Witness

I: Rt Hon Elizabeth Truss MP, Chief Secretary to the Treasury, HM Treasury.

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Examination of witness

Elizabeth Truss MP.

Q1 The Chairman: Chief Secretary, welcome to the Economic Affairs Committee. We really appreciate you coming at a time when there are lots of things on your agenda.

Perhaps I could start with the question that is very relevant to the Committee’s most recent work. Do you agree with the Committee’s recent report on High Speed 2 that the priority should be rail investment in the north of England? Do you also agree that funding for the northern powerhouse rail programme should be ring-fenced?

Elizabeth Truss MP: We are currently conducting a zero-based capital review at the Treasury, looking at the overall question of how we prioritise capital funding. Only three areas of capital funding are excluded from that review: the defence budget, the SIA and the ODA budget. All other projects that have not yet been fully committed to are part of that review.

We are looking at the economics of those projects. How much future economic growth are they likely to generate, and how much are they going to improve productivity, particularly in areas that have low productivity? We are considering all the projects on that basis. We have already put initial requests out to departments to come back with their specific proposals on capital. The plan was to launch the spending review before the Summer Recess. You will be aware, Lord Chairman, that there are other goings-on in the Conservative Party that might make that timetable slightly different, but my view is that any future Prime Minister will need to consider these issues.

One of the projects that we will look at is High Speed 2. I can go into that issue in more detail, but at the moment I have an open mind because we are still looking at the economics of those different projects and their likely costs. The Treasury set an envelope for HS2 in 2015. I expect to receive revised information about the costings later this summer, prior to the spending review and the zero-based capital review continuing.

You asked a general question about where the priorities lie. Economic growth and productivity have to be the priority. One of the things we are going to look at in our economic appraisal is the extent to which we are capturing productivity benefits successfully. Historically, much of the investment appraisal has been about travel time. In the 2018 revised Green Book we said that there needs to be more effort to assess productivity benefits, so we will look at that in our economic assessment.

The Chairman: When you say that the spending review will be a zero-based capital review, does that mean that the Government could decide to prioritise other rail projects over High Speed 2?

Elizabeth Truss MP: It does. It also means that we could decide to prioritise other infrastructure projects. I broadly categorise the capital
budget as economic infrastructure and social infrastructure. We are looking at the entire capital budget and all the projects in it.

One of my concerns has been the comparability between different types of projects. Under DCMS, for example, there are projects on fibre to the premises and broadband, and in the Department for Transport there are rail and road projects. I want to make sure that we look at those projects on an equivalent basis to ensure that we get the best possible bang for our buck.

Clearly, the decisions to be made on these projects will be for the next Prime Minister. I see my role as Chief Secretary to the Treasury as ensuring that we have the maximum amount of information prior to those decisions being made later this year.

The Chairman: One of the things that came out of our report four years ago, in which we raised a number of questions, was the fear about HS2 not keeping within its overall budget. If the costs of the link between London and Birmingham exceeded this budget, there would be no money left for the northern powerhouse. We had considerable evidence of the need to deal with east-west rather than north-south links.

Elizabeth Truss MP: One thing that we will look at for the first time in this zero-based capital review is the deliverability of projects, as well as the economic assessments. Can this project really be delivered for the budget envelope the Treasury has set out—£56 billion in the case of HS2—and can it be delivered in the time scale? We will look at that for all projects.

One of the issues in previous spending and capital reviews is that promises have not been kept. We will have a delivery expert, alongside the panel of economists, asking if these projects really are deliverable within the budget and the timeframe that have been set out.

Q2

Lord Lamont of Lerwick: Before I ask my question, reading from the briefing notes, may I follow up on something the Chairman said? The national infrastructure assessment has said that the UK was unusual in that in most cities, such as Greater Manchester, and in Merseyside for example, GVA per capita was less than the national average. I believe that they made a comparison with Munich and Milan, pointing out that they were higher. I know that you are a great supporter of elected mayors. You also think that the development of cities is very much connected with transport. However, why do you think there is that contrast between Manchester, Merseyside and Munich?

