



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Harriett Baldwin MP
Chair of the Treasury Select Committee
House of Commons
Westminster
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03 January 2024

Dear Harriett,

Treasury Committee oral evidence: Autumn Statement 2023 follow-up

At my session with the Committee on Wednesday 29 November I confirmed that I would write with more detail to address the questions members raised. The reference numbers after each header refer to the relevant points in the transcript of that session. In addition, you wrote to me on 11 December 2023 regarding these issues and outlining a further update in relation to HMRC's customer service.

Thank you also for your letter of 15 November regarding the impact of cost disclosure requirements on investment companies. I apologise for the delay in replying.

Investment Companies – Cost Disclosures [and Q183]

The UK has a world leading investment company sector, which is highly aligned with the government's priority to promote long-term, productive investment. Representing over £250 billion of assets, investment companies are a key source of capital and liquidity to support the UK's economic growth and I am highly supportive of the sector.

The Government recognises industry concerns regarding the impact of cost disclosure requirements on investment companies and together with the FCA has engaged extensively with industry since it was first made aware of concerns in June 2023. This includes an FCA chaired industry roundtable on the issue in October and the Economic Secretary to the Treasury engaging directly with Parliamentarians from both Houses who have championed this important sector.

From this, it is clear that retained EU legislation (REUL) has had unintended negative consequences on investment companies, in particular the requirement to provide aggregated cost disclosure. Industry have reported to me that cost disclosure requirements are negatively impacting the competitiveness of the sector and are a contributor to their poor performance on UK capital markets.

The Government and FCA have worked at pace to identify potential solutions to this issue. It may be helpful if I first provide some background on the key pieces of REUL setting out the cost disclosure requirements which investment companies must follow:

- **Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation** – this EU-inherited regulation sets out detailed and prescriptive rules about disclosure, including on costs, for certain products sold to UK retail investors.
- **Markets in Financial Instruments Directive (MiFID)** – this is a significantly broader set of EU-inherited regulations covering multiple aspects of the financial services industry, it also includes high-level requirements that investment companies must provide aggregated costs and follow the PRIIPs Regulation.

As part of my Edinburgh Reforms in December 2022, I committed to reform the prescriptive and misleading PRIIPs Regulation as a matter of priority. You will have seen that the Government published draft legislation to repeal and replace the PRIIPs regime at the Autumn Statement, for final comments from industry. This legislation, which I intend to lay in 2024, will enable the FCA to deliver new rules (including for cost disclosure) which are proportionate and tailored to UK markets.

Given the importance of this particular issue for investment trusts, at Autumn Statement I also announced that the Government will bring forward the repeal of certain cost disclosure provisions in MiFID, alongside its replacement of the PRIIPs Regulation. Together, these reforms provide a permanent legislative solution which will permit the FCA to holistically reform cost disclosure.

The FCA have also acted to provide an interim solution to the investment company sector, as we deliver the necessary legislative reform. On 30 November, the FCA published a forbearance statement setting out that they are providing firms greater flexibility over the costs they disclose to investors. This statement enables firms to provide additional breakdowns of their aggregated costs to improve consumer understanding about their investments.

This combination of FCA forbearance and our plan to solve the issue via secondary legislation has been welcomed by industry, as a solution which will enable comprehensive reform of cost disclosure. Under the Smarter Regulatory Framework, the FCA's new retail disclosure rules, including for cost disclosure, will be proportionate, tailored to UK markets and will not impact the competitiveness of firms. The FCA will consult on their draft replacement rules in due course, providing an opportunity for industry to reflect on the detail of their proposals.

I hope this provides you with reassurance that the Government and FCA are doing everything we can to resolve this issue as quickly as possible.

Reinforced Autoclaved Aerated Concrete [Q204-208]

Drew Hendry MP raised the issue of funding for Reinforced Autoclaved Aerated Concrete (RAAC) remediation in schools and hospitals.

