



House of Commons
Business and Enterprise
Committee

Departmental Annual Report and Scrutiny of the Department for Business, Enterprise and Regulatory Reform

Fourteenth Report of Session
2007–08

*Report, together with formal minutes, oral and
written evidence*

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The Business and Enterprise Committee

The Business and Enterprise Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Mr Adrian Bailey MP (*Labour, West Bromwich West*)
Roger Berry MP (*Labour, Kingswood*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)
Anne Moffat MP (*Labour, East Lothian*)
Mr Mark Oaten MP (*Liberal Democrat, Winchester*)
Mr Mike Weir MP (*Scottish National Party, Angus*)
Mr Anthony Wright MP (*Labour, Great Yarmouth*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via http://www.parliament.uk/parliamentary_committees/parliamentary_committees

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/berr.cfm

Committee staff

The current staff of the Committee are: Eve Samson (Clerk), Emma Berry (Second Clerk), Robert Cope (Committee Specialist), Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Lorna Horton (Committee Assistant) and Jim Hudson (Senior Office Clerk).

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1 Scrutiny of the Department

Introduction

1. On 3 October 2008, the Prime Minister appointed Peter Mandelson, then EU Commissioner for Trade, as Secretary of State for Business, Enterprise and Regulatory Reform. Mr Mandelson took his seat in the House of Lords as Lord Mandelson of Foy and Hartlepool on 13 October 2008. He gave evidence to us on 21 October 2008. This session had been arranged to examine the Departmental Annual Report, but inevitably ranged very widely.

2. Before that evidence session, Mr Alan Duncan MP, Shadow Secretary of State for Business Enterprise and Regulatory Reform, wrote to the Chairman of the Committee, expressing concern that, as the Secretary of State was not a member of the House of Commons, the House was limited in its ability to hold him to account. He claimed “The fact that there is no Cabinet level minister for the Department of Business in the House of Commons means I have concerns that a normal system of democratic accountability across the House of Commons has become impossible”.¹

3. Lord Mandelson is fully aware of the potential concerns arising from his position in the House of Lords. Even before we took evidence from him, he had proposed to the Chairman that the Committee take evidence from him regularly, and we have agreed that he will appear at least three or four times a year. We have no doubt that he will be properly accountable to the Committee, and we recognise his willingness to co-operate with us.²

4. Select committee accountability is important, but it is not the only way in which the House of Commons scrutinises government departments. The question then arises as to whether there should be more direct lines of accountability between Lord Mandelson and the House of Commons as a whole.

Previous practice

5. We recognise that it is far from unprecedented for a Cabinet Minister to sit in the House of Lords. Since 1979, there have been seven occasions on which departmental secretaries of state have been Members of the Upper House.

Date	Name	Position
May-1979-Apr 1982	Lord Carrington	Foreign Secretary
Apr 1982 – June 1983	Lord Cockfield	Trade Secretary
Sept 1985-June 1987	Lord Young of Graffham	Employment Secretary
June 1987- July 1989	Lord Young of Graffham	Trade and Industry Secretary

1 See Q 43

2 See Q 35

May 2003-Oct 2003	Baroness Amos	International Development
June 2003-May 2007	Lord Falconer of Thoroton	Lord Chancellor and Secretary of State for Constitutional Affairs
May - June 2007	Lord Falconer of Thoroton	Lord Chancellor and Secretary of State for Justice ³

6. Although the last two examples might be discounted, as part of the evolution of the Lord Chancellor's Department into the Ministry of Justice, and the evolution of the Lord Chancellor's role into the Secretary of State for Justice, there is no doubt that holders of significant offices have sat in the House of Lords relatively recently.

7. However, in those cases, the secretaries of state were supported by heavyweight ministerial teams in the House of Commons, and, in most cases, another Cabinet Minister dealt with departmental business in the Commons. When Lord Carrington was Foreign Secretary, not only did the Lord Privy Seal, a fellow member of Cabinet, answer Foreign and Commonwealth Office questions,⁴ the FCO contained three or four ministers of state and a parliamentary under-secretary.⁵ For most of that period, the junior ministers were all members of the Commons.⁶ When Lord Young of Graffham was Secretary of State for Employment, Kenneth Clarke MP, Paymaster General and a member of Cabinet, answered employment questions.⁷ In addition, Lord Young was supported by at least two parliamentary under-secretaries from the Commons.⁸ When Lord Young was the Secretary of State for Trade and Industry, he was also supported by fellow Cabinet Ministers, first Kenneth Clarke MP, Chancellor of the Duchy of Lancaster and Minister for Trade,⁹ then Tony Newton MP, as Chancellor of the Duchy and Minister of Trade and Employment.¹⁰ In addition, throughout the period, the department had three parliamentary under-secretaries in the Commons. In all these cases, Parliamentary Questions were tabled to a Cabinet Minister.

8. There are some cases where Cabinet posts have been held by a member of the Upper House and there has been no Cabinet Minister answering for the department in the Commons. When Lord Cockfield was Secretary of State for Trade¹¹ between April 1982 and June 1983 the Department had two ministers of state and an under-secretary, again all

3 The Committee is grateful to the House of Commons Library for this list and much of the other information relating to the dates when particular Ministers held office. Other information is drawn from the Ministerial lists at the front of each volume of Hansard.

4 Ian Gilmour MP held the office from May 18 1979; Sir Humphrey Atkins MP took the office on Oct 29 1981

5 At the beginning of the period there were four FCO Ministers of State, but the number was subsequently reduced.

6 Lord Trefgarne was parliamentary under-secretary from 1981-82. Otherwise, all FCO ministers other than the Foreign Secretary himself appear to have been MPs.

