mann:** Taking on Alison's theme, I am not sure that if you came to my constituency you would want to go knocking on doors with me. You would be invited to join me.

**Mr Hammond:** I had an enjoyable day knocking on doors in your constituency in the 2015 general election. I remember it well.

**John Mann:** It was not too productive, but I am sure you learned a lot.

**Mr Hammond:** I think it was a target seat at the time.

Q325 **John Mann:** Can I offer you the opportunity to visit Laing O'Rourke, one of the biggest pre-modular construction sites in the country, to look at how much is imported, how much is locally sourced and how that supply chain works, in an area on the geographic limits of a city region, and



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what the impact could therefore be? I am sure the company would warmly welcome the Chancellor and he would find it very useful.

**Chair:** How could you say no?

**Mr Hammond:** How could I say no? I have a number of invitations to visit off-site construction manufacturing plants.

**John Mann:** But none finer than this one.

**Mr Hammond:** I will add your kind invitation to the list.

Q326 **John Mann:** I am sure that could be facilitated. One area on which I would disagree with you and the direction of Government or Treasury policy is solar panels. My local authority has the highest proportion of properties that have solar panels in any part of the country but, without subsidies for solar panels, we have witnessed far fewer in both the public and private sector. We have a huge number of roofs in former coal-mining areas that are south-facing and are large, because of the style in which buildings were made. Recreating the impetus in the solar energy market would be beneficial to the individual, with cheaper bills, but people understanding the economics of the green world would also be very powerful. Is this something the Government could look at?

**Chair:** I suggest you keep your answer brief, Chancellor, because we are going to move on.

**John Mann:** My question is in the context of when the spending review is and the thinking on that. I do not disagree with your approach to that and Brexit. The other area of this is robotics, in terms of the need for productivity growth. This country was once the leader in robotics, but it fell behind in the late 1980s. How will you work through the options for robotics and artificial intelligence, in terms of immediate future investment and labour displacement for growing industries in areas such as mine, which would have relied on cheap labour and flexibility, but could be using robotic applications instead?

**Chair:** Can we have a brief answer? We are speaking about big subjects, so we are going to move on, please.

**Mr Hammond:** On solar panels, everything is a choice. We have limited resources; we need to direct them where we can make the most difference in the market, at the margin. Where we support new and innovative technologies, it is always with a view to being able to withdraw that support as the technology itself falls in cost and becomes viable without subsidy. I announced a number of measures in the Budget and Spring Statement to encourage more artificial intelligence expertise into the UK through fellowships, bursaries and grants, and the way the visa system works. We are clear that the application of artificial intelligence and high-level automation is crucial to ensuring the UK remains a viable, attractive and competitive manufacturing centre in the future.

Q327 **Rushanara Ali:** Good morning. I want to start with some points about



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the loan charges. As you know, Chancellor, it is estimated that about 50,000 people have been affected. Many of them are not highly paid, as has been suggested. They are supply teachers, nurses and even doctors. Some of them were duped by third parties into joining these schemes, known as disguised remuneration programmes, and the *FT* recently reported that six people have committed suicide. There are many other examples of people's livelihoods and lives being devastated. One of the surveys the Loan Charge Action Group members did showed the high levels of reported depression, anxiety and mental health impact, bankruptcy, loss of residential homes, divorce and relationship breakdown, loss of career and suicidal thoughts. You will be aware that there was a debate in the Chamber and that the All-Party Parliamentary Loan Charge Group published a report that set out a number of critiques of how HMRC has been dealing with them. I will not go into detail.

**Chair:** You are aware of the APPG report, are you not, Chancellor?

**Mr Hammond:** Yes.

**Rushanara Ali:** So you will be aware of the key points that it raised. The loan charge is retrospective; it overrides taxpayer protections and undermines the rule of law. The settlements mean that they have to waive their legal rights, which is a real concern to Members of Parliament. There are a number of other wider implications. They have listed a series of demands that I hope the Treasury will respond to. One includes a 24-hour counselling helpline for those facing a loan charge.