Elizabeth Truss MP: That is an extremely good and fair point. Leeds is the largest city in Europe without its own mass-transit network. A recent report suggests that Birmingham is 33% less productive than it could be because of its poor cross-city transport. The Eddington review looked at this in 2006, and there was strong evidence that the UK was relatively successful in its intercity connections, but had poor intra-city connections, very poor cross-city transport and local transport.
Certainly the Eddington report had some benefit-cost ratios that suggested that local roads, intra-city transports—transport networks across cities—had higher BCRs, generally speaking, than transport that connects cities. That is simply because the vast majority of travel is travel to work, and that is where the most economic benefits from productivity are to be gained.

I completely concur that over decades the UK has underinvested in local transport. It is one reason why we set up the transforming cities fund, which we announced in the 2017 budget and put more into the most recent budget. It was precisely to give local mayors access to funding to improve local transport, and so, for example, Andy Street is building up the tram network in Birmingham. There are some cities, such as Leeds, that do not yet have a city mayor with those devolved powers, so it is more difficult in those locations.

**Baroness Bowles of Berkhamsted:** Does that mean that you would consider, for example, more intra-city transport in competition with the intercity northern powerhouse? Part of the case is that if you get the intercity northern powerhouse, you can expand the area that you can commute into the different cities and between the different cities. It is not just linking the cities; it is quite a lot else—property and all sorts of things. You have just emphasised the importance within the city. Is that a competition, or do you see the need for both?

**Elizabeth Truss MP:** Of course we need both. Of course we need our cities to be connected and we need people to be able to get into their local city, and we need to connect towns with cities. We also need to better connect rural areas, and there is a very strong economic case for the faster rollout of fibre to facilitate that happening. So it is not just transport but internet connectivity. So, yes, you need all those things.

I was commenting on what we in the UK are relatively strong and relatively weak on. Presently, we are relatively strong on intercity connectivity compared to other European countries, and outside London we are relatively weak on networks within cities that enable people to travel to work. In my view, that ought to be a consideration in the zero-based capital review. You cannot make definitive statements such as, “We’re not going to do any of this and we’re going to do lots of that”. But if you are asking me what the UK should prioritise in the coming decades, at the moment we have a productivity problem in many of our cities. There is no doubt that that is exacerbated by very poor connectivity there and, more broadly, in the surrounding rural areas.

**Lord Lamont of Lerwick:** Going back to the spending round, could you give us an update on the timing and the connection between the strategy for the infrastructure commission and the spending round? I suspect you will tell me that it depends a bit on the next Prime Minister.

**Elizabeth Truss MP:** You have anticipated my answer on that, yes.

**Lord Lamont of Lerwick:** But if he or she opts for a spending review
that covers only the subsequent year, will the infrastructure strategy still be published or will it be delayed?

**Elizabeth Truss MP:** That will be a matter for the new Prime Minister. I can tell you that we have already started the preparatory work. The Treasury has already written to departments asking for their initial capital bids, for human capital submissions—that is also one of the things that we are looking at in the spending review—and for reform proposals, so that work is going on.

I am about to convene a round table of economists to look at the investment appraisal techniques that we want to use for the zero-based capital review, making sure that departments are producing comparable economic assessments. I want to make sure that we assess fibre and broadband on the same basis as road and rail and energy projects and that we make those assessments more transparent to the outside world. That is very important. That work is ongoing.

The plan had been to launch the spending review and the zero-based capital review process just before the Summer Recess. I suggest that that is unlikely to happen, given the current timetable for the Conservative leadership election. Although we will need to set revenue budgets for 2020—we do not have revenue budgets beyond April 2020—we already have capital budgets for 2020-21. So we will not need to set the capital budgets immediately.

However, I suggest that capital is a long-term proposition and it is important that any new Prime Minister gets on with that process, and clearly there are major decisions to be taken this year. The final go or no-go decision on HS2 is due by the end of this calendar year. Those considerations have to take place. We have committed to publishing our infrastructure strategy alongside the spending review and the outcomes of the spending review and the zero-based capital review. The intention is to publish all those three things together. I cannot commit as to whether it will happen exactly like that under a new Prime Minister, but it strikes me as sensible to be able to make progress on that basis.