7 For example, Kenneth Clarke MP made an enterprise and employment statement, then closed a debate on industry and employment on 12 November (ibid, Vol. 86, Col. 444 and 526 respectively) and answered questions relating to employment on 3 December 1985 (Parl Deb, Vol 88, Col. 137)

8 There were three under secretaries in the Commons from September 1985 to January 1986

9 From 13 June 1987-25 July 1988

10 25 July 1988 to 24 July 1989

11 Industry was at that stage a separate department

members of the Commons. In 2002, Clare Short MP was supported by a single parliamentary under-secretary in her post as Secretary of State for International Development. Baroness Amos held the position from May to October 2003; it is significant that from June 2003, she was supported by a minister of state in the Commons, as well as the parliamentary under-secretary (a post which remained in the Commons). As the Office of Lord Chancellor has evolved, so has the weight of the Commons ministerial team. In October 2003, as Secretary of State for Constitutional Affairs, Lord Falconer of Thoroton was supported by four parliamentary under-secretaries in the Commons, two of whom had responsibilities for Scotland and Wales respectively. By November 2005, the responsibilities for Scotland and Wales had been moved, and he was supported by a minister of state in Commons, and parliamentary under-secretary in each House. When the Ministry of Justice was created, in May 2007 Lord Falconer was supported by two ministers of state and three parliamentary under-secretaries in the Commons, and one parliamentary under-secretary in the House of Lords.

The current situation

9. In contrast, ministerial responsibilities in the Department for Business, Enterprise and Regulatory Reform are distributed as follows:

Lord Mandelson	Secretary of State for Business, Enterprise and Regulatory Reform
Pat McFadden MP: Minister for Employment Relations and Postal Affairs (Minister of State)	Employment relations ACAS Postal policy and the Royal Mail and Post Office portfolio of the Shareholder Executive Insolvency Service (including companies investigations) Strengthening regional economies Olympic legacy Transformational government
Gareth Thomas MP: Minister for Trade, Investment and Consumer Affairs (jointly with DfID) (Minister of State)	Trade policy (a shared BERR/DfID responsibility) UK Trade & Investment (reporting jointly to the Business Secretary and the Foreign Secretary) EU competitiveness and the Single Market Services Directive Consumer affairs Competition issues
Ian Pearson MP: Economic and Business Minister (jointly with HMT) (Parliamentary Under-Secretary)	Business sectors: aerospace, marine and defence; automotive; bioscience and pharmaceuticals; chemicals; construction; environmental industries; manufacturing, materials and engineering; retail and services Sustainable development and regulation (including waste electrical and electronic equipment issues) Business support simplification Corporate social responsibility Corporate governance Companies Act implementation and Companies House Export control Export Credits Guarantee Department

<p>Lord Carter CBE: Minister for Communications, Technology and Broadcasting (jointly with DCMS) (Parliamentary Under-Secretary)</p>	<p>Communications and content industries Electronics and IT services Creative industries Better Regulation Executive, including regulatory budgets Better regulation within BERR</p>
<p>Baroness Shriti Vadera: Minister for Competitiveness and Small Business (jointly with Cabinet Office) (Parliamentary Under-Secretary)</p>	<p>Competitiveness, enterprise, growth & business investment Small business Business Council for Britain General oversight of Shareholder Executive and its portfolios</p>

That means there is a single dedicated minister of state, Mr Pat McFadden MP, in the Commons. A second minister of state, Mr Gareth Thomas MP, is shared with the Department for International Development, and the only parliamentary under-secretary in the Commons, Ian Pearson MP, is shared with the Treasury.

10. We do not question the individual competence of Commons’ ministers in the Department for Business, Enterprise and Regulatory Reform. However, the pressure of work upon them is immense; not only do they have to master their own portfolio, but they also have to deal with matters as important as competitiveness, small business, communications and the creative industries on behalf of their colleagues in the House of Lords. Furthermore, we do not see how Members of the House of Commons can effectively make their voices heard when such a significant proportion of the ministerial team is based in the House of Lords or shared with other departments. In the past, in similar circumstances, it has been usual for Members of this House to be able to seek responses from a Cabinet minister, who would be made aware of MPs’ concerns directly. Given current economic circumstances—and the heightened need for Members to be able to approach ministers easily, including informally, on matters of urgency—it is particularly unfortunate that the department for business is so thinly represented in the Commons.

Possible remedies

11. It is open to the Prime Minister to rebalance the ministerial team in some way; for example, it would be possible to follow earlier precedents and ensure that a Cabinet Minister in the Commons is able to answer on behalf of the Department, and, if not formally attached to the Department, still have a post which allows him to be involved in its affairs. If this does not happen, we believe something more should be done.

12. When we discussed accountability with Lord Mandelson he suggested “you alter the Standing Orders of the House of Commons to allow Lords heads of department to come and answer questions in the Commons”.¹² Although he admitted that he was “way beyond my comfort zone”¹³ we believe he has identified one of the key mechanisms for accountability to the House. Moreover, although questions are an important and regular feature of our proceedings they are, procedurally speaking, relatively informal; no motions

12 Q44

13 Q45

are moved or resolutions agreed. The time has come to look again at whether or not there is a mechanism by which Members of the House of Commons could, at least, put oral questions to the Secretary of State for Business, Enterprise and Regulatory Reform in the same way as they can to secretaries of state in this House.

13. The most obvious method would be to allow him to appear at the Despatch Box to answer oral questions, like other ministers. Whilst we recognise that many of our colleagues will have an instinctive dislike of the idea of a peer appearing in this chamber, we would point out that peers have entered the House of Commons before. Lords can appear before the Commons as witnesses, if they consent to do so,¹⁴ and earlier editions of Erskine May give details of the procedure, in which Lords are seated within the bar of the House.¹⁵ Indeed, there are precedents for peers addressing the House directly, as did Lord Melville in 1805 and the Duke of Wellington in 1814.¹⁶ If the House could show such flexibility two centuries ago, we believe it should be able to act in a similar spirit now.

14. If an appearance in the Chamber is considered too radical, then there are other options which could be explored. We note that the Standing Orders provide for a Minister of the Crown, whether or not a Member of the House, to make a statement and answer questions upon it in a grand committee, meeting in a large committee room.¹⁷ Again this seems to us a precedent which might be usefully adapted. It might also be possible for Lord Mandelson to appear in Westminster Hall, the parallel chamber.

15. The obvious solution, and the neatest, would be to amend Standing Orders to allow the Secretary of State to answer questions at the Despatch Box. But this may encourage governments to appoint more members of the House of Lords as heads of department, and that would be an unwelcome and significant constitutional change. Detailed discussion about a mechanism for parliamentary questions to the Secretary of State for Business, Enterprise and Regulatory Reform is best taken forward by the Procedure Committee. However, we are convinced such a mechanism is needed, particularly at a time of such economic turmoil. We call upon our colleagues to look at this matter urgently, and upon the Government to co-operate fully in such an inquiry, particularly given the concerns expressed by the Secretary of State himself.

14 *Appearance of members and peers before the Commons*, Erskine May, 23rd edition, page 309

15 *Examination of witnesses at the Bar in the House of Commons*, Erskine May, 22nd edition, page 263

16 The Journal of the House of Commons for 1 July 1814 records:

Lord Viscount *Castlereagh* acquainted the House, that the Duke of *Wellington* having desired that He may have the honour to wait upon this House, His Grace is now in attendance.

Resolved, That the Duke of *Wellington* be now admitted.

And a Chair being set for His Grace on the left hand of the Bar towards the middle of the House, He came in, making his obeisances, the whole House rising upon His entrance within the Bar; and Mr, Speaker having informed Him, that there was a Chair in which He might repose himself, the Duke sat down covered for some time, the Serjeant standing on His right hand with the Mace grounded; and the House resumed their Seats; His Grace then rose, and, uncovered, spake to the effect following...

(1813-14), page 413-414; Lord Wellington was there to give his thanks to the House for their vote of thanks for his public service and his arrival in this kingdom (after bringing the Napoleonic Wars to a glorious result). The vote of thanks itself was agreed on June 27, 1814. The Battle of Waterloo took place on 18 June 1815.

17 See Standing Order No 96(1) (Scottish Grand Committee), No.105(1) (Welsh Grand Committee); and No. 112(1) (Northern Ireland Grand Committee)

Formal Minutes

Tuesday 18 November 2008

Members present:

Peter Luff, in the Chair

Roger Berry
Mr Brian Binley
Mr Lindsay Hoyle

Mr Mark Oaten
Mr Mike Weir
Mr Anthony Wright

Draft Report (*Departmental Annual Report and Scrutiny of the Department for Business, Enterprise and Regulatory Reform*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read, and agreed to.

Paragraph 15 read, amended and agreed to.

Resolved, That the Report, as amended, be the Fourteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report

[Adjourned till Tuesday 20 November at 10.45 am

Witnesses

Tuesday 21 October 2008

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Rt Hon Lord Mandelson, Secretary of State for Business, **Sir Brian Bender**, Permanent Secretary, and **John Edwards**, Director General, Finance, Department for Business, Enterprise and Regulatory Reform

Ev 1

List of written evidence

1 Department for Business, Enterprise and Regulatory Reform

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List of Reports from the Committee during the current Parliament

Session 2007–08

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Sixth Report	After the Network Change Programme: the future of the post office network	HC 577
Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367
Eighth Report (First Joint Report of Committee's on Arms Export Controls)	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Ninth Report	Construction matters	HC 127
Tenth Report	Post Office finance: matters arising from evidence taken on 10 June 2008	HC 662
Eleventh Report	Energy prices, fuel poverty and Ofgem	HC 293
Twelfth Report	Post Office Card Account: successor arrangements	HC 1052
Thirteenth Report	Companies House	HC 456

Oral evidence

Taken before the Business and Enterprise Committee on Tuesday 21 October 2008

Members present

Peter Luff, in the Chair

Mr Adrian Bailey
Roger Berry
Mr Brian Binley
Mr Michael Clapham
Mr Lindsay Hoyle

Miss Julie Kirkbride
Mr Mark Oaten
Mr Mike Weir
Mr Anthony Wright

Witnesses: **Rt Hon Lord Mandelson**, a Member of the House of Lords, Secretary of State, **Sir Brian Bender**, Permanent Secretary, and **Mr John Edwards**, Director General, Finance, Department for Business, Enterprise and Regulatory Reform, gave evidence.

Q1 Chairman: Secretary of State, Permanent Secretary, welcome. I was not going to ask you to introduce yourselves—I thought that was a little otiose in the circumstances—but we have a third witness, so I will, as I usually do, begin by asking witnesses to introduce themselves for the record.

Lord Mandelson: Peter Mandelson, Secretary of State for Business, Enterprise and Regulatory Reform.

Sir Brian Bender: Brian Bender, the Permanent Secretary.

Mr Edwards: John Edwards, the Director General, Finance.

Q2 Chairman: Mr Edwards, thank you for joining us. Secretary of State, happy birthday.

Lord Mandelson: Thank you very much. I cannot think of a nicer group of people with whom to spend it.

Q3 Chairman: You are obviously in charm mode today. That is very good!

Lord Mandelson: But I am assuming I will not spend my entire birthday with you.

Q4 Chairman: We imagine about two hours, Secretary of State, until half past twelve, something like that.

Lord Mandelson: We will whiz through it.

