TREASURY LORDS MINISTER

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

2nd April 2024

My Lords,

I would like to thank you again for your contributions to the Spring Budget debate held on 18th March. During the debate I committed to write in response to the questions that I was unable to address during the debate itself. I am writing this letter to fulfil that commitment.

Baroness Bowles asked for an update regarding cost disclosure for investment trusts. The Government is committed to reforming and replacing EU-inherited retail cost disclosure requirements. The Government has already made significant changes to the 'Key Information Document' in the Financial Services Act 2021 and is now replacing the PRIIPs Regulation with a new UK retail disclosure framework for Consumer Composite Investments, tailored to UK markets and firms. The Government is currently considering the feedback on the draft legislation it published at Autumn Statement.

As set out in the consultation response published at Mansion House last year, the Government is providing the FCA with tailored powers to put in place a new UK retail disclosure framework. It is the Government and FCA's intention that the new rules are more proportionate and tailored to reflect the wide variety of financial instruments in scope of this legislation. The Government intends to lay legislation to deliver this reform in 2024, subject to Parliamentary timing, and the FCA will consult on their detailed new rules in due course.

Baroness Bowles also asked about the role of government procurement in supporting British businesses and the tech sector. Direct funding for R&D will reach a record £20 billion a year by 2024/25. This is the largest ever increase over an SR period. The Government also remains committed to the increasing focus on innovation, having allocated £2.6 billion to Innovate UK over the SR period. The Government is determined to support emerging and disruptive technologies, and 70% of Innovate UK grants go to SMEs. Support includes the Digital Catapult, which provides expert advice and facilities to exciting tech companies.

The Public Sector Fraud Authority (PSFA), which was set up in 2022 to help public bodies tackle fraud against the public purse, will work with Quantexa, a UK company, to use new data and cutting edge technology, including Artificial Intelligence, to find and prevent more fraud across the public sector. Quantexa’s technology is capable of processing billions of data points at high speed to identify suspicious activity.

Baroness Bowles asked for an example of successful domestic procurement. The Elizabeth Line is one such example. The project involved a partnership between Transport for London, the Department for Transport, and private contractors. Using competitive tendering for each construction phase, the project prioritised efficiency and value optimisation. The use of the Early Contractor Involvement model mitigated risks and delays. Alongside this, engagement with stakeholders ensured community alignment and support. The project's completion highlights the effectiveness of collaborative procurement in delivering significant domestic infrastructure projects.

During construction, the Crossrail project supported thousands of jobs all around the UK. It trained a new generation of engineers in tunnelling, underground construction and railway engineering through the purpose-built academy in Ilford. It recruited more than 1,000 apprentices, injecting new talent into the construction industry. Hundreds more will be employed by TfL, MTR Elizabeth line and the wider supply chain in the operation and maintenance of the new railway. Ninety-six per cent of contracts awarded went to companies within the UK, sixty-two per cent of suppliers were based outside London, and sixty-two per cent of direct suppliers and seventy-two per cent of indirect suppliers have been small and medium-sized enterprises.

Lord Macpherson asked about the sale of NatWest. As re-iterated at Spring Budget, the Government is committed to exiting its shareholding in NatWest, subject to market conditions and sales representing value for money.

The Government intends to fully exit by 2025-26 – continuing to utilise a range of disposal methods, including accelerated bookbuilds and directed buybacks with NatWest and also via the ongoing trading plan.

As part of its long-standing ambition to return NatWest to private ownership, the Government intends to deliver a sale of part of its NatWest shareholding to retail investors.

A retail sale could not only help achieve the goal of exiting the NatWest shareholding, but also help support wider Government priorities on our ambitious financial services agenda, including promoting retail investing and the UK's capital markets.

The Government is currently exploring the most suitable terms, structure, and timing for a potential sale, and the Chancellor will take final decisions on this in due course when preparations are further progressed. As with all sales of the NatWest shareholding, a retail offer is subject to market conditions and value for money.

In line with usual practice and Managing Public Money the Accounting Officer will be considering their Accounting Officer duties on an ongoing basis.

Baroness Lister spoke about the Household Support Fund (HSF) and I thank her for her suggestion. We are extending the Household Support Fund for another six months, maintaining its current monthly funding rate, to continue to provide targeted support to those most in need. This is because the HSF was originally introduced to support vulnerable households across England with the financial pressures caused by increases in the cost of living, driven by the coronavirus pandemic. It aims to provide temporary support with the cost of essentials that will ease the financial pressures of vulnerable households as inflation continues to fall.

Moreover, forms of support other than the HSF are coming into force in April 2024, including: raising the Local Housing Allowance rates in Great Britain to the 30th percentile of local market rents, through which 1.6 million families will be better off, gaining £800 on average in 2024-25; investing £33 million to waive Debt Relief Order fees and doubling the Universal Credit budgeting advance loan repayment period; and uprating all working age benefits in full by September 2023's CPI of 6.7% and protecting the triple lock for over 12 million pensioners, whilst delivering a substantial 9.8% rise in the National Living Wage, impacting millions.

