The Rt. Hon Nicky Morgan MP  
Chair of the Treasury Committee  
House of Commons  
Committee Office  
London  
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December

Dear Nicky,

Thank you for your letter dated 13th December.

Transport spending
I said I would write to you on the regional distribution of transport investment and to provide the latest published figures. Since the hearing, the Secretary of State for Transport has written to all MPs to clarify the regional distribution of central government transport investment. As he set outs, when looking at a broad regional picture the figures show that spending is relatively even. Between 2017/18 and 2020/21, the three Northern regions (North West, North East, Yorkshire and Humber) will see transport investment totalling £1,039 per capita, compared to £1,076 per capita across the Midlands and East of England and £1,029 per capita for the Southern regions (London, South East and South West).

These numbers have been calculated using the Infrastructure and Projects Authority’s (IPA) analysis of the National Infrastructure and Construction Pipeline 2017, published on 6 December.

The pipeline analysis sets out per-capita regional investment figures for overall infrastructure investment in Table 2 while Table 17 in Annex B of the report provides a regional breakdown of planned central government spending on transport infrastructure. This is also on a per-capita basis and covers spending from 2017/18 to 2020/21. It shows that all nine English regions are within 33% of the national average.

The methodology used in establishing these numbers is laid out in Annex B of the report, and highlights that the allocation of spending by region does not equate to the benefit regions will receive. This is because the pipeline does not currently reflect supply chain effects or economic benefits to regions, such as agglomeration.

You have also requested details of transport spending’s Gross Value Added impact on the regions and countries of the UK. This is important when considering the impact that investing in transport has as supply chains often stretch across the country. For instance, Crossrail has 60% of its supply-chain outside of London. However, I cannot provide a comprehensive assessment as this type of analysis has not been undertaken on a project-by-project basis. Officials are currently considering to what extent this could be produced.
As the Secretary of State for Transport has said, I hope the analysis set out above sets the record straight and underscores the government’s commitment to long-term investment in infrastructure in all areas of the country.

**National Productivity Investment Fund**

At the Budget, I announced an extension to the National Productivity Investment Fund by an extra year, and increased the total from £23bn to £31bn, committing further investment for programmes that will address our productivity challenges. Updates to the profile, including reductions in 2017/18 and 2018/19, reflect changes to the public balance sheet and decisions on how best to support new housing programmes.

Housing Associations were reclassified by the Office for National Statistics and now sit outside the public balance sheet. Therefore spending on NPIF programmes financed by housing associations (which are now in the private sector) has been removed from the profile; these programmes will continue to be delivered as planned, but now impact the public balance sheet differently. The Accelerated Construction Programme has also been reprofiled: it will still deliver the 15,000 homes promised at Conference last year, but for nearly one third of the costs. Savings from the Accelerated Construction Programme will contribute to the further £2bn for affordable housing announced at Conference this year, which we expect to deliver at least 25,000 new affordable homes. The government has also increased the size of the Housing Infrastructure Fund from £2.3bn to £5bn.

Overall, total housing allocations under the NPIF have increased from £8bn to £11.5bn, funding programmes which are critical to put us on track to increase housing supply to 300,000 on average per year by the mid-2020s.

**Exiting the European Union: decision-making**

The establishment of the EU Customs Union is set out in Article 28 of the Treaty on the Functioning of the European Union. As the UK will no longer be a Member State, or under the treaties once it leaves the EU, it will not be part of the EU’s Customs Union. The UK will therefore need to seek a new customs arrangement with the EU that facilitates the freest and most frictionless trade possible in goods between the UK and the EU, and allows us to forge new trade relationships with our partners in Europe and around the world. In assessing the options for the UK’s future outside the EU Customs Union, the government will be guided by what delivers the greatest economic advantage to the UK, and by three strategic objectives: ensuring UK-EU trade is as frictionless as possible; avoiding a ‘hard border’ between Ireland and Northern Ireland; and establishing an independent international trade policy.

As outlined in the European Council’s guidelines published last week, the EU has agreed to negotiate a transition period covering the whole of the EU acquis in the next phase of negotiations. This will include how the UK will participate in the Customs Union during that period.

**Exiting the European Union: the impact of alternative arrangements**

The Treasury’s pre-referendum long-term analysis was based on existing alternatives to European Union membership and within the range of external studies. The Prime Minister has since made clear that the United Kingdom aims to agree an ambitious and comprehensive
economic partnership with the European Union that is of far greater scope and ambition than any existing free trade agreement. The government is in the process of carrying out a programme of rigorous and extensive analysis that will contribute to the exit negotiations. Parliament has voted not to disclose material, such as this analysis, that would reveal the United Kingdom’s position in the negotiations. We have however committed to keep Parliament informed, provided that doing so would not risk exposing our negotiating position.

The OBR’s statutory mandate
The OBR’s remit is clearly defined in the Budget Responsibility and National Audit Act 2011, which is to ‘examine and report on the sustainability of the public finances’. In doing so, the OBR must produce at least two forecasts per financial year which must include the fiscal impact of government policy where it can be quantified with reasonable accuracy. I fully expect the OBR to include the impact of the withdrawal agreement into their forecasts as soon as sufficient information is available; however I cannot dictate when that may be. Nor can I commit the OBR to publish analysis specifically for a Parliamentary vote. This would risk drawing the OBR into the political debate which could undermine its reputation as an independent and objective institution.

Finally, you mentioned you had received a letter from Mark Atkinson, the Chief Executive of Scope. I too have received a letter, and have replied.

I explained that at the Treasury Select Committee on Wednesday 6th December I made a broad point about the trade-off between increased participation in the workforce and productivity. Both the Institute for Fiscal Studies and the Office for Budget Responsibility have suggested that increasing overall employment (by creating 3 million new jobs since 2010) may have had an effect on measures of productivity.

I was not suggesting – and do not believe – that increased participation by people with disabilities has had any negative impact on the economy. There are now over 600,000 more disabled people in work than there were four years ago. This has helped to increase economic growth – and disabled people make a hugely valued contribution to our society. I am very proud of our record, and accept there is more still to do.