Q5 Chairman: There is a lot to whiz through! Can I begin on a consensual note, though I am sure the whole session will be consensual, by expressing our gratitude over the last three years for the very good relations we have enjoyed with your department under its three previous secretaries of state? You are our fourth secretary of state in three years. We are really moving on some. Can I express particular public gratitude to the department under your predecessor, John Hutton, actually for accepting the major recommendation of the Committee's most recent report on the construction industry for a post of a chief construction officer. That is quite a radical recommendation, which the Government has

embraced, and so we are very grateful for that. Today was to have been, and still is, the annual session we have with the department on the departmental annual report, and you have kindly stepped into the shoes vacated by John Hutton, who had agreed to be before us on this day. I think today's session may have a rather different flavour to the one we expected when we set it up, for three reasons really. First, the machinery of government changes that have come from the reshuffle and the changing accountability of ministers to Parliament that have resulted from that. Frankly, within that also your own position, Peter, which I think will attract some interest from members of the committee as well. Secondly, the recession. I think we are allowed to use that word now—I think it is now official and, if it is not, I apologise for using it—which means we do, I think, have to discuss with you the steps the department is taking to address the very real economic challenges that the country faces. Third, I had not expected to raise this with you today, but, in the light of your comments to *The Financial Times* yesterday about Royal Mail Group, we will be asking you some questions about your intentions in relation to Royal Mail and, indeed, your other comments about flexible working, which I am sure members of the committee will address during the session on the recession. I was noting on the BBC website on your biography that when you were appointed Britain's EU Commissioner William Hill were offering odds of three to one you would not serve your full term. So they had to pay out, presumably, but not quite for the reasons they expected. What odds do you think they will be offering this time round?

Lord Mandelson: I am sure I shall enjoy the eternal confidence of the bookies of the country. I hope so. Can I say, first of all, yes, there was a report in *The Financial Times* yesterday about the Royal Mail, but I am afraid it is not based on any conversation I have had with them in the last 24, 48 or 72 hours. If I am quoted in that article, it must be a quote from some time before the article appeared. On the subject of flexible working, I did not give an interview to *The*

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Independent either, and I gather that both the headline, and the introduction to this story, owes more to the inventiveness of the subs than the journalist who actually wrote it. Having said that, I am very happy to answer questions on both those subjects.

Q6 Chairman: You have already issued partial clarification; I am sure more will be forthcoming later. We are grateful for that.

Lord Mandelson: I have had to put up with a sort of media narrative which has owed more to lifestyle journalism than economic and business analysis, and the only thing that has been absent from this narrative is, sort of, sex, drugs and rock and roll, but no doubt that will be rectified in the coming Sunday newspapers. I, of course, await it with bated breath.

Q7 Chairman: Remind me, was it McMillan who said that politicians talking about the press were like sea captains complaining about the weather. I cannot remember

Lord Mandelson: No complaint from me. I have grown to love them all—like my family.

Q8 Roger Berry: I am no great enthusiast for many of the media and their behaviour, but the FT article specifically refers to an interview you gave to *The Financial Times*. Have you any idea what the date of that interview was? It might be helpful in judging the veracity or otherwise of the FT story.

Lord Mandelson: I think the interview is based on the conversation I had with a journalist from *The Financial Times* when I was first appointed, but as it was a rather casual conversation, unwitnessed and unrecorded by anyone from my office, I am afraid I can only rely on my own recollection of what I said. I did not find the report in *The Financial Times* alarming in any way; it just was not based on an interview given there and then to that newspaper.

Q9 Chairman: Let us return to the Royal Mail a little later on in the questioning if we can. I do share your concern that we do not get sidetracked today by the more excitable comments made in the press in the last few days. Just one point of clarification. I do not know if you have found this out yet. The House of Lords' Register of Members' Interests requires members to keep something on record for three years before it falls out. In the House of Commons' register it is only for a year. Are you required to retrospectively declare back to 2005, or does that requirement really take effect from your appointment? Do you know?

Lord Mandelson: I would have to take advice on that.

Sir Brian Bender: We will have to take advice. I had assumed it was from the appointment. We will need to check.

Q10 Chairman: Thank you very much.

Lord Mandelson: But remember that during my time as European Commissioner I was governed by a code there, which is obviously not the same as the code governing ministerial behaviour in our own

country, but it is, nonetheless, a code, and I did not depart in my actions or behaviour from the terms of that code.

Q11 Chairman: Fine. Let us go to issues of perhaps more substance. When you were last Secretary of State for Trade and Industry (and I have to say this Committee still prefers that name for the department), it was a bigger department than it is now. You have lost at least three things of some significance for different reasons. I think this committee rather reluctantly accepts the case for a separate Department for Energy. It is an important issue. Do you want to comment on the loss of energy since you were last at the department?

Lord Mandelson: I think it makes good sense for energy and climate change to be brought together. I dealt with both those issues as a member of the European Commission during the last four years, and they were almost always bracketed together in the discussions we had in the Commission and in the policy development that we brought forward. So I think it makes good sense to bring these together in the one department, which I believe Ed Miliband will lead very ably. I will work closely with him on how energy issues impact on businesses. In fact, I think we are meeting later today for our first "bilateral" to discuss the overlap between his work and responsibilities and mine. I am also going to attend the Business Energy Forum, which includes the CBI and other business organisations. So I think we all have a very positive agenda to take forward together on the creation of a low carbon economy, as well as a challenging agenda in meeting our carbon reduction targets, whilst maintaining energy security and affordable energy prices for businesses and consumers. I think these issues are absolutely vital for UK business. They offer a major opportunity for British business gaining first mover benefits in the energy market but also capitalising on the technology transfer, and other overseas market openings, for the supply of environmentally related goods and services. So we are in a very good position to benefit, we are in a good position to be market leaders, we are in a very good position to lead by example to the rest of the world and, I believe, in a very good position to participate, visibly and actively, in the negotiations leading up to the Copenhagen Conference at the end of 2009.

Chairman: So that is a yes, you see the logic for taking it from the department. We were going to ask this a little later on, but I will bring Mick Clapham in now and then Lindsay Hoyle.