**Q3 Lord Turnbull:** I welcome your remarks on investment appraisal. That is long overdue, so good luck with that. We used to think of public finances as a triangle between tax, spending and borrowing, and you manoeuvre where you want to end up within that space. Do you have a view as to whether the priority is to have further tax cuts to take some of the hard edges off problems with spending and austerity, or to continue to further reduce borrowing?

**Elizabeth Truss MP:** I have to say that my first job in industry was working for Shell doing investment appraisal of shipping projects, so I feel as if this is coming back to what I did at the beginning of my career.

On the broader priorities for the spending review, the Government have made a tremendous achievement in bringing down debt as a proportion of GDP, and it is important that we stay on that trajectory. It would be
wrong to lose the fiscal discipline that we have achieved. However, the big priority for the spending review and accompanying economic reforms has to be economic growth. If you are talking about taxation, the review has to look at taxes that are potentially hampering economic growth, and when we look at spending it has to prioritise spending that will be beneficial to economic growth.

We also need to look at reform options whereby we can save the Government money and increase economic growth at the same time. I would highlight the critical area of housing. At the moment, we are spending £34 billion on housing—£24 billion on housing benefit, and a further £10 billion through the homes and communities budget—yet we are seeing rising house prices and we have a very high housing target.

One of the things I have asked the DWP and MHCLG to look at is how we can get better value for that money and help economic growth by building more houses. Reforms to the planning system are an important part of that. It is not a zero-sum game; there are reforms that we can carry out that will help us to save money and improve the economic outlook.

Lord Turnbull: We can start by looking at the EAC’s report on housing, which emphasised action on all tenures and by all players. You are beginning to get there, not just repeating the previous mantra of, “Homeownership, homeownership, homeownership”. Did you see the “Panorama” programme on social care?

Elizabeth Truss MP: No, I did not.

Lord Turnbull: I recommend it, because you see a council—it happened to be a Tory council, but it could be any type—under terrible pressure, trying to make ends meet. There are four families, all of whom are getting some care, but all get to a point where they need more, and the council just does not have the money for it. I hope that the spending review will look at some of those cases.

Another thing that strikes me is that there are a number of cases where one budget gets cut and it just creates problems for someone else. Cutting Sure Start may turn out to be a false economy, as may skimping on housing, youth clubs and policing, where authorities end up arguing with each other and trying to shuffle the bill on to someone else. Can you find some mechanism to ensure that a saving in one budget does not simply pile up problems for someone else?

Elizabeth Truss MP: We are very aware of the tendency of departments to try to cost-shift, which is one of the areas we are looking at in these reform proposals. The point I was making about housing is that we can do this better. We can use the money better; we are currently spending £34 billion, but with a combination of planning reform and using the money we are spending on social housing better, we can achieve more. I do not think that a Chief Secretary should ever say, “Sorry, there is no more room to improve the way we spend government money”. I am
constantly looking for ways to reduce waste and spend that money more efficiently.

Clearly, there are pressures on local government. One of the things we did in the local government settlement last year was to put an extra £650 million in, specifically because of the issues around adult social care and children’s services, and we are looking at how we make local government sustainable in the future.

Part of the answer to that is more devolution. One of the big changes over the last nine years is that we have moved from raising most of the money spent by local government from central government grant to most of it now being raised locally. That is right, because local council leaders have to be accountable to local taxpayers for what they are spending. But we need to make sure that local government has the powers to be able to do that.

The Chairman: The Committee is currently doing a report on social care, which I hope will be published at the end of the month. There will be a few ideas there which you may want to follow up on.

Q4 Lord Burns: Chief Secretary, you talked about zero-based budgeting. As you will know, our report on HS2 looked at issues such as speed and whether one should look to go quite as fast as proposed, with the associated costs. We also discussed whether or not Old Oak Common was a viable end point, at least in the early stages; this is another way of saving money. Does the fact that you are doing this exercise in the way proposed mean that issues such as that will be looked at again when examining this project, or the dangers of overspend?

Elizabeth Truss MP: I know that the High Speed 2 Minister has appeared in front of this Committee. Clearly, a lot of the issues you are referring to are issues for the Department for Transport. I am interested in whether this project is deliverable within the budget set out, how it will be delivered, and the economics—the true cost-benefit ratio of the project compared to other potential uses of the money. We will look at that. We will look at the deliverability not just of HS2 but of all the projects that are part of the zero-based review. That will happen before the final decisions are made, and before we produce our final strategic infrastructure report and the outcome of the spending review.

