

Speech: 'What should the Spending Review focus on?': speech by the Chief Secretary to the Treasury

2019 is a massive year for British politics

And not just because it's the year I joined Taylor Swift's squad.

As we leave the European Union, we have an opportunity to set out a new economic agenda.

We're leaving the era of post-crash consolidation and recovery.

And we're entering a new era of growth and opportunity for Britain.

When we reach out to a much wider world...

...we are friends and rivals pushing us all to greater heights.

This will be a year of change and renewal for Britain.

Leaving the European Union with the Prime Minister's Brexit deal gives us back control over our money, laws and borders.

And we should use this opportunity to think about the future.

This year's Spending Review, where we will set budgets from 2020 through to 2023, allows us to make a real and lasting impact.

We will have the power to modernise the state, making it sleeker, more effective and better value for the people it serves.

We have got a big opportunity to unleash economic growth, as well as the potential of everyone in the country – giving them the chance to take control of their own lives.

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We should be guided by three principles.

1. First of all, we should focus on people's priorities not the blob of vested interests.
2. Second, for a free market economy to succeed – everyone must have a shot.
3. Third, the state should help people on the margins take control of their

own lives – not tell capable citizens what to do.

I start from the principle that every pound in the exchequer is money that somebody has worked hard to earn.

That means we have a responsibility to make sure that public money is spent on public priorities, not those of vested interests.

But there is a growing blob of lobbyists, corporations, quangos and professional bodies who ask again and again for Government favours – arguing that they are the exception, that their cause deserves special treatment.

But if we gave in to all their demands, what would we squeeze out? And should they be taking money from those on relatively low earnings, who could be spending it on a new car, a holiday, or a treat for their children?

I want to make sure that the Spending Review works for people right across our country, from Plymouth to Perth and Darlington to Dereham – people that go to work every day and don't have the time or money or inclination to hang around Whitehall.

This should be the People's Spending Review.

That's why I'm travelling around the country asking the public what their priorities really are.

So far, I've been in Felixstowe, Walsall and Tadcaster.

People have told me they want money focussed on core public services – the police, education, roads, defence and the NHS

We have already started on this. The Prime Minister and the Chancellor increased spending on the health service – with a £33.9 billion annual cash increase by 2023/24 – making it the government's No. 1 spending priority.

And we're also making sure the health service reduces waste so that more money is spent on the front line.

That is the approach we're going to take across the Spending Review – making sure we're prioritising the core services that people want.

People are also very clear that they don't want to see the government waste taxpayers' money.

Let's not forget how angry people get when politicians get this wrong. [Political content removed] or the EU blowing our money on things like dog fitness centres and donkey milk research projects.

This waste betrayed contempt for the taxpayer, and damaged their faith in politicians.

We must never go there again. It's still underappreciated in politics how much people hate their money being frittered away.

The public have little truck with the nanny state or with vanity projects.

They don't want their hard-earned cash spent on announcements designed purely to get column inches.

Or on billboards that brag about the government's generosity. They don't want to hear that their money is used for corporate subsidies. Or to prop up zombie industries. Or to be told exactly how much to eat or how much to exercise.

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Support for business spread over numerous government departments including tax credits, costing around £18 billion.

Across the board there were hundreds of opaque organisations with ill-defined aims demanding public money for their latest pet project...

...erecting barriers and piles of bureaucracy and admin.

We have reduced the number of quangos from 561 in 2013, to 305 in 2017.

But it is still the case that the administration budget of these bodies costs us £2.5 billion.

And that too many hard-working public servants and business people are spending their time filling in forms and applying for grants.

There are those prophets of doom who say the size of the state must inexorably grow. But, as we leave the EU, I'd point to some of those countries we are now competing with.

Countries like South Korea and Japan show that it is perfectly possible to fund the services people care about while keeping taxes low...

...the way to do it is to grow the economy – just as we have for the past nine years...

...so that we have more pie to share out.

And at the same time prioritise ruthlessly – keeping the people's interests at heart.

We will do this during the Spending Review.

In the zero-based capital review, we will look at the major projects we are investing in, and asking whether they are really working for us – whether they are having positive effects on growth and the wealth and wellbeing of individual people.

We need to make sure we are upgrading and maintaining our public realm, while also focusing on the less sexy projects – the nitty gritty that has a high return on investment. One example is local transport around our cities and counties – the journey into work each day that really affects everyone's

lives.