I want to add one more thing about background. When HMRC came to give evidence, Mary Aiston said, "At that time our strategy meant that we weren't telling taxpayers enough about what we were doing on their case—so they would have had an open inquiry or assessment [...] We recognise that at the time our strategy meant we weren't communicating regularly enough to keep them in the picture". Overall, the summary is that there have been mistakes made on the side of HMRC in communicating to taxpayers, so they could deal with these issues quickly. Since the legislation came into force, there have been a number of other repercussions. We need to see proper protection for those who have found themselves unwittingly tricked into these schemes. That is different from people who have wilfully avoided tax. Let us put that to one side. There are major concerns among MPs about this.

**Chair:** Shall we let the Chancellor answer that?

**Rushanara Ali:** Could you give us an update on what the Treasury has done to assist this?

**Mr Hammond:** This has been extensively rehearsed in Parliament, with several debates over the last few weeks. The Financial Secretary to the Treasury has met with many colleagues to talk about this. First, HMRC takes very seriously its obligation to protect and support those who are vulnerable as a result of difficulties in their tax affairs. Whatever the history, whether people have knowingly and egregiously entered into tax-





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avoidance arrangements or found themselves unwittingly owing the Revenue a large sum of money, finding out that one will have to pay a large sum of money to the Revenue is a stressful and traumatising experience. Regardless of the history, without any question around the moral position, HMRC's default approach is that people are potentially vulnerable when they are presented with a large tax demand, and HMRC has effective procedures in place to support them.

The advice we always and consistently give is that anybody who has a loan charge due or an obligation to HMRC should contact HMRC to discuss it. HMRC will not take action that evicts people from their principal residence. It will usually not, except in exceptional circumstances, take action that makes people bankrupt, so long as people are engaging with HMRC and are honestly and diligently trying to sort out their affairs.

**Q328 Rushanara Ali:** Are you concerned, Chancellor, by reports of six people have killed themselves? HMRC has reported itself to the police.

**Mr Hammond:** HMRC is aware of one case where, sadly, a taxpayer committed suicide, where there was an open loan charge investigation underway. That does not mean there is a link between the two events but, in accordance with its standard practice, HMRC reported itself to the police so that an investigation could take place.

**Q329 Rushanara Ali:** What analysis has the Treasury conducted on the impact of the loan charge? Has the Treasury done a specific piece of work around it?

**Mr Hammond:** No, HMRC carries out this work.

**Rushanara Ali:** But is the Treasury doing anything on this, because there is major concern about it?

**Chair:** Hang on; the Treasury has done a review, which was published in March.

**Mr Hammond:** I am sorry; the review was carried out under whatever section it was of the Act. The Treasury carried out that review and has published its result. Let me just go back to your opening remarks. First, 85% of the total revenue that has been settled so far has been paid by employers, engagers, not by individuals. It is often said that many of these people were innocent bystanders, who did not know what they were doing and were in low-paid occupations. The overwhelming majority of the loan charge cases that we are aware of involve contractors, mostly but not exclusively in the IT sector. The way these schemes work, it would have been necessary for individuals to have executed documents to draw down the loans that they took as remuneration.

**Q330 Rushanara Ali:** I acknowledged in the points I made that I was concerned about those who were not in the category of wilfully or knowingly avoiding tax. There are major concerns about others who were pushed into schemes, such as nurses and agency workers in that



position.

**Mr Hammond:** These points are often made. HMRC and my colleague the Financial Secretary have said, many times, that we would welcome details of any cases that fit these oft-quoted descriptions, because HMRC does not recognise this categorisation. It is difficult to envisage how somebody could genuinely have believed that they could draw their pay as a loan that never had to be repaid and not have understood that that action avoided the tax payable.

