



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

19 November 2018

Rt Hon Nicky Morgan MP
Chair, Treasury Committee
House of Commons
London
SW1A 0AA

Dear Nicky

I am writing to you to follow up on the question you raised on Fixed Odds Betting Terminals (FOBTs) at my recent appearance before the Committee and paragraph 54 of the Impact Assessment (IA) that accompanied DCMS's consultation response.

Having reviewed the IA it seems clear to me that the 9-12 months estimate is an initial view of the time it would take for the machines and associated software to be changed by independent bookmakers. It specifically does not consider the significant impact on jobs following from the plan to reduce the stakes to £2, to which the government gave due account in deciding on an implementation period.

Paragraph 54 falls within the SaMBA (Small and Micro Business Assessment) section of the IA and makes clear that the conclusion of 9-12 months is drawn from consultation responses received by "gaming machine suppliers" – whose expertise is in the technical aspects, not the wider impact.

If a 9-12 months implementation date were intended to apply to the policy as a whole it would have been prominent in the announcement and the consultation response.

The government's position, as I outlined to the Committee, recognised that the harms caused by FOBTs is unacceptable and action would be taken to end it. I also explained that this could not be done in isolation without considering the impact on those who work in the industry. The government considered that an implementation date of 1 October 2019 struck the correct balance.

However, Parliament has clearly signalled its view that action on FOBTs should be brought forward to April 2019. We have listened and have announced our intention to bring forward the date of implementation of the £2 maximum stake to 1 April 2019 through secondary regulation, whilst amending the Finance Bill to also bring forward the announced increase in Remote Gaming Duty to the same date to preserve the fiscal position.

Separately, I would like to clarify my response to Q309 at my recent appearance in front of the Committee. Absolute child poverty has continued to fall over recent years, and there

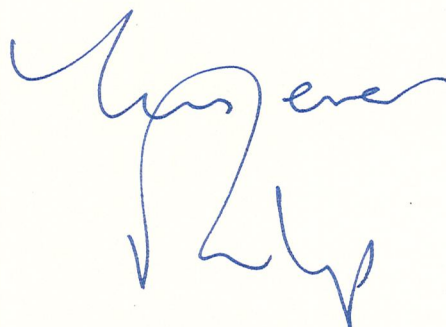
are now 300,000 fewer children in absolute poverty than in 2010. I am aware of forecasts by the Institute for Fiscal Studies (IFS) of increases in absolute child poverty over the coming years. However, the IFS themselves acknowledge the considerable uncertainty in forecasts of this kind, and the increase in the Universal Credit (UC) work allowance announced at Budget will help to reduce absolute child poverty.

The Committee also asked (in Q319) about the policy to limit support in Child Tax Credit and Universal Credit to the first two children. I can confirm that, as usual, a range of possible interventions in the UC system were considered in the course of the Budget process. Increasing work allowances should improve work incentives more effectively than reversing the two child limit. Moreover, changes to the work allowance can be made relatively quickly and will start to benefit a large number of households next year. These considerations led me to decide to increase the Work Allowances in UC as the option that would help more families, more quickly and support work incentives.

In your letter of 13 November you ask whether there is any inconsistency between the evidence I gave to the Committee, the Budget text and the Chief Secretary's letter to you regarding public service pensions. I can confirm there is not. The government has committed to covering the additional costs to departments associated with the pensions changes impacting in 2019/20 over and above those anticipated in 2016. The path of aggregate departmental resource spending (excluding NHS England), is flat in real terms from a 2019/20 base. The 2019/20 base includes the provision made for pensions changes. Departmental resource budgets in future years (other than NHS England) will be set in the spending review.

Finally, I would like to clarify my comments to the Committee in reference to the use of disguised remuneration (DR) schemes which I described as "tax evasion". I should have said "tax avoidance," and that in the government's view, tax was always due. DR schemes are examples of contrived tax avoidance that seek a tax advantage that Parliament never intended. It is not normal, or indeed reasonable, to be paid in loans that are not repaid in practice. It is not fair to the vast majority of taxpayers who pay their taxes in full and on time for anyone to benefit from contrived avoidance of this sort and that is why this government has legislated the charge on DR loans.

A copy of this letter has been deposited in the libraries of the House.



PHILIP HAMMOND