Lord Burns: One of the issues the Committee was very sceptical about, which you have already referred to, was the way the cost-benefit analysis put so much emphasis on speed and time-saving without thinking of some of the other potentially transformative issues that infrastructure can bring, particularly to the travel-to-work zones that you discussed. That is an integral part of it. I gather that you say you are also looking at that subject, because with transport, say, you want to look much more widely than simply at time saved by those who already use a service.

Elizabeth Truss MP: Yes. Moves have been made in that direction in the economic assessment, but I want to look further at that. I feel that we
could do more to reflect the potential productivity benefits of new infrastructure investment in our investment appraisal. This is a developing area of analysis, but you are right that at the moment there is a heavy focus on time saved as opposed to those broader economic benefits.

I am working from the idea of universal basic infrastructure. You can look at how much incrementally an extra project will benefit the economy, but I am also interested in making sure that everyone in the UK has access to fibre broadband, and the ability to get to work. Thinking about whether we can get that basic infrastructure to every reasonably-sized town or community is a different lens we can look at, rather than just asking where the maximum economic benefit will be. If you do that, you tend to favour projects in places where there is already a lot of infrastructure. But getting some communities up to that basic level can not only produce productivity benefits—we know there is a massive productivity gap between London and other parts of the UK—but save the Government money in other areas by helping people get into work or get better jobs.

The Chairman: One of the frustrations that we as a Committee had, not with the Minister but with the department as a whole, was with getting some numbers on what it thought the benefit would be of stopping at, for example, Old Oak Common, where very large numbers were presented to us. We also found it quite surprising that HS2 was being designed for trains travelling at 400 kilometres per hour. We asked, perhaps naively, where these trains were and were told that they did not exist, but that this made the project future-proof. In order to have these very high speeds, it is necessary to have wider tunnels and a different track, and we asked whether the cost was necessary.

Another surprising aspect was that something like 80% of the estimated benefits of High Speed 2 are based on asking travellers hypothetical questions about how much they are willing to pay for faster journeys. It hardly seems a robust way to decide on spending £56 billion-plus, so I think the Committee will be delighted to hear that you are going to look at these issues again. We first raised them some four years ago.

Q5 Lord Tugendhat: Can we move on to the subject of nuclear power? Are the Government willing to consider providing support to new nuclear power stations beyond Hinkley Point C? If so, in what form would you like to see that support provided?

Elizabeth Truss MP: We are currently reviewing how the Government support and underwrite nuclear power. With Hinkley Point, the Chancellor has been looking specifically at how we finance nuclear and other energy projects. My broad view—indeed, I am looking at this as part of the spending review—is that we need to approach this by looking at how we can reduce carbon emissions in the most cost-effective fashion, rather than picking particular technologies.

Lord Tugendhat: If I understand correctly, the implication of what you are saying is that you may well support further nuclear power stations. It
is a question of how you do it, in comparison with other means of generating electricity, but further nuclear power stations could occur.

Elizabeth Truss MP: Absolutely, if they provided value for money compared with other available technologies.

Q6 Baroness Bowles of Berkhamsted: We have already dipped into housing and you mentioned the potential for greater devolution to local authorities. Do you agree with the National Infrastructure Commission that cities should have more powers and funding to pursue plans for local infrastructure? That is more generic than housing, but we can use it as a starting point.

Elizabeth Truss MP: Yes, I think that is the direction that we should be heading in. The transforming cities fund is heading in that direction, giving cities power over their local infrastructure. As I mentioned earlier, while there need to be redistribution mechanisms, which there are, between different local authorities, the more that money can be raised locally, the better, so that local authorities and mayors are accountable for the money they spend. However, in principle, it is right that there is local decision-making over transport priorities.

Baroness Bowles of Berkhamsted: Does this mean that there will also be more borrowing? Will the Government want to keep a tight rein on how extensive that is?