Many noble Lords raised funding for local authorities, including Lord Sikka, Lord Eatwell, Lord Young and Baroness Kramer. The Government has delivered a balanced package of funding through the Local Government Finance Settlement for 2024-25. The 2024-25 Settlement makes available up to £64.7 billion for local authorities in England and includes a package of additional measures worth £600 million, of which £500 million is new grant funding for social care authorities.

In the 2010s, the local government funding system introduced greater local retention of business rates. Some grants, such as the Revenue Support Grant, were reduced alongside this. The Government monitors the financial health of councils on a regular basis using a range of data as well as through extensive direct engagement. The Government stands ready to speak to any council that has concerns about its ability to manage its finances or faces pressures it has not planned for.

Lord Young asked about plans for the new British ISA. The Government is consulting on the details of the UK ISA including its implementation, after which the Government will respond in due course.

Lord Sikka raised the child benefit cap. The two-child limit policy limits the additional Universal Credit elements paid for each child to the first two children, to ensure that the support available through means-tested benefits to each family is sustainable.

The Government believes that this maintains fairness between claimants and those taxpayers who support themselves solely through work by ensuring they face the same choices, with exemptions put in place to protect certain groups.

Lord Leigh commented on VAT checks for imported goods valued under £135. Since 1 January 2021 VAT is due on all imports of goods into the UK, and online marketplaces are liable for the VAT where they facilitate the sale. For most goods imported in consignments valued at £135 or less, VAT is collected at the point of sale and away from the border. This treatment ensures the continued flow of goods at the UK border, clamps down on non-compliance and protects revenues. It also protects VAT-paying UK businesses from unfair competition from overseas businesses bringing in imports VAT-free. The reforms are working well and analysis certified by the Office for Budget Responsibility estimates that they will raise £1.8 billion per annum by 2026-27.

Fiscal compliance checks continue to take place at the UK border, including checks to confirm that the correct valuation has been declared at import. In addition to risk-based checks at the border, HMRC carries out extensive risk-based compliance activity away from the border using various data sources to identify and tackle non-compliance.

Finally, the Government's policy for imports of goods valued under £135 prevents unexpected costs for the UK customer as the buyer no longer has to pay taxes, duties and handling fees to the parcel carrier before their goods are delivered, and they will see a VAT-included price at the point of purchase.

Baroness Moyo asked for specific plans to encourage investment. The Government continues to make progress on implementing the recommendations from Lord Harrington's review into foreign direct investment, to ensure the UK remains a top destination for internationally mobile investment. As announced at Autumn Statement, the new Ministerial Investment Group will meet monthly from Spring 2024 to drive ambition on increasing inward investment across government and ensure government can be proactive and competitive in its offer. We are also reviewing the Government's financial incentives landscape, with a view to simplifying and streamlining processes to ensure they are investor friendly. To implement the Review's recommendations, government is backing the Office for Investment and Department for Business and Trade with additional resource.

In addition, the Government has set out an ambitious growth package designed to boost business investment. This package also speaks to Baroness Kramer's question on industrial strategy. It includes making full expensing permanent, a tax cut to companies of over £10 billion a year, to ensure we have one of the most generous capital allowances regimes in the world; reforming infrastructure planning and grids connections to remove barriers to investment; and strengthening capital markets, increasing pension fund transparency and facilitating investment in UK companies. The Government is also backing the UK's priority growth sectors - advanced manufacturing, green industries, life sciences, creative industries, and digital technology and AI. The Spring Budget announced over £1 billion of new tax reliefs for creative industries. It also set out next steps in delivering a £4.5 billion funding package over the five years to 2030 for strategic manufacturing sectors – automotive, aerospace, life sciences, and clean energy – which are developing cutting edge technology and driving our transition to net zero. Together with existing support, decarbonisation plans, and wider measures outlined in sector strategies such as government's Advanced Manufacturing Plan, this provides long-term certainty that will unlock investment - levelling up communities across the country with higher-paid jobs, improving our energy security, and helping to grow the sectors of the future. The OBR expects that policies announced in the previous three fiscal events will increase the size of the economy by 0.7% by 2028-29, including through a boost of £14 billion in business investment.