It was one of the top priorities for people I met. They want the local roads fixed and not to have to sit in a traffic jam. They want a less crowded commute into work. They want the basics sorted.

British cities lag our continental neighbours in terms of local public transport connections. Leeds is the biggest city in Europe without a mass transit system. (Don't I know it from my time spent on the no19 bus.) And the two most congested commuter lines in the country are the train lines going in to Manchester.

Birmingham, meanwhile, has a Metro with just one line, whereas Lyon, a city half the size, has four.

It means that the people in the city have to rely on slow buses that get stuck in traffic.

And in effect creates a barrier that stops people commuting in from the suburbs.

A study from CityMetric shows that Birmingham's productivity is 33% lower than a city of its size should be – in large part because of its poor cross-city transport.

That's why we have funded Andy Street, the inspirational Mayor of the West Midlands, to the tune of £400 million to improve and extend the city's Metro.

Projects for commuter line improvements and local roads generally have a much higher return on investment than long distance routes. That's why we created the £2.5 billion Transforming Cities fund – because we know that these are the sorts of projects that make a real difference to productivity, and to people's lives.

By focusing on the core services that matter to the public, we can boost growth – both personal and economic.

And we can do so while keeping taxes low – which means that people have more freedom to spend on their own priorities, and more of a stake in their own future.

We're opening up opportunities for people across Britain.

Thanks to our policies:

- More children from low income backgrounds are now going to university.
- More young people are setting up businesses.
- We've got fewer workless households than ever before

- And because we've cut stamp duty, over half of new homes are being bought by first time buyers

But we must go further, if we are to grow our economy.

To be a successful popular free market economy – everyone has to have a shot at success.

I came into politics because I want Britain to be a success story and that means everyone in the country being a success story.

Everyone, regardless of their background, has to believe that they can be a successful business person, a judge, or even a leading politician.

I came from a comprehensive, went on to Oxford University and became a Cabinet minister.

But I was very lucky in having great parents and good teachers – things in my early life that gave me the opportunity to go far.

Not everyone has that, and success in life should not be a fluke of circumstance.

A fully functioning free market depends on the success of new entrants generating new ideas.

So we have to crack down on any entrenched privileges that stop talented people coming through.

- It's still the case that eight schools get as many students into Oxbridge as three quarters of all schools put together.
- It's still the case that seven in ten senior judges are the product of a private education, ten times the proportion in the general public.
- It's still the case that 90% of Venture Capital funding deals in the UK go to all-male teams.
- And it's still the case that – because of our restrictive planning system people are paying a greater proportion of their income in housing than ever before.
- In 1947 people were paying less than an eighth of their total expenditure on housing – now it's over a quarter. And people who rent in London are spending half their income on rent.

If we don't deal with these entrenched barriers, it will undermine people's

faith in our economic model [political content removed].

These barriers cost us all dearly.

They block people's path to success, stopping them get the education, the job and the home that their efforts deserve.

And the public pay the penalty twice over.

Because they have to pay higher taxes to paper over the cracks:

Next year we will spend £34 billion on housing support, over £1 billion in support for the fuel poor, and over £17 billion on out of work benefits.

All of that comes from taxpayer's pockets, so it's in all our interests to eradicate these barriers.

Inside every one of us are aspirations and dreams.

And the role of government shouldn't be doing things on people's behalf like an overbearing helicopter parent. It should be clearing the barriers to their success.

So how do we do this?

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Finland carried out a trial in 2017 to see if universal basic income could solve their high unemployment rate.

But, after giving a random sample of 2,000 people £560 a month to do what they liked, they found they were no more likely to find work.

The programme removed the incentive to work and earn.

And the OECD warned them that in order to expand the programme across the country, they would need to increase income tax by nearly 30%.

After all the fanfare, the promise of free money for all was revealed to be as expensive as it was ineffective.

In the UK, just as in Finland, the answer is to create a truly free market, in which everyone has a chance.

Where everyone has a chance to work – the best route out of poverty.

And not just work, but succeed – to move in and move up.

And that means identifying the barriers to success, and taking them away.

What people need is not handouts or Universal Basic Income, but the Universal Basic Infrastructure of life.

The foundations of living a full life in a modern free enterprise country.

Foundations that give people the chance to get where they want to go.

Access to good education...a good home with fast internet...and good transport links to get to a good job.