Elizabeth Truss MP: There is obviously a balance between freedom and accountability, which needs to be preserved as more powers are devolved. However, it strikes me that the UK, and England in particular, is still overly centralised. It would be better to have more of those types of decisions taken locally. We need to work through how exactly that takes place.

Baroness Bowles of Berkhamsted: Following the abolition of the Public Works Loan Board and the transfer of its responsibilities to the Treasury, will local authorities have greater capacity to borrow funds? I am very conscious that you said earlier that you thought it was a good idea to continue to address the debt, but what is borrowed by local authorities and the regions ultimately ends up making its way through to that. I spent a lot of time in the EU looking at those kinds of things and all the wonderful ways different countries had of trying to get around it. Taking a sensible approach, one obviously looks at the whole, so that is why I asked about constraints. How much freedom will they really have to accelerate the rate of infrastructure development? Or is it just that because there is more local autonomy it will be done better rather than faster?

Elizabeth Truss MP: I think it will be better and faster. Making more decisions locally also helps to speed them up. You are asking about local government borrowing. We recently removed the cap on borrowing for housing, which gives local government more responsibility. It must make the decisions about the economics of those projects. Yes, I think we
should head further in that direction; it is something we are looking at as part of the overall review of local government. As well as the spending review, we will also be setting the longer-term trajectory for local government. That is led by MHCLG, but I know they are very interested in further devolution.

**The Chairman:** On the subject of the decision to remove the cap, it was one of the recommendations in our housing report, which Lord Turnbull mentioned earlier, and it is very welcome. However, one of the issues raised in that report was that of surplus land owned by public bodies, which could be released for housing. It was said in evidence to us that because public bodies were not able to keep the money or use it themselves, there is no incentive for them to dispose of that land. Have you any plans to resolve this conundrum?

**Elizabeth Truss MP:** We have some ideas about this. One of the issues is getting a good asset register of all government property. We are conducting a balance sheet review as part of the spending review, looking at exactly what the Government and the public sector have on their balance sheet. We will then hold government departments more accountable for the land that they are currently not utilising. There are ideas such as placing a charge on government departments so that there would be an incentive for them either to dispose of that land or to make sure that it is well used. Those are some of the ideas that we are considering.

**Lord Layard:** The Augar review came out just in time for us to ask you about it. As you know, we produced our own report a few months back. It has not altogether followed. It stresses the importance of FE, as we did, but it does not go as radically towards addressing that problem, which is essentially that all expenditure on FE is capped, which has not been the case down the academic route. That is why one route has flourished but the other has not. That is a big issue in FE. For universities, the cut in fees is not something that we recommended either. I do not imagine you can give us a full answer, but can you give us some of your reactions to the Augar review?

**Elizabeth Truss MP:** I certainly agree that FE is an area that needs looking at. There has been an issue of funding in FE and we are looking at that as part of the spending review. The Augar review is again something we are looking at as part of the overall spending review. I observe that universities currently get significant public subsidy compared with other parts of the education system, so the question is: how can we better use the money that we are putting in?

We currently write off 43% of the loans that people take out. I am particularly concerned about there tending to be a lower incentive for universities to offer subjects such as physics and engineering. That is an issue we need to address and there are proposals that look at it in the Augar review. Those are some of the areas that we are interested in. However, without wishing to repeat myself, we are in the middle of a
leadership election. The new Prime Minister will want to set policy on higher education, which is a very important policy area.

I believe we need to maintain the principle that students contribute to their own education. It is a very important principle and I certainly would not want to go back to the days when we saw a capping of university places. That would be extremely economically damaging. We need to align the incentives for universities to offer those high-value courses that students will want to study and will lead to good jobs on completion.

**Lord Layard:** May I ask a slightly more technical question, going back to something really nice that you said earlier? You said that you were also looking at social infrastructure, which presumably includes the sort of things that Terry Burns mentioned, such as children’s centres, youth clubs, old people’s centres and the police. These things contribute more to what you would call quality of life than economic growth. Some of us were thrilled when the Green Book included the use of direct measures of outcomes as well as, essentially, economic growth. Is that something to which you are sympathetic and would encourage your officials to use when evaluating social projects?