Q331 **Rushanara Ali:** Some people were not given an option. That was the only way in which they could get a job and be paid.

**Mr Hammond:** Every taxpayer is responsible for their own tax affairs.

Q332 **Rushanara Ali:** Let us come on to the point about intermediaries, the accountants, financial advisers, lawyers and tax advisers. Should they have been regulated more stringently and is there a need to regulate then more stringently? HMRC has admitted there are new approaches that some of these companies are using. Do the Government have a duty of care towards people, to make sure the intermediaries who are party to this are properly regulated and made to pay?

**Mr Hammond:** HMRC is pursuing intermediaries and promoters of schemes, and we expect to recover significant revenue from them. There are rules requiring the reporting of tax-avoidance schemes, so that anyone promoting these schemes is under scrutiny. I have a concern that I want to share with the Committee. It is my understanding that the APPG, which carried out this review, is served by a secretariat, which itself includes people who, by their own admission, have been involved in the promotion of these avoidance schemes. That, it seems to me, is something that the House needs to think about very carefully, whether it is appropriate and whether it, in any way, affects the ability of the House to carry out its work through these APPGs.

Q333 **Rushanara Ali:** I am sorry; I have one other issue I am going on to, but, on this, are you suggesting we should therefore disregard the report and the conclusions of the APPG, despite the fact that there were hundreds of submissions from people?

**Chair:** The time is tight and I want you to have one other question.

**Mr Hammond:** I noticed, as I am sure Members of the Committee will have, that during the course of the Recess our colleague Ross Thomson published a statement expressing regret that the published report made a number of inaccurate allegations about the personal conduct of Ministers and civil servants, and noted that members of the Loan Charge Action Group, who also had a personal interest in the issues, compiled and produced the report on behalf of the APPG and provided the staffing. There is an issue here that the House needs to think about, about the way APPGs are supported.



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**Rushanara Ali:** There are other sources of evidence we could draw on and I have done.

**Chair:** I am sure that they will be listening to this.

Q334 **Rushanara Ali:** Finally, as you know, Chancellor, in the past I have raised the issue of housing, post Grenfell. Your response on the social housing element has been very welcome, and you have committed £400 million following representations from many colleagues across the House on social housing and ACM cladding. Some 22 months after Grenfell, nearly 350 high-rise buildings with ACM panels are yet to be repaired. You mentioned earlier that it is not clear when we are going to have the comprehensive spending review. There are still question marks about funding. Local authority funding is limited. They are caught up between trying to make sure buildings are safe and financing them in advance. Where we are is unsatisfactory.

My own constituency has among the highest number of private blocks with ACM cladding. This is a plea, because people are concerned about safety and arson, particularly where blocks become publicly known, sometimes because residents are so frustrated that they are making it public. Deferring it to the Ministry of Housing is not good enough. Can you say something about when you are going to put in the resources, in advance, so local authorities can be assured they do not have to finance the work and then go after the people who are meant to pay, because that can take a long time, and who are also passing on costs to our constituents? We need some action and the Treasury, with the purse strings, needs to take action.

**Chair:** Can we have a brief answer?

**Mr Hammond:** That is not how it works. The lead Department is the Ministry of Housing, Communities and Local Government. Of course, it discusses with the Treasury the resource implications of initiatives it is undertaking. I can tell you that, at the end of March 2019, there were plans and commitments in place to remediate 220 of the 267 privately owned buildings with unsafe ACM cladding systems. MHCLG remains in dialogue with many of the owners of the buildings that are not included in that 220. The Government's view is that it is the responsibility of building owners to ensure the safety of their buildings, and we have been working with developers, owners and constructors as appropriate to get them to face up to their responsibility.

**Chair:** We will have to pursue this one offline.

**Mr Baker:** Chancellor, I would like to turn to some interactions between the pensions and tax systems for the low and high paid. This is not Brexit, I am sure we are both relieved to discover.