Baroness Sheehan asked about the green economy and tax and Baroness Kramer also highlighted climate change in relation to industrial strategy. Tackling climate change is vital for the UK's long term economic prosperity and energy security. We are confident in the strength of the UK's existing offer, having halved emissions since 1990, faster than any major economy, and we have set out clear plans to decarbonise the UK economy in Powering Up Britain. This Budget includes tax changes to better support delivery of our climate and environmental objectives, including restoring the real terms value of landfill tax and extending the scope of Agricultural Property Relief (inheritance tax) to remove a potential barrier to making long-term land use change from agricultural to environmental use. More broadly, HMRC have also identified taxes which have direct environmental impacts, and have developed methodologies to quantify them. For example, monitoring and evaluation work is being carried out on the new Plastics Packaging Tax, which is designed to reduce the consumption of virgin plastics. The Government is committed to keeping all taxes under review and assessing their environmental and climate impacts where relevant.

Baroness Kramer also asked about the definition of SMEs. The Government has recently announced policy changes around how SMEs are defined for corporate reporting. The Government intends to lay legislation this summer to lift the monetary thresholds that determine company size by 50% to take account of inflation and to reduce burdens on smaller businesses. Overall, the effect of these changes is that 5,000 large companies would be reclassified as medium-sized and access more proportionate reporting; 13,000 medium-sized companies would be reclassified as small companies, enabling them to benefit from exemptions to statutory audit requirements as well as the ability to file shorter and simpler accounts; and 113,000 small companies would be reclassified as micro-sized companies which will allow them to file simpler accounts: a benefit for more than one in every four businesses that are currently classified as small. The legislation will take effect so that companies can benefit for financial years starting on or after 1 October. More detail can be found in the Written Ministerial Statement made by Lord Johnson[1] and in the Government's Impact Assessment.[2]

Baroness Bennett's question concerned progress on Restoring Your Railways. Since being announced in January 2020 the Restoring Your Railway Fund has developed an ambitious portfolio of potential restoration schemes to reconnect communities across England and Wales. This includes delivering the Okehampton line in November 2021 and Marsh Barton and Thanet Parkway stations in July 2023. The Northumberland line is due to commence passenger services from three stations in summer this year.

The Government built on the Restoring Your Railways programme in Network North, announced last year. This included commitments in the Midlands, including reopening the Ivanhoe Line between Leicester and Burton and reopening the Oswestry-Gobowen line; building a new station in Meir on the existing Crewe-Derby line; and reopening the disused Barrow Hill and Stoke-Leek lines. Further commitments in the North include restoring the Don Valley Line between Sheffield and Stocksbridge, as well as building new stations at Haxby on the York to Scarborough line; Waverley on the Sheffield to Gainsborough line; and Ferryhill in County Durham.

Lord Bird asked about providing sufficient social and affordable housing. Our £11.5 billion Affordable Homes Programme for 2021-26 will provide tens of thousands of homes across the country. This includes work to scale up to deliver more new homes specifically for social rent, as well as providing low-cost homes for ownership and specialist supported housing.

The Lord Bishop of Worcester commented on Official Development Assistance (ODA) spending. The Government remains committed to returning ODA spending to the 0.7% of Gross National Income (GNI) target when the fiscal situation allows. In accordance with the International Development (Official Development Assistance Target) Act 2015,

[1] https://questions-statements.parliament.uk/written-statements/detail/2024-03-19/hlws353
[2] https://www.gov.uk/government/publications/non-financial-reporting-review-impact-assessment

the Government will continue to review and confirm each year whether this is possible against the latest fiscal forecast, with spending assumed at around 0.5% of GNI until then. Parliament has endorsed ODA fiscal tests to determine this, requiring that ODA spending returns to 0.7% GNI when the independent Office for Budget Responsibility's fiscal forecast confirms that, on a sustainable basis, we are not borrowing for day-to-day spending and underlying debt is falling.

The economic and fiscal context remains challenging; although the growth outlook has improved, headline debt is at one of the highest levels since the 1960s and debt interest spending remains at the second highest level since the Second World War. Spring Budget was delivered within the Government's fiscal rules – debt is forecast to fall as a share of GDP in five years' time, but headroom to debt falling remains low. We are committed to get debt falling to ensure the public finances are on a sustainable path, providing the foundations for economic growth and increasing resilience to future shocks. The Government will increase ODA spending to 0.7% of GNI if it expects to meet the ODA fiscal tests in the following financial year. At Autumn Statement 2023, we confirmed that OBR forecasts showed that the ODA fiscal tests had not been met for 2024/25 but that debt would be falling, and the current budget balanced in 2027/28.

In the meantime, the Government will spend around 0.5% of GNI per year to support the most vulnerable across the world. The UK remains a champion for international development, and one of the most generous global aid donors, spending nearly £12.8 billion in aid in 2022 as the third highest G7 spender of ODA as a percentage of GNI. This support saves lives and protects the most vulnerable around the world. We will remain a world leader in development, not just through the impact of our ODA spend but also through our business, trade, civil society, research, and technology expertise.

I would like to thank all noble Lords once again for their contributions to the debate. I am copying this letter to all speakers of the debate, and a copy will be placed in the Library of the House.

Yours,

Charlotte

BARONESS VERE OF NORBITON