**Elizabeth Truss MP:** For the first time, in this spending review we are looking at human capital: to what extent does spending in a government department contribute to human capital? I define that roughly as people being able to live a good life. It is difficult; there are various proxy measures for it, but that is fundamentally what it is about. For the first time, the ONS has produced a report on human capital, looking at some of the technicalities of exactly how you measure it.

We have asked departments to look at how all their programmes perform, whether that is the troubled families programme, primary school education or health visitors. We want to know how much that is contributing to helping people to live a better life. The fact is that Governments carry out numerous programmes over the years, and some are more effective than others. A good Government should look at which ones do not work, what we should stop and where we should put the extra money. I am currently receiving analysis of the outcomes of the troubled families programme, the impact of which looks pretty good. Early years is another area that we are looking at. Where do we put the incremental pound in to improve people’s human capital? We are looking at it from that perspective.

That is a slightly different issue from the buildings that these services are housed in. We are looking there at how we get better value from the land and buildings we have. How do we make sure that there is better use of those public assets? That is part of the balance sheet review. For example, where you have schools on multiple sites, can you combine them or do things better and more efficiently? Can we have a more flexible system that allows schools and hospitals to do that, and that frees up land so that we do not have lots of public sector land that could be used for housing sitting on the government balance sheet?
The Chairman: On the Augar review, one of the points that came out in our report on higher and further education, which was extremely well received when it was debated in the House, was this. We set out—rightly, I think—to create a market in higher education. However, we received overwhelming evidence that we had created a market in getting bottoms on seats in universities.

Lots of the things that the current Secretary of State is complaining about and which we identified, such as grade inflation or people being offered places without qualifications, are about exactly that: getting the £9,500 in fees that comes in as a result. The most distressing thing, which I am delighted to hear you are thinking about, is that part-time education and further education, which are about providing the skills needed for economy—to improve productivity, as you say—have become the Cinderella, and schools are rated on how good they are at getting young people into traditional three-year degrees rather than other areas.

I hope you might think that it was worth looking at this from the point of view of the productivity of the economy and from the point of view, to take your phrase, of people living a good life, because they might end up with a degree that is not going to give them the job that they were expecting, when they might have gone down a different route and in later life do not have the opportunity to change. We talked to a number of students, apprentices and others. The evidence was overwhelming. This is one area where improvements could be made.

I will make just one other point, if I may. In the old days, when Lord Lamont, I and others were in government, we had Secretaries of State who set out their own policy and were not constantly looking to the Treasury and No. 10. Do you think there needs to be a bit more freedom in policymaking within departments and a bit more Cabinet responsibility in future?

Elizabeth Truss MP: I am all in favour of freedom; I think it is a good thing. As we seek to deliver Brexit this year—it is vital that we deliver it by 31 October—we have a massive domestic agenda to achieve. We have covered some of the issues here: social care, higher education and reviewing our capital budget to make sure that we spend it on what is going to increase economic growth. These are all massive challenges and one needs individual Secretaries of State leading on them. It is unrealistic to expect that to be able to be conducted by the Treasury or Downing Street. We will need to be firing on all cylinders.

The Chairman: You mentioned Brexit. Let us hear from Lord Kerr.

Elizabeth Truss MP: That was not deliberate. Let us face it: it is a huge challenge for government. That means that areas such as higher education need to take place separately. We cannot just put everything else on hold. To have a successful Brexit, we need highly skilled people, decent infrastructure and housing. We cannot just say, “We’re going to put all this other stuff on hold while we do that”.
Lord Kerr of Kinlochard: I am very impressed, Chief Secretary, by your description of the triple spending review that you are conducting. I feel extremely sorry for you, because it risks being completely undercut by the auction that has already started, even though the starter has not fired his gun yet.

The Foreign Secretary wants to double the defence budget, the Home Secretary wants to abolish the top rate of income tax, somebody else wants 5p off and somebody else wants 1p off, corporation tax has to go down to 12.5% in order to match the Irish rate and so on. It could all be pre-empted.

You have reasonably ducked a lot of our questions—I am not criticising you—by saying that quite a lot will depend on who Prime Minister is. We could have four to six weeks of this process and then hustings and then 120,000 to vote. Your spending review could be killed before your new Prime Minister is in office. Is there some role for a Chief Secretary who has decided that she is not a candidate in this race in trying to impose some discipline on this process?