**Mr Hammond:** It is always a pleasure.

Q335 **Mr Baker:** The first is an anomaly relating to low-paid people. It sees



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savers earning less than the personal allowance unable to be credited with a tax relief, if they are enrolled in a net pay arrangement. I believe this is because the auto-enrolment threshold has stayed at £10,000 while the personal allowance has climbed up. It is rather tragic because, I understand, on average, people are missing out on about £35 a year of tax credits into their pensions, which is a tragically small amount but, nevertheless, one people should be receiving. The amount people could be missing out on can range up to £720 a year. We understand from what John Glen put on the record that it is not cost effective for the Treasury to address this anomaly. Could you cast more light on what the Government plan to do to resolve this issue?

**Mr Hammond:** I have to tell you that I am not sighted on the detail. The Economic Secretary is right that the challenge for us in anything around auto-enrolment or small-scale savings is to make an intervention cost effective where it cannot be done automatically, and you have already explained why it cannot be. I will talk to the Economic Secretary and write to the Committee, if I may. I am not sighted on the detail.

Q336 **Mr Baker:** I would be most grateful. At the other end of the spectrum, I understand that about 10 NHS trusts are offering to give the employer's pension contribution in cash to doctors, in particular senior consultants, rather than putting it into their retirement savings. Apparently, as is reported in the *Mail*, the problem is that senior doctors are changing the way they work to avoid punitive tax rates, and that has increased the risk of delays in cancer diagnosis in some parts of the UK and lengthened waiting times for surgery. We have ended up with this position for the high paid where punitive tax rates, as people hit their limits on pension savings, are changing the way they work, affecting the way we deliver healthcare and leading trusts to offer to pay in cash what would otherwise be an employer's pension contribution. How do you see a way through that anomaly at the other end?

**Mr Hammond:** The pension tax reliefs we give are extraordinarily generous and among the most expensive elements of tax relief in the system. They are also heavily skewed to the better off in society. This is a legacy relief system, but it would be difficult to make a case to put in more relief to overcome an anomaly, because it is already extraordinarily generous, particularly to those on the highest incomes.

Clearly, we cannot say that we will treat NHS staff differently from everybody else, just because we are the employer in that case. Where there is a case that can legitimately be made is that, in the private sector, there is often more flexibility around the overall remuneration package. Someone who finds that pension contributions are highly taxed, because they are facing a tapered annual allowance, with a private sector employer will often be able to arrange to change to their remuneration package, so they get more pay and less pension contribution.

Public service pensions are not that flexible and that is where we have to look for a way forward in this challenge. Can we make public service



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pension arrangements a little more flexible, to find a solution that avoids highly paid consultants deciding to retire early or cut down their hours of work, in response to annual allowance charges on their pension contributions? I am engaged in a discussion on these issues with the Health Secretary at the moment. Of course, we have to look at the cost to the public purse and the cash flow implications in pay-as-you-go pension systems. Those are also very important, but I am hopeful that we will find a solution that allows us to introduce additional flexibility into NHS pension schemes for highly paid NHS staff.

Q337 **Mr Baker:** Is this phenomenon of paying what would have been an employer's pension contribution as cash tax planning, tax avoidance or tax evasion?

**Mr Hammond:** My understanding is that NHS employers do not have an option not to pay the pension contribution so, I suspect, if cash amounts are being paid, they are being paid in addition to standard pension contributions. That is my understanding.

**Mr Baker:** We are relying on newspaper reports and perhaps the Committee might look at this.

**Mr Hammond:** It is the *Daily Mail*.

Q338 **Mr Baker:** I am slightly concerned, when we think about the way that people get dragged into various tax difficulties, that we find people are entering into arrangements as NHS employees to stay in work and avoid certain tax liabilities related to their pensions.

**Mr Hammond:** If an employer decides to pay an employee an additional amount, provided it is paid through the payroll, subject to PAYE taxation and national insurance, it is quite regular.