That's why we have reformed the welfare system to get people off benefits and into work...

...and we're also investing in capital at a 40-year high, as the Chancellor reiterated at the Spring Statement.

As we improve rail, roads and fibre right across the country, we'll be guided by our industrial strategy, and use our zero-based review to make sure we are getting maximum value for the public.

We're also transforming education with our academy and free schools programme.

And in housing, we're reforming our planning system, just as places like France, Germany and Japan have.

I'm delighted that James Brokenshire is soon launching his planning green paper – I look forward to seeing what's in there.

At the Spending Review we're going to look at every bit of spending and make sure it is delivering for everyone regardless of their background.

To make sure that everyone has that Universal Basic Infrastructure to be successful.

There are people who talk down success.

They demonise profit.

They believe any one person's triumph must come with another's failure.

They are wrong and they damage the prospects for those one lower incomes by taking the ladder away.

Success is not a zero-sum game. If we get the conditions right, it's there for everyone to grasp.

If we give everyone the platform for success, and the chance to run their own business, or work in someone else's...

...we will help people achieve their potential, solve social problems, and increase economic growth.

But we also need to recognise that there are some people who will not yet be capable of using this platform.

Perhaps because they are struggling with health conditions or addiction. Or because they have missed out on a basic education.

Or because they have been traumatised and left in despair after suffering the consequences of crime.

And it should be government's responsibility to prioritise support for these people – helping those on the margins move to a position where they can take control of their lives.

And to stop any more people getting into that position in the first place.

It's a simple idea: that we should spend more on the areas which have the biggest impact, and less on those that don't.

And it points towards the moral case for proper public spending control.

That every pound wasted on a pet project could have been used to change someone's life.

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- Giving more children in care the best start in life.
- Or more support to help disabled people get into work.
- Additional focus on preventing grooming and child sexual exploitation, so that more girls in places like Rotherham and Oxford don't see their futures taken away from them.

Targeting spending towards those who genuinely cannot do without the state's help is the way to spend money well.

I saw how the No Wrong Door programme in North Yorkshire provides a loving family like environment for the children in their care. I spoke to a young man there who had now got a job but came back regularly because he knew they were looking out for him. This programme has reduced crime and improved health but most importantly it's giving these children a lodestar in their life – encouragement to succeed.

We are rolling out up to 20 more programmes like this and will be looking at this area in the Spending Review.

I'm a great believer that we should not tell capable adults what to do. And that we all need the freedom to make decisions, good or bad, and live our own lives.

But we all have a duty of care to make sure that children growing up in Britain have the best start in life.

In this country, we spend just over £3,000 per pupil in early years, just under £5,000 in primary, just over £6,000 in secondary, and we contribute approximately £6,500 to students' university education.

The academic evidence shows that when it comes to intervention the earlier the better. Professor James Heckman argues that focusing investment between birth and the age of five “creates better education, health, social and economic outcomes that reduce the need for costly social spending”.

Of course, shifting funding towards earlier intervention is difficult. This requires us to be patient. Too often we question why a policy hasn't worked immediately.

Take our phonics scheme, which has helped our nine-year olds us rocket up the European literacy rankings, and proved one of our biggest policy successes of recent times – championed by Nick Gibb.

The benefits will be felt most in 10-20 years' time, when these children are entering the world of work and starting their own families.

These children are not yet in secondary school, much less the jobs market.

But in the future, we'll have more independent adults able to succeed.

And so this is exactly the sort of long-term policy the government should be supporting.

That's why we we're working with the Office of National Statistics on valuing Human Capital.

This sounds like a dry concept, but what we're really talking about is how do we maximise everyone's opportunities – how do we give everyone the best chance of living a healthy, successful life.

Using this as a lens for the Spending Review will help direct resources to improve people's opportunities while keeping taxes low.

We will constantly ask ourselves the consequences of our spending decisions on people's lives – not just in the here and now... but long into the future.

By cutting out unnecessary activities that drive up costs for the government...

...we can cut taxes so that people can keep more of their own money...

...make sure everyone in Britain has the basis of success...

...and afford to help the most vulnerable.

For the first time in many years, we have the power to make positive decisions. We've got choices.

We're throwing off the constraints of the post-financial crash world.

And the constraints of the European Union.

We're now in a position to make Britain a success story into the future.

By growing the economy, and realising the potential of everyone in our

country.