Elizabeth Truss MP: Yes of course, is the answer. As I said early on in this session, it is incredibly important that we stick to our fiscal target of decreasing debt as a proportion of GDP. All candidates coming forward in the leadership election need to show how the tax and spending proposals that they put forward add up, because we cannot go into the final Brexit process having a splurge of deficit spending. That would be the opposite of what a successful Britain operating as an independent nation would mean. I strongly agree. I do not know whether the Lords Economic Affairs Committee could play a role in holding those candidates to account, but it is a very important part of it.

I do not feel sorry for myself. I do not think that the work that I have done so far on the spending review has gone to waste. I will want to put these thoughts forward as well as the trade-offs. There are trade-offs here: we cannot spend more on every area of government, cut taxes and hit the debt target that I have been talking about. It is my role to point out what those trade-offs are.

Lord Kerr of Kinlochard: In an election, the Treasury has some official role—the former Permanent Secretaries here will know more about it than I do—in trying to cost manifestos. Is there not a Treasury role now in trying to enforce at least some understanding of what these people are saying: what they might do to the Government’s strategy, what they might do to your effort to bring down borrowing? Some of the numbers being talked about, such as the Foreign Secretary’s doubling of the defence budget, are very large.

Elizabeth Truss MP: As a voter in the upcoming election, I am in a somewhat conflicted position, but it may be a role that the Lords Economic Affairs Committee can take on. Treasury civil servants probably run a mile from involving themselves in this process, but I defer to the former Permanent Secretaries who are here.
Lord Burns: We have enough trouble with general elections, let alone leadership elections.

Elizabeth Truss MP: To follow up on my point to Lord Kerr, the Institute for Fiscal Studies is probably the body most likely to provide some objective comment. They are a fine group of people who generally know what they are talking about.

Lord Kerr of Kinlochard: Very reasonable, so let me try an even less political question.

The Chairman: Just before you move on, does Lord Lamont want to come in?

Lord Lamont of Lerwick: My question is not really on this, but are you not more conflicted than you say? I think you are a supporter of a particular candidate, so perhaps you can cost his programme. I was rather tempted to ask you what the cost would be of 5p off income tax over a whole Parliament, which one candidate has put forward. You must be in a very good position to tell us the practicality of that.

When you came before us previously, you gave us very good evidence on the RPI. I know that this is a delicate subject, with institutional rivalry involved, but when on earth are we going to get a reply to our report on that?

Elizabeth Truss MP: We are keen to get a reply to you. You are correct to say that we are currently working with the UK Statistics Authority on getting a good reply for the report. It is a complicated issue, but we will get it as soon as possible.

Lord Lamont of Lerwick: Theological, I think.

The Chairman: We know that it is complicated, but it is quite some time since we produced our report.

Elizabeth Truss MP: I do appreciate that.

The Chairman: You had not finished, Lord Kerr.

Lord Kerr of Kinlochard: I was going to try a completely unpolitical question, not being a politician myself. I remember from my public expenditure/Treasury days that it is very important that the Chancellor and the Chief Secretary should be absolutely in lockstep. The Chancellor argues that the House of Commons would drive from office any Prime Minister who tried to impose a no-deal Brexit on 31 October. The CBI and the TUC argue that a no-deal Brexit would be a catastrophe. The manufacturers, Make UK, are talking about "economic lunacy".

As I read your views, and hear what you have said to us today, about the importance of leaving in October, you would be prepared to accept the consequences of leaving with no deal. So you disagree with the Chancellor on that.
Elizabeth Truss MP: My view is that we have to leave by 31 October. We have a massive democratic issue in this country. People voted three years ago to leave the European Union, but that has not been delivered. There is great public despondency about the failure to do that. Sitting within government, I am of the view that we are prepared for all eventualities. I would rather see us get a deal. When the new Prime Minister comes in office, I would rather see them seek to secure a better deal from the EU, but there is a huge cost to our country of delay and continued limbo. I speak to a lot of businesses that are very frustrated that they do not know what is going to happen next, that there is a sense of political uncertainty and that people do not necessarily have confidence in the future.