Q339 **Mr Baker:** Bearing in mind these two extremes in the system, is there adequate work done in the policy formulation process to consider how the pension and tax system interact with one another to try to avoid anomalies such as both of these arising?

**Mr Hammond:** Yes, there is a lot of focus on this area, because it is a very expensive tax relief. Let me just recall the history of this particular area of taxation, the lifetime allowance and the annual allowance tax charges. My predecessor, during a period of significant fiscal consolidation, was clear that his intention was to ensure that those on the highest income bore more of a burden than those on lower incomes. It is surprisingly difficult to find ways to give effect to that in the tax system. One of the effective ways that he found was to introduce the annual allowance and the lifetime allowance charge. They had a significant and beneficial effect to ensure an equitable distribution of the burden of fiscal consolidation. I know that people who are paying it do not like paying it, but they are paying it as part of a deliberate strategy to distribute the burden of fiscal consolidation fairly.



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Q340 **Mr Baker:** Is there a case for a centralised programme of work to see how we can deal with the phenomenon of people adjusting their working hours or, indeed, retiring earlier, because of these concerns?

**Mr Hammond:** My understanding is that it is overwhelmingly a problem in public service, where pensions are inflexible. The solution lies in looking at whether we can improve the flexibility of pension arrangements in the public sector. That is what we are doing.

Q341 **Mr Baker:** Can I press you on when we might see some policy proposals from that work?

**Mr Hammond:** We are discussing it now for the specific case of the NHS, where we think there is a specific issue that needs to be addressed around recruitment and retention. No doubt, once we have reached a conclusion, the Secretary of State for Health and Social Care will make an announcement.

Q342 **Wes Streeting:** Good morning. The Local Government Association does a great job, does it not?

**Mr Hammond:** It is a good body, yes. It does lots of things very well.

Q343 **Wes Streeting:** I am glad we agree. The Local Government Association has projected the funding gap in local government at £3.1 billion next year and £8 billion by the middle of the next decade, as Cat McKinnell indicated earlier. On what basis do you disagree with those figures?

**Mr Hammond:** Those are not figures I recognise from the Treasury.

Q344 **Wes Streeting:** It is good that you have some figures in Treasury. It is not good that you are not prepared to explain why you think your figures are better than the LGA's or, indeed, what your figures are.

**Mr Hammond:** I am simply not familiar with the LGA figures. I do not recognise their magnitude.

Q345 **Wes Streeting:** What are your figures? You said the Treasury has figures on this, but you refused to tell the Treasury Committee what those figures are and I want to know why.

**Mr Hammond:** For somebody to posit a funding gap, there has to be a hypothetical level of funding posited. No doubt the LGA has constructed a model of the level of funding that it believes, in some way, is appropriate. It has then measured the gap between that and the level of funding available to local authorities in aggregate, and defined the difference as a funding gap. I can understand why it would choose to do that, given the nature and role of the LGA. It is perfectly proper for it to take that approach, as a way of presenting to the Government the case for additional funding for local authorities, in the run-up to a spending review. We will look at the evidence that the LGA presents.

Q346 **Wes Streeting:** If I ask the LGA the basis on which it has calculated this funding gap, it would explain the methodology in detail. I do not





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understand why you will not tell the Treasury Committee what your assumptions are about the rising cost pressures on local authorities next year or, indeed, for the spending review period, and how Treasury will calculate the funding gap, assuming you take no action beyond the funding projections we already have.

**Mr Hammond:** We are heading into a spending review. Many of the core drivers of local authority spending pressures, in particular social care of the elderly, are broader issues that we look at as we approach the spending review. I have already indicated to the Chair that we hope and expect to publish the social care Green Paper in the not-too-distant future, but there are other areas of public funding that impact on the cost pressures that local authorities face, for example in the way the NHS operates.