Q12 Mr Clapham: Secretary of State, is it possible to say how the loss of energy policy is going to impact on the department's budget, and could you also say a little about the impact that it might have on staff, what kind of numbers of staff you have lost as a result?

Lord Mandelson: It might be better if I ask Brian Bender to comment on that. I know that there are a myriad of briefing figures that will help you understand what is going on, but whilst I find them—in fact here they are. Approximately £2.2

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billion of BERR's programme and capital budget is expected to transfer to DECC, including £1.8 billion committed to managing energy liabilities; £35 million of the administrative budget is expected to transfer to DECC, leaving BERR with an administrative budget for 2008–09 in the region of £297 million. There is a chance that the figure transferring to DECC could rise as the details are worked through. As for staff, at the moment it is estimated that 520 staff will be transferring from BERR to DECC.

Q13 Mr Clapham: Does that include, for example, the coal health aspect of your Department?

Sir Brian Bender: I should say, the details have yet to be finalised. So what the Secretary of State said and what I am about to say is provisional, but the planning assumption is that the work on coal health will move across, and the other planning assumption yet to be confirmed (and that affects the biggest part of the budget) is that the budget for the Nuclear Decommissioning Authority will move across, although the Shareholder Executive would continue from within BERR, carrying out its overall relationship and governance role with the NDA.

Q14 Mr Hoyle: Glad to see you back at the Committee. It seems a long time. It is a long time!

Lord Mandelson: It has been a long time but it makes the return all the sweeter.

Q15 Mr Hoyle: Let us see if we can stir the sugar a little then! Obviously, you are renowned to have an appetite for work, and as the Chairman has said, we are losing big chunks of the Department, it seems to be a rump of a department, nothing like what you have overseen in the past. Is there anything that you believe you can bring into the Department to bolster its role?

Lord Mandelson: I think that what I can bring is two things at the outset. One is the ability and determination to focus very strongly on the interests of UK business and their need to get through the current economic difficulties that we are facing and to emerge stronger on the other side, and I just want to emphasise this, if I may. We are not simply the fire brigade at BERR, rushing to put out the flames that have been ignited by the financial crisis in the United States which has then spread like wild fire across the global economy. We will do our bit, and I will be very active indeed in formulating an action programme for business that helps all British business, but particularly small and medium-sized enterprises, to get through the worst that is going to hit us, but it is equally important that we not only steer the country through and nurse and restore the economy back to health but we also limit the damage to the UK economy in the short term that will reduce our performance in the long term.

Q16 Chairman: Can we take those questions a little later on. We do not want to go too far down that particular avenue at present.

Lord Mandelson: Okay. I have a second point which I want to make, which is simply the experience and knowledge of the world I have gained as European Trade Commissioner, and I hope very much that my Department and the Government and the country as a whole will benefit from that.

Mr Hoyle: I think that could lead me to my point. I am pleased to hear you say that you are here for UK Plc, because it is very difficult to swap horses from a job in Europe to, now, UK Plc. That is the first point. Your priority is for UK Plc. I am sure you can assure us of that, and, of course (something the Chairman touched on), can we go back to the name that is well trusted and well-known around the world, and that is DTI, rather than our Chairman having to suffer the name BERRC.

Chairman: We actually forewent that pleasure when we dropped regulatory reform, there being another committee; so we are now at your beck and call rather than BERRC's.

Q17 Mr Hoyle: Surely, now is the time to put the trust back in by changing the name, but I think it is a reassurance to say you have given up Europe, it is all about UK Plc.

Lord Mandelson: It is all about UK Plc, but I know a lot more about how Europe works and how we can open markets around the world to the benefit of British businesses. Let us be under no illusions about this, we have a very, very strong productive base in the UK. We have very strong companies which are very well positioned in overseas markets. What we have got to do is to ensure that those overseas markets remain open for our business, and I am talking not just of tariffs but of non-tariff barriers behind the border barriers which are as effective, or, to put it another way, lethal in excluding access for our goods, services and investment as the more obvious tariffs. So I can draw a great deal on the experience I have gained in opening up markets around the world and ensuring that fair trade rules operate around the world, because we are very reliant on that rules-based international trading system to make sure that we have a fair size of the global economy which, optimistically, we can note, is going to double in size in coming decades. So our job here is, as I say, not just to get through the worst but to make sure that we are in a strong enough position to sustain and, hopefully, expand our relative share of global markets.

Chairman: You manifest that very powerfully. We have got slightly distracted from the line of questioning we wanted to pursue, but Mark Oaten wants to come in quickly.

Q18 Mr Oaten: I am just drawing on that European experience. When you were acting in that role were there any EU issues you were overseeing or some EU legislation and regulations which you felt actually worked against British interests?

Lord Mandelson: I do not think so. I shared with the British Government a concern about the impact on our labour market of certain bits of European legislation—the Agency Worker Directive and the Working Time Directive. I think in respect of both

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those pieces of legislation we have arrived at a sensible point of consensus between the Commission and the European Council, the Member States, and I hope that that will be endorsed by the European Parliament as well.

Q19 Mr Wright: Very briefly, Secretary of State, you mentioned that some of the portfolios have changed within the Department. Surely you must be disappointed with that position, because, as I understand it, the budget of the Department is going to be reduced from £6 billion down to less than £2 billion. So you must be disappointed, from your previous role in the DTI, that you have had taken away really a lot of the meat of the Department, or do you consider that is going to give you more opportunities to look at the business and enterprise side?

Lord Mandelson: I think so. £6 billion was, of course, the size of our budget when we had science included.

Q20 Chairman: That was my next question. Perhaps we can come back to Tony's question. Brian, can I bring you in after I have finished this. I was going to ask about science specifically, because although I think this committee sees the logic for energy, I think we are more nervous about science innovation, which has a very strong link with business and enterprise and driving the economy. You used to oversee the science budget and were very interested in that part of the Department's work. What do you feel about science?