A properly planned exit from the European Union—there are certainly difficulties, and I would not seek to gloss over that—is better than a continued state of limbo where people feel that the fundamental legitimacy of our democracy is open to question. I do not think we should underrate the political and economic effect of that.

Lord Kerr of Kinlochard: As Chief Secretary, you are aware of the Treasury economic analysis of the likely effects of a no-deal Brexit with no transition period. It is clear that these effects would do grave damage to the assumptions on which your spending reviews will be conducted. We will be in a different world if we have left with no deal and no agreements on the 31 October. Does that not worry you?

Elizabeth Truss MP: First, I disagree with the statement that there are no agreements. We have agreements in place over, for example, air travel—

Lord Kerr of Kinlochard: I mean with the EU.

Elizabeth Truss MP: Logistical agreements have been put in place. The Treasury analysis was an analysis, not a forecast. It is very important to have the distinctions between those two things, because it does not reflect any domestic policy action a Government could take, whether on tax cuts or supply-side reform. None of that is included. Even so, in that analysis, all scenarios showed a growing economy. It was just a question of relative levels of growth.

My view is that the decisions that we take over issues such as taxation, regulation and planning reform are much more important for the longer term of our country than the specific issues over how we leave the EU, provided that it is managed properly by a responsible Government.

I am not debunking the Treasury analysis but simply saying in the same way that it is very hard to calculate the productivity benefits of installing a super-tram between Leeds and Bradford. It is not that easy to predict the future of the economy 10 years hence. It is inevitable that these types of analyses cannot predict what might happen, what new regulation the European Union might bring in, what trade decisions Donald Trump
will take. All these other things cannot be captured in that type of analysis.

Analysis is important, but it cannot capture the universe and it certainly cannot predict the future. Sometimes the problem is that people talk about facts and claim that forecasts are facts. They are not. They are simply a view of what the future might be. In my view, a lot of the decisions that we make over the domestic economy are extremely powerful in influencing the future as well.

I could talk about my working with the Chancellor, but I assure you that the Chancellor and I work closely together on the spending review, are both very committed to our fiscal targets of keeping the debt down as a proportion of GDP, and are both very against the Government wasting money on anything that is not delivering what it ought to be delivering.

Lord Lamont of Lerwick: Very good.

Lord Kerr of Kinlochard: I take issue with none of that, I absolutely accept all of that, except that you are talking about Brexit. You are not talking about no-deal Brexit. You are not talking about what has so alarmed the CBI, the TUC, Make UK, and what people are saying would be economic lunacy. It is very unlikely that there is such an animal as a managed no deal. If we leave defaulting on the agreement which the Prime Minister initialled, it is hard to see many of the mini-agreements that you have referred to surviving.

However, there is a very good precedent for a Chief Secretary getting to Number 10. Not immediately; in the case I am thinking of, it was via the Chancellor’s office and the Foreign Office, so I would hope that in due course you find yourself across the road.

Elizabeth Truss MP: I will take that as a compliment.

The Chairman: I think we should now curtail this Brexit debate.

Lord Turnbull: Is leaving on 31 October with no transitional period something that you are prepared to contemplate?

Elizabeth Truss MP: Yes. I would rather have a deal, but I think that we have done sufficient preparations within government. There are domestic actions that we could take in areas such as taxation and regulation to stay competitive. One of the problems with the way this debate has been presented is the idea that there is a cost-free alternative of not leaving on 31 October. There is a huge cost—a huge, democratic, political legitimacy cost.

There is also the economic limbo cost of doing that. I am not saying that it is a perfect solution, but we can manage it. By management, I am talking about what the UK Government would do in those circumstances. The alternative—not following through on a referendum that took place three years ago—would be extremely damaging.
**Lord Turnbull:** That is not what I am disagreeing about. It is whether on 1 November all tariffs are just completely different, and a farmer does not know whether he can sell his lamb in Europe.

**The Chairman:** I do not think we can do the whole Brexit debate again here. We have done it many times in the House. I am very conscious that we have taken more than an hour of your time, Chief Secretary. Given the circumstances that we are in, I think the whole Committee would want to thank you for your pretty full answers, for which we are very grateful. We will send you the reports that we mentioned.

**Elizabeth Truss MP:** I would be delighted to read them.