Q347 **Wes Streeting:** Over the course of the decade we are currently in, the Government will have taken nearly £16 billion out of local authorities, which is 60 pence out of every pound. Is this something you are looking to reverse in the spending review? Do you recognise the serious pressures central Government have placed on local authorities to deliver everyday public services that people rely on, from collecting bins to keeping young and vulnerable old people safe and well?

**Mr Hammond:** First, I acknowledge that local authorities, in aggregate, have done a fantastic job in delivering their services more efficiently. As I have said on many occasions to local authority gatherings, central Government can learn from the way in which local authorities have responded to this period of constrained funding, in the way they have set about reducing their costs and delivering services cost effectively to their taxpayers. Local government core spending will increase from £44.7 billion in 2015-16 to £46.4 billion in 2019-20. That is a 3.8% cash-terms increase. Local government core spending power is increasing in real terms this year, 2019-20.

I recognise that that comes after a long period of downward pressure on local authority spending power and also that one of the key pressures that local authorities face at the moment is around funding social care for the elderly, where we have a demographic profile that makes that pressure increase over time. I recognise the challenge and we will look at this, as we go into the spending review.

Q348 **Wes Streeting:** I anticipated you might lean on Treasury figures on local authority spending power. I wonder what consideration you have given to the relationship between earnings and the level of council tax.

**Mr Hammond:** As you know, we have allowed local authorities to increase council tax for general spending purposes, but specifically to increase the precept for social care, recognising that there is a specific problem and pressure in the social care area, which needs to be addressed. Many people would recognise that funding social care of the elderly is a priority and something we will have to contribute to more.



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The means of doing that is through an increased council tax precept specifically for that purpose.

**Q349 Wes Streeting:** As a result of the decisions you have taken, council tax has increased, on average, by 15% in the last three years. Given earnings are increasing by around 3% on average, do you recognise the significant cost pressure you are placing on hard-pressed households across the country?

**Mr Hammond:** I do not recognise the 15% figure, but I acknowledge that, because of these increases to the dedicated precept, council tax, which was increasing back in the early 2010s by 0%, 0.3% and 0.8% is now increasing at a faster rate. Unfortunately, there is only one way to fund these increased pressures, which is through taxation, either local taxation or general taxation. There is no money tree.

**Q350 Wes Streeting:** Sure, but council tax is a regressive form of tax. It does not necessarily imply that those with the greatest means to contribute are asked to pay more. It just means everyone has to pay an increase. Do you not think it is a bit cheeky of Government to continue to push out these figures on spending power, particularly ahead of local elections, giving the public the misleading impression that local government finances are increasing and there is no hardship?

One of my constituents wrote in the *Ilford Recorder* last week that she feels she is paying more for less. We do not have elections in Redbridge in the next couple of weeks, but she is right, is she not? She is paying more for less, because her council tax is going up as a result of decisions taken by central Government, and yet the funding for the local authority from central Government has also been decreasing substantially.

**Mr Hammond:** There is only one source of funding, which is the taxpayer. It can be collected nationally and distributed locally, or it can be collected locally. I have already acknowledged that local authorities are under pressure and many of them have done a tremendous job in making themselves more efficient. By the way, since the start of 2010-11, they have also collectively increased their reserves by £8 billion to £22 billion. There are reserves held across the sector. We are not disagreeing that there are significant pressures on local authorities, some of which, indeed the most substantive of them, are driven by demography and are the subject of the work we are doing in the social care Green Paper to look at how we address the sustainable funding of social care of the elderly over the medium and longer term.

**Q351 Wes Streeting:** People understand the rising cost and demographic pressures, but they are not helped by significant squeezes from central Government. It is not responsible for the Treasury to criticise local authorities for holding reserves, when one of your flagship councils is already on the brink of bankruptcy and you have had to give it greater flexibility to push up council tax to compensate. My constituents and people across the country understand that the way in which the state is



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funded is through taxation, but also that a range of taxes can be applied to make sure the burden is felt evenly and fairly by those most able to pay. In a context where council tax has risen substantially and the burdens on households have risen, corporation tax, for example, remains incredibly low. There are other options. Why are you cutting funding to people's local services, expecting them to pay more for less and also expecting them to vote Conservative on 2 May?

**Mr Hammond:** I suspect the last question is not an appropriate one for the Treasury Select Committee.

**Wes Streeting:** It is a good question for the voters, though.

**Mr Hammond:** I should remind you that we have put £10 billion specifically into adult social care over the last three years, through the improved better care fund, the additional adult social care tax precept, the adult social care support grant, the winter fund and other measures that have been announced. I accept that this is challenging for local authorities and that managing the demographic change that our population is facing is challenging for all of us. It will be a collaborative effort between central Government and local government, and individuals, where individuals can contribute to the cost of their care. One can present it as a simple challenge—why do you not just do this?—but, as I said earlier in the session, all Governments have been wrestling with this challenge since at least 1997, without coming to a solution that has proved sustainable. I hope we will be in a position to publish the social care Green Paper very soon, which will put us on a path to a sustainable answer to the funding of decent social care for our ageing population.

Q352 **Wes Streeting:** I hope to see the Green Paper soon. It is a Green Paper, so there is no reason why Government should not put out these issues for discussion soon. But I also hope, Chancellor, given some of the exchanges we have had this morning and previously at the Treasury Committee, that the spending review delivers a sea change in funding for local authorities. It is not just about keeping people safe, alive and well; it is also about having decent communities that people can live in. The experience of people across the country, wherever they live, is of seeing their services cut back. Those core services of children's services and adult social care are stretched beyond a reasonable level, and I hope that is something that your spending review will address.

**Mr Hammond:** That is exactly the purpose of a spending review. You have made a very eloquent case for increased funding to local Government. Many of our colleagues across the House of Commons will be able to make the case eloquently for increased funding into other areas of public activity. The challenge of the spending review is to evaluate all those competing claims against a finite envelope of resource, and reach a judgment about how best to support our economy and society going forward. It is very important that we never forget the underlying fundamental that a strong and growing economy, with high



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levels of employment, is fundamental to supporting the tax base that provides for our public services, whether local or national.

Q353 **Chair:** We understand that you are off to China this afternoon. As a final question, given today's news, what will you be able to say to your hosts about the involvement of Huawei in the future 5G rollout in this country?

**Mr Hammond:** I am not going to comment on the leaks from the National Security Council, which I too have read in the newspaper this morning. Our position should be clear: we need to ensure that our infrastructure is secure. I have said on many occasions that being one of the safest cyber jurisdictions in the world is a comparative advantage for the UK. We have leveraged in a way that so far is unique our state security capabilities into protecting the commercial sector, through the National Cyber Security Centre. Several of our Five Eyes partners are now looking at copying that innovation, and we can be proud of what we have done there.

It is essential that we get the balance right and ensure that our networks are built in a way that is secure against interference from whatever source, but also are competitive. We need to build a huge amount of 5G infrastructure in this country if we are going to have a fully digitalised economy, able to support artificial intelligence, the internet of things and autonomous vehicles on our roads. It is in our interests that that infrastructure is rolled out quickly and effectively, with good value for money for the equipment we use.

Q354 **Chair:** I understand that. I do not think anyone would disagree with your balance but, as a former Secretary of State for Defence, do you ultimately come down in favour of the security of the network being important and the expert advice on that security being listened to?

**Mr Hammond:** Of course security is important. Where expert advice tells us that the only way we can ensure security is to take a certain course of action, even if that action is economically painful, we would normally need to take it. Where our security experts tell us that there are ways in which we can maintain security, whether of networks or installations, that avoid the most economically costly outcomes, we should look carefully at those options.

**Chair:** Chancellor, thank you very much. I wish you a successful trip and look forward to seeing you in front of the Committee again soon. Thank you to our other witnesses, as well.