On schools and colleges, we have committed to funding whatever it takes to keep children safe. This includes paying for the emergency mitigation work needed to make buildings

safe, including installing alternative classroom space where necessary. All reasonable requests for additional help with revenue costs are being approved by the Department for Education. An updated list of affected schools was published on 6 December.

We have also committed to fund longer-term refurbishment or rebuilding projects to rectify the RAAC issue. Schools and colleges will either be offered capital grants to fund refurbishment work to permanently remove RAAC, or rebuilding projects where these are needed, including through the School Rebuilding Programme.

The Department for Education is working closely with responsible bodies and schools affected to determine the right solution in each case and will set out further details in due course. The requirements of each school or college with RAAC will vary depending on the extent of the issue and nature and design of the buildings.

On hospitals, the Government has committed to eradicate RAAC from the NHS by 2035 and funding has already been provided for mitigation and eradication at SR20 and SR21. In total £685m has been allocated specifically for RAAC from 21/22 to 24/25 and some additional funding has been provided from wider NHSE budgets including £5m in 21/22 and £13m in 22/23.

All sites with identified RAAC have now either had RAAC eradicated at their site or are part of the national RAAC programme for RAAC eradication.

The NHS continues to work closely with responsible bodies and experts to identify cases of RAAC and to determine how much remediation will cost where it has already been found.

Enterprise Investment Scheme and Venture Capital Trusts Sunset Clause [Q219]

At my session with the Committee, I set out that we are legislating to extend the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme for 10 years to 6 April 2035. I would like to take this opportunity to clarify that the Seed Enterprise Investment Scheme (SEIS) does not have a sunset clause. From 6 April 2023 the SEIS was expanded to help more UK start-ups raise higher levels of finance.

HMRC customer service performance and related funding [Q250 & Q253]

Drew Hendry MP raised HMRC customer service performance. In addition, in your letter to me on 11 December 2023 you outlined a further update in relation to HMRC's customer service and asked whether I still consider HMRC to be on track with its customer service standards in light of the comments by the department's Permanent Secretary on 4 December.

HMRC data on departmental customer service performance is publicly available online in HMRC's monthly performance reports and current performance is broadly in line with last year's results. However, there are specific areas of performance challenges around post and phone contact and I recognise the difficulties that delays have caused some customers and agents.

Nonetheless, it is important to consider the entirety of HMRC's customer service offering when assessing performance. The department also offers quick and effective digital services

in a large number of areas, which helps support customers and agents beyond the traditional work of answering phone calls and correspondence. HMRC's digital accounts and app were accessed almost 200m times last year.

As HMRC's Chief Executive outlined in his letter dated 4 December, HMRC will increasingly expect customers to use the department's online services where they can. Transitioning to a digital by design tax administration will ensure digital services are in place to handle routine functions and provide an effective service for customers. This will free up advisers to deal with more complex tax issues, ensuring those who still need to contact an adviser can do so, as well as help the digitally excluded and vulnerable groups.

I encourage more customers to use digital channels for less complex tax queries. Many tasks can quickly and easily be completed online. For instance, last year HMRC received over 3 million calls on three things that can easily be done digitally: resetting an online password, getting a tax code, and getting a National Insurance number. That is the equivalent of almost 500 staff working full-time to answer those calls. Shifting to digital interactions helps reduce demand on phone lines and allows HMRC to prioritise calls for those who really need to speak to an adviser. To support this, we invested over £130m in the 2021 Spending Review to enable HMRC to enhance their digital services.

However, I have been clear that HMRC must remain committed to prioritising the needs of vulnerable customers. As they continue to offer increased digital options, they will ensure customers with health conditions or personal circumstances which make it difficult for them to contact HMRC will have access to extra support through the full range of existing channels.

I hope this additional information assists the Committee in its scrutiny and I look forward to my departments and your Committee continuing to work together positively. My officials and I remain at your disposal should you have any further questions.

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly stylized font.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer