Thank you for giving evidence to the Committee on 6 December. I am writing to follow up on a number of points raised.

Transport spending

In response to questions from Committee Members, you agreed to provide (a) transport spending per capita for each country and region of the UK, and (b) the Gross Value Added of transport spending in the countries and regions of the UK.

National Productivity Investment Fund

There was some uncertainty about the numbers quoted to you regarding planned spending from the National Productivity Investment Fund in 2017-18 and 2018-19.

Table 3.1 of Autumn Statement 2016 shows £23.6bn allocated to the NPIF up to 2021-22, of which £6.2bn is allocated in the financial years 2017-18 and 2018-19.

Table 4.1 of Autumn Budget 2017 shows £31.1bn allocated to the NPIF up to 2022-23, but only £4.7bn is allocated in financial years 2017-18 and 2018-19.

The Committee would be grateful to know why, despite the overall increase in the size of the fund, spending in the first two years has been reduced.
Exiting the European Union: decision-making

You told the Committee that leaving the single market and customs union was not a “decision”, but rather a “logical fact” that followed from the UK’s departure from the EU.\(^1\)

You later emphasised that:\(^2\)

> It is not a decision at all. On the contrary, it is not a decision. It is not a decision.

You added that:\(^3\)

> I have always been clear since well before the referendum that this [leaving the single market and customs union] would be a logical consequence of a decision to leave the European Union.

I would be grateful if for your reflections on the consistency of the evidence above with that given by you to the Committee in October 2016, reproduced below:\(^4\)

**Chair:** […] We must be leaving the customs union, must we not?

**Mr Hammond:** We have not made any decision on that yet.

The Annex to this letter contains further extracts from that evidence that illustrate that customs union participation was being treated as a decision within government.

I also offer you the opportunity, should you wish to take it, to explicitly rule out the UK participating in a customs union with the EU as part of its end-state relationship.

Exiting the European Union: the impact of alternative arrangements

You told the Committee that the Government had “modelled and analysed a wide range of potential alternative structures” for the UK’s relationship with the EU, but that to make such analysis public would be “deeply unhelpful to the negotiation”.\(^5\) You also described the spectrum of future possible outcomes as “ranging from high alignment and high access through to low alignment and low access”.\(^6\) I would be grateful to know whether the analysis you referred to is consistent with the overarching conclusion of the Treasury’s pre-

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\(^1\) Oral evidence taken on 6 December 2017, HC 600, Q303
\(^2\) Ibid, Q321
\(^3\) Ibid, Q322
\(^4\) Oral evidence taken on 19 October 2016, HC (2016-17) 777, Q11
\(^5\) Oral evidence taken on 6 December 2017, HC 600, Q304-5
\(^6\) Ibid, Q300
referendum work; namely, that, other things equal, high-alignment, high-access models are superior, in economic terms, to a low-alignment, low-access models.\(^7\)

Also, you said in evidence that “my understanding is that the OBR’s statutory mandate is to produce two reports a year, two forecasts a year”.\(^8\) The Budget Responsibility and National Audit Act 2011 specifies that the OBR should produce fiscal and economic forecasts “on at least two occasions each financial year”.\(^9\) There is no statutory prohibition on the OBR undertaking an additional fiscal and economic forecast, outside the usual Budget or Spring Statement timetable; but it would generally be for you to commission it. I would be grateful for a commitment that you will do so, and ensure the OBR is resourced accordingly, should the necessary details of the Withdrawal Agreement not be known in the forecast immediately prior to Parliament’s decision-making on the Agreement.

Finally, since you gave evidence to the Committee, I have received correspondence from Mark Atkinson, Chief Executive of Scope, regarding your comments about the link between higher levels of employment and lower levels of productivity, in particular with reference to higher levels of employment amongst disabled people. Should you wish to add any further clarifications to your comments, I will draw Mr Atkinson’s attention to this response.

I will put this letter and your response into the public domain. The Committee looks forward to hearing from you again after the Spring Statement.

The Rt Hon. Nicky Morgan MP
Chair of the Treasury Committee

\(^7\) HM Treasury analysis: the long-term economic impact of EU membership and the alternatives
\(^8\) Oral evidence taken on 6 December 2017, HC 600, Q299
\(^9\) Section 4(3)
Annex: extracts from evidence taken on 19 October 2016

Q44 Helen Goodman: [...] One of the things I am concerned about is the impact on the UK economy if we leave the customs union. It is clear that the other EU member states would expect British exporters exporting into the union to comply with the rules of origin, and the OECD has estimated that this adds 24% to the cost of goods. This was in the Treasury's analysis that was published before the referendum and, on the front page of The Guardian today, there is a story saying that the Treasury has concluded that leaving the customs union would cut GDP by 4.5%. Are you doing work on the impact of leaving the customs union?

Mr Hammond: I cannot comment on a leaked document.

Helen Goodman: Of course you cannot. I am not asking you to.

Mr Hammond: Clearly the Guardian article was reporting a discussion that it claims was held in the same committee last week, which answers your question. Yes, clearly work is being done on this issue by the Department for Exiting the EU and the Treasury, working together in collaboration.

Q45 Helen Goodman: [...] Have you made an assessment of the loss of competitiveness if UK exports into the EU had to pay the tariffs?

Mr Hammond: Helen, certainly one of the areas that we are studying is what the implication of WTO tariff regimes would be for different sectors of the UK economy. It obviously bites differently on different sectors, because tariffs vary enormously under the WTO rules, just as we are looking at the different components of the customs union. The customs union is about country-of-origin rules; it is also about processes and procedures at borders, physical controls, and the inefficiencies that they can introduce into logistics processes.

I can assure the Committee that the Treasury, working with other Departments of Government, is looking at all of these areas and many more to analyse the benefits and the costs of different courses of actions, so that the Prime Minister can be fully informed when she has to make difficult decisions, trading off between different possible solutions in a negotiating process.

[...]

Q51 Helen Goodman: [...] Would you put on your wide range of options to consider the possibility of not being a member of the single market, but staying in the customs union?

Mr Hammond: As I said, I am trying not to rule anything out.