Lord Mandelson: You are asking me to comment on decisions that are taken way above my pay grade.

Q21 Chairman: Nothing is way above your pay grade.

Lord Mandelson: Well, higher anyway.

Mr Hoyle: Can you share your private view then?

Q22 Chairman: We are among friends!

Lord Mandelson: I know, it would be very easy to take you all into my confidence. Look, I will be honest. If I had been asked at the time what my view was about where science should be placed within the Government machine, I think I would have made a strong argument in favour of it remaining at BERR, but there is a case, equally, for it moving to a department which includes universities. If you remember what I was about when I was in the DTI the last time, the basis of the White Paper that I brought forward, *Building a Knowledge Driven Economy in Britain*, had as its cornerstone, its seabed, Britain's science base, and what I promoted at the time was a bridge between the research that took place in universities, the excellent science base that we have in this country and the commercial sector, and I was always promoting and looking for ways in which it would be possible—I hesitate use this word, but it is unavoidable—to spin off from our science base and the research and development taking place in our universities into commercially based profitable activities to produce high value-added goods and services stemming from the R&D taking place. You could say one part of that bridge is in the

university sector, the other side of that bridge is planted firmly in the commercial sector and the DTI, as it then was, BERR as it now is, could appropriately span the two. We are, however, where we are. It has been agreed, decided rather, that the responsibility for science should transfer, and I have seen no deterioration since I came back in the financing of Britain's science base. It has vitality and I hope also the ability, as I say, to translate, to convert, a science based R&D into commercially profitable goods and services which we can then export throughout the global economy, and that will remain a very important aspect of my work.

Q23 Chairman: I want to come back to Tony's question. Here you are, one of the most powerful men in the Government, running a department that is a shadow of its former self. It has lost energy and it has lost science, two of the big spending items of the department's work and also very important strategically for the economic interests of the country. Curiously, you do hang on to one little corner of your empire, the anti-corruption bit. The officials stay within BERR but they report to Jack Straw at the Ministry of Justice. What is that all about?

Lord Mandelson: What that is all about is that Jack Straw, as the Secretary of State for Justice, has responsibility for law enforcement. He has within his department responsibility for pursuing wrongdoing, but the work that will be done to support his role, I believe, will remain inside the DTI, inside BERR.¹

Q24 Chairman: You were right first time! This is a bit of a puzzle, is it not, because when the job was given to John Hutton, your predecessor, we were told by the Minister of State that it sat naturally with the business and enterprise secretary and now, with your appointment, we are being told it sits naturally with Jack Straw at the Ministry of Justice, but the officials still sit naturally at the Department, your Department. I really do not understand this. It is a bit of a puzzle.

Lord Mandelson: It is a bit of a moving feast, Chairman, because before it was with John Hutton it was with Hilary Benn at DfID. To be honest, I do not think this is the most important item on my agenda.

Q25 Chairman: Were the officials with Hilary Benn's Department?

Lord Mandelson: To be perfectly frank, having travelled the world and seen how other countries and commercial sectors operate from different countries, I happen to think that we have a rather good record in this country in the ethical practice and behaviour of our companies. I do not accept the implications of

¹ *Footnote by Witness:* As noted in a Written Statement of 15 October (Official Record 15 Oct 2008: Col 45WS) the Prime Minister has appointed Jack Straw as Anti-Corruption Champion, a personal appointment complementing his position as Secretary of State for Justice. The official secretariat supporting the Anti-Corruption Champion role remains in BERR, along with responsibility for the OECD Bribery Convention.

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the OECD study, which seems to suggest that we have a bad record or a worse record than others. All I would say is that I have come to the conclusion in the last few years that actually British companies operate pretty ethical behaviour. So, whoever is responsible for it, I believe that they will not have as much work on their plate as some inferences from the OECD report might otherwise suggest.

Chairman: I will not pursue the question too much, but I am puzzled by the fact the departments remain under the responsibility of the permanent secretary but not his secretary of state. It does seem very strange. Let us go back to Tony Wright's question. The Department has been shrunk. Tony, do you want to remind the Secretary of State what it was?

Q26 Mr Wright: I think you have probably answered it, Secretary of State. It is just on the basis that it was a £6 billion department, now £2 billion, taking away what I consider is the meat of the Department, certainly in terms of energy, and I think you have probably explained that, but I just wonder what is the future of the Department. You must be hugely disappointed to come into a department that has certainly lost a lot of its emphasis and leaves you with very little to deal with, probably reporting to other departments and discussing with other ministers the way forward. I am confused as to what direction this Department is actually going. Are you going to look for other areas you are going to bring into the Department or are you there to say perhaps other parts can now leave this Department and we lose business and enterprise altogether?

Lord Mandelson: I understand the point you are making, but I do not think that BERR is going to be short of work in the coming years, given what the British economy is going to go through as a result of the global financial crisis or the global financial recession, which, as we know, is having reverberations throughout the global economy; not just in the developed world but amongst the emerging economies as well. I have been told to be an effective voice for business in government, and that is why last week I instructed my office to issue a memorandum to the whole of the Department which I called an *Action Programme for Business*. It is about being completely focused on getting the UK business through the present economic downturn and emerging stronger on the other side. Therefore, the *Action Programme for Business* will include the following areas.

Q27 Chairman: Can we do that when we come to the economy? We think we can usefully start our section on the economy with those questions.

Lord Mandelson: I am very happy to, but I do not think you can for long separate a discussion about what the Department is doing from the state of—

Q28 Chairman: I accept that.

Lord Mandelson: I am happy to come back whenever you wish.

Chairman: The Chairman is aware of that, I can assure you, but we want to try and stick to a rough order. Brian Binley, then Julie Kirkbride, then we will move on to questions of accountability.

