House of Commons

Treasury Committee

Autumn Budget and Spending Review 2021: Government response to the Committee's Tenth Report

Seventh Special Report of Session 2021–22

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/treascom/ and in print by Order of the House.

Committee staff

The current staff of the Committee are Morenike Alamu (Committee Operations Officer), Rachel Edwards (on secondment from the Bank of England), Kenneth Fox (Clerk), Dan Lee (Senior Economist), Adam McGee (Senior Media and Communications Officer), Aruni Muthumala (Senior Economist), Moyo Oyelade (on secondment from the Bank of England), Charlotte Swift (Second Clerk), Ben Thompson (on secondment from the National Audit Office), Sam Upton (on secondment from the Financial Conduct Authority), Adam Wales (Chief Policy Adviser), Maciej Wenerski (Committee Operations Manager), and Marcus Wilton (Senior Economist).

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You can follow the Committee on Twitter using @commonstreasury.

Seventh Special Report

The Treasury Committee published its Tenth Report of Session 2021–22, *Autumn Budget and Spending Review 2021* (HC 825), on 27 January 2022. The Government's response was received on 22 February 2022 and is appended to this Report.

Appendix: Government Response

Letter from the Chancellor of the Exchequer to the Chair of the Committee

Treasury Committee Report on Autumn Budget and Spending Review 2021

I am writing in response to the Committee's report of 27 January 2022 on 'Autumn Budget and Spending Review 2021'. I would like to thank the Committee for inviting me to give evidence on this subject on 1 November, and for its subsequent wide-ranging report.

Fiscal strategy and Spending Review

I thank the Committee for their conclusions on the government's fiscal strategy. The Treasury continues to monitor the risks of higher inflation and interest rates closely, and the Charter for Budget Responsibility now contains a new focus on assessing the affordability of public debt. As the Committee notes, the UK's high level of debt means we are vulnerable to changes in macroeconomic conditions such as interest rates and inflation, which would increase the amount we spend on debt interest rather than public services. That is why the government has introduced new fiscal rules to help ensure the public finances return to a sustainable footing. Rolling fiscal rules means we can absorb some shocks and adjust fiscal policy as needed, but the government has already made tough decisions which demonstrate our commitment to keep debt under control, such as delivering a long-term, sustainable funding solution for the NHS and reform of the adult social care system.

I note the Committee's conclusions on R&D spending ambitions. The Spending Review settlement announced an increase in public R&D investment to record levels, providing £20 billion across the UK by 2024–25. This settlement delivers significant progress towards the government's ambitions to increase public R&D spending to £22 billion by 2026–27 and drive economy-wide R&D investment to 2.4% of GDP in 2027, demonstrating our commitment to cementing the UK as a global leader in science and technology.

I note the Committee's conclusions on the Spending Review. We are exceeding our commitments to replace EU funding in full, with no reduction through the UK Shared Prosperity Fund (UKSPF). The UKSPF replaces the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Over the last EU funding cycle, these funds were worth about £9 billion over seven years, or around £1.3 billion per year. The other European Structural and Investment Funds the Committee considers are being replaced in full elsewhere. It is also not the case that the spending power for the Department of Levelling Up, Housing and Communities is falling. Excluding Help to Buy, a time limited government loan scheme, the department's spending power is set to grow by c.4% over the SR period. This does not include cross-departmental initiatives like UKSPF and the Levelling Up Fund, which provide further investment supporting the levelling up agenda.

Budget measures

I thank the Committee for welcoming our social care charging reforms. The new £86,000 cap will end people's worries that they may face unpredictable care costs, with roughly two thirds receiving some state support for care costs under the announced reforms. Department for Health and Social Care analysis has also shown that it is highly unlikely anybody within the means test would deplete their assets to anywhere near the theoretical maximum level set out by Sir Andrew Dilnot.

I thank the Committee for their support for the reduction in the Universal Credit taper rate, and for their comments on the cost of living. Recognising the current challenge households are facing with the cost of living, the government is providing total support worth over £20 billion across this financial year and next, most recently committing to £9.1 billion support with rising energy bills.

Budget process

I note the Committee's concern about the announcement of the Health and Social Care Levy outside of a fiscal event. The government announces most changes to the tax system at fiscal events and through the Tax Administration and Maintenance command paper, as part of its commitment to predictability and stability in tax policy making. The Health and Social Care Levy was developed and announced at speed to provide certainty to a health sector facing a backlog resulting from the pandemic, and to allow the social care system to prepare for the significant changes to the charging system announced alongside the Levy. The government has set out an ambitious timetable to bring in these reforms by October 2023. In addition, the government published a detailed tax technical annex and distributional analysis to provide as much information as possible and updated the costing and impacts at Autumn Budget 2021.

I note the Committee's comments about the publication of distributional analysis of the Health and Social Care Levy. The impact of government policy on households across the income distribution depends on the cumulative impact of policies, meaning it is usually more appropriate for HM Treasury to look at the distributional analysis of government policies in the round alongside fiscal events, rather than publishing analysis in an ad hoc way alongside individual policy announcements. Occasionally, as at the launch of the Building Back Better: Our plan for Health and Social Care package in September 2021, we publish ad-hoc distributional analysis around announcements with substantial fiscal implications. We continue to publish analysis of the impact of policy on households by income decile, alongside fiscal events, including publishing analysis that took account of the impact of the Health and Social Care Levy in October 2021.

On the announcement of the National Living Wage, I note the Committee's concern and the government will conduct a review of handling arrangements ahead of future announcements.

Best wishes,

RISHI SUNAK - *22 February 2022*