Q29 Mr Binley: Secretary of State, the Chairman described you as one of the most powerful men in Government, and I am sure we all recognise that. Therefore, you will appreciate that the relationship between yourself and the Prime Minister is of import to our understanding of how you might be effective in the role in which you are now placed. Can I probe a little bit in that respect and start by saying that on Sunday you accused, or are reputed to have accused, David Cameron of swinging around like a pendulum. Is not that, in truth, what you have been doing by oscillating between the last Prime Minister and the present one over the past 15 years?

Lord Mandelson: Did I say swinging around like a pendulum or swinging back and forth like a pendulum?

Mr Binley: I will take the latter, if that is what you mean?

Q30 Chairman: It may be more than a semantic point.

Lord Mandelson: This exacting linguistic precision is very important to me.

Mr Binley: Of course it is.

Q31 Chairman: A play for time!

Lord Mandelson: Since you have raised the issue, it did strike me that one minute the Leader of the Opposition seemed to be all over the bankers like his best friend and then running for cover as if he could not abide them.

Q32 Mr Binley: I understand what you meant about Cameron. Will you tell me how it relates to your oscillations between Mr Brown and Mr Blair over the last three years, which was the essence of the question?

Lord Mandelson: I think the unified thread that runs through both premierships is my belief in the outlook, the philosophy and policies of New Labour. I do not feel that I have oscillated very much, to be honest. I think most people would regard me as pretty rock solid, standing very firmly on New Labour ground, and I am not for budging.

Chairman: There we are, Brian. That is your answer.

Q33 Miss Kirkbride: We were talking a moment ago about your experiences as European Trade Commissioner, and I wondered now, with your new hat on as Secretary of State for Business and Enterprise, whether you were at all worried by the prospects of the outcome of the American election, which might make America more protective?

Lord Mandelson: I think that is a really important point. If the reaction to what is happening in the global economy is people turning inwards, seeking a protectionist response to what is happening, leading to other economies in the developed world and amongst the emerging economies following suit, then we will very fast start to see a shrinking of trade, and

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that will result in a lowering of living standards and prosperity for all of us, not just ourselves and Europe. My own approach is that just as we should reject a do nothing, sit on our hands, *laissez faire* approach to what is happening economically, equally we have to reject, on the other hand, a protectionist approach or response to what is going on. I have been encouraged by what Mr McCain has said publicly about his commitment to open markets and free trade. I have been encouraged by what Mr Obama has said more recently about his commitment. I know that at an earlier point in this presidential race he and Mrs Clinton seemed to be competing with each other for what they thought was a protectionist blue collar vote in the US primaries. I hope that that phase is now behind them and that when either Mr McCain or Mr Obama come into office they will see the paramount need for an international response to be made to the financial crisis globally, that they will be able to give a lead both to the creation of new international architecture that we need to put in place, appropriate regulation of the global financial system, and also will give the lead to reviving the global trade talks, the Doha round, as well, which have run into a siding—they have not collapsed altogether—and I think there is a long agenda that whoever is elected president of the United States will have to take up and embark on and I think we need to be very well placed in this country to join with the United States to encourage them to go in the right direction. These are very big questions and they are very serious ones.

Q34 Miss Kirkbride: I very much agree with you, but bearing in mind the dire straits of the American car industry, to take one of the problems that America has at the moment, do you not think that the Democrats are more likely to be appealing to the protectionist argument given that is their core base?

Lord Mandelson: I know why you say that, but I do not think one should assume that that is the conclusion that a President Obama would reach. There is a lot of discussion to be had with whoever is President, and I think we in Britain are in a very good place to point out the benefits and gains from a free trade, open market approach. It is something on which I have not flagged in promoting and championing. Just going back to Mr Binley's observation, I have worked very closely with the British Prime Minister, the present British Prime Minister, as well as his predecessor, in keeping the United States and its administration well engaged on these international matters, particularly international trade. The Prime Minister has not flagged in his commitment to the world trade talks and I think he personally is in a good position to take up that argument with whoever is elected in the US.

Q35 Chairman: I think we will have to return to this as a separate inquiry at some later stage, given the importance of trade issues (and perhaps when the result of the election is actually known), but thank you for those answers. We do want to turn to questions of the structure of the ministerial team and

your accountability to Parliament. I must declare my interest. I was a special adviser of DTI when Lord Young of Graffham was Secretary of State and at that stage, of course, we had alongside in the Commons a Minister of Cabinet rank, Tony Newton and Ken Clarke—the two people, as far as I recall, who were there at the time. There is nothing wrong in principle in having a few members of the House of Lords in the Cabinet. I understand that. But you had alongside you a rather smaller team and a man held in high personal regard but who is not in the Cabinet. Do you feel that you as Secretary of State are adequately accountable to the House of Commons?

Lord Mandelson: If I can satisfy you in my accountability, then I will satisfy myself. If you feel unhappy as members of the Commons and members of this Select Committee about my accountability, then that would worry me. My job is to demonstrate my accountability *bona fides*. I have written to you about this, as I think you would acknowledge. My desire is, through you, to maintain my accountability to the Commons primarily. There may be other select committees that want to call me, but I know that my principal Commons masters will be this Committee, and I hope that you will help me, enable me, to remain fully accountable, and that might mean that we have to see each other rather more often than we might otherwise have done; but at the same time I will be at the Despatch Box, in the House of Lords, properly questioned by their Lordships, so I will have two channels of accountability in that sense and I hope that I will be able to satisfy you that I am answering properly for the work I do.

Q36 Chairman: This is actually quite a big discussion we are going to have and this is quite serious, because not only is it you that is the issue but also, of the five ministers in your Department beneath you, two of them are in the House of Lords dealing with very important issues: Baroness Shriti Vadera is doing competitiveness of small business and Lord Carter doing communications, technology and broadcasting. Only one of the team is dedicated to the House of Commons, that is Pat McFadden, and Gareth Thomas is shared with DfID and Ian Pearson with the Treasury. So actually we have one Lord's minister and one Common's minister and that is it. So when we want to ask strategic questions about trade on the floor of the House of Commons or about small business or about competitiveness or broadcasting, the part-time ministers in the Commons will have to stand in to answer those questions. There are two issues here. The first is, I do not believe that is a satisfactory model for making your whole department accountable to the House of Commons, never mind your own personal position, and, secondly, I do not believe that Gareth Thomas and Ian Pearson have the time to do justice to these roles. I think there is an issue of workload for your ministers and accountability to the House of Commons. I have to say, I am personally very unhappy about that.

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Lord Mandelson: You obviously need to address your opinions to the Prime Minister. I did not make or divide up this ministerial team. I think you are both being realistic in your description of the hard work and the long hours that the Commons ministers are going to have to embrace, and I have discussed this with them. They are up for it. They are going to have to work very hard, but I do not think it is fair to say, just because Lord Carter, for example, cannot come to the Despatch Box in the Commons to talk about communications, technology and broadcasting, that there will be no ministerial answerability for those issues, because other ministers in the Department will be properly briefed. We are a team and we have a collective effort and responsibility within that team for everything that we do. It is true that Gareth Thomas, the other Minister of State, Pat McFadden being the one, is shared with DfID, but I do not think you will find him holding back in throwing himself into the trade policy work for which he is responsible, the UK trade and investment activity which previously Lord Jones led.

Q37 Chairman: I understand, but he will have to travel, for example, as part of his responsibilities: so then you are down to two Commons ministers?

Lord Mandelson: Just because he travels does not mean to say he will be permanently absent from the House of Commons. I do appreciate the point you are making.

Q38 Chairman: Ian Pearson will have legislation, unusually, to take through the House of Commons as Treasury Minister, which is not normally the case.

Lord Mandelson: He is doing so at the moment.

Chairman: On top of the Finance Bill he has got other legislative measures to take forward as well, so he has also got legislation. There are some very talented and able ministers, by the way, but it is asking a lot of them both in terms of their work load and in terms of their accountability to us. Lindsay.

Q39 Mr Hoyle: I think in fairness, Secretary of State, you are excellent, you can charm this Committee, you can instruct us all round, fantastic, but the truth of the matter is we are talking about part-time ministers who not only can travel but could also have a conflict of interest between the two departments. It is very good of you to say you are going to appear in front of us on a very regular basis, we look forward to it, we do take that on board, but we are not all of the House of Commons. What I would say is the Commons has got to scrutinise the business of departments, and I feel that will not be able to take place with the situation we have got. I think it needs to be looked at. I know of your good relations with the Prime Minister and your charm. We ought to look at the ability to ensure that we have a full-time minister of state that is answerable to the Commons. Let us forget the committee. We know that you are hands-on, we know that you are full-time, but it is the conflict of interest between the

jobs they have got and where they will be at the time they are needed. It is that we want you to take on board and look at.

Lord Mandelson: But there might also be combined interests which straddle two departments. Let me give you an illustration of what I mean. When I was in the DTI before, I did not feel that the division of responsibilities between the then DTI and DCMS really worked for us in respect of communications and digital technology. We were at the beginning of a major technological birth that was going to effect and underpin the development of our economy. To have Lord Carter with a foot in both camps—I am not suggesting that they are rival camps, but they need to be joined up camps—the business side and the communications side in the DCMS. So there are not conflicts of interest in that sense, there are combined interests which, in my view, can be operated more successfully by having Stephen operate from both departments. As you saw last Friday when he launched the work that he is going to undertake to produce the report on Digital Britain, which is of absolutely core importance to our business and commercial future and, therefore, our prosperity in the future, it touches on very real interests and concerns in DCMS. He can then draw on both, bring them both together, combine them and produce one national interest.

Q40 Mr Hoyle: I do not disagree with what you say, but what you have answered is the problem. Of course he may have done a good job, he may be able to go between the two departments and he is answerable to the Lords, but he cannot come to the Commons. That is the whole point. All the balance is weighted to the Lords. The fact is that the House of Commons is the main scrutiny chamber and we have not got that. Of course, you say to me that it is helpful to have shared departments. If we did that, we would have everybody sharing departments so there was, in your opinion, joined up government. What I would say is that we do know that there have been clashes between DTI, BERR, whatever we want to call it today, and International Development. So we can have a conflict of interest. It is those that we wish to take away. What we are saying is we need to have real scrutiny in the Commons. I want to use your good offices to ensure that that can be made available to us, and I think it is something that we can report on as well.

Chairman: Before you reply, Mark Oaten wants to make a related point.

Mr Oaten: The real issue is that perhaps under normal circumstances this structure might just work, but we are not living in normal times—there is an economic down turn, business out there is desperate for support and help—and what message does it actually send to small businesses that the small business minister is hidden away in the Lords? All of these MPs up and down the country have got small businesses asking us to take up issues with Government and we cannot actually address these on the floor of the House with a small business minister. Surely you could have a word with the Prime Minister and say: “These are difficult times.

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The Department has a major task. Give us at least an additional minister to take on the task of supporting small businesses through what is going to be a very difficult period in the year ahead?"

Chairman: Roger.

Q41 Roger Berry: I think you have a ministerial team of outstanding quality, but I do think the message of having only one out of six ministers in the Commons without any responsibility to any other department sends the wrong message to the business community. Indeed, the second point—I will ask your view on this—does it not also invite from the Commons the kind of hostility to the Department for this reason that, frankly, you could well do without?

Lord Mandelson: I hope that will not be the case. I am aware that my ministerial colleagues in the Department have to compensate for the fact that you have got the Secretary of State and other ministers in the Lords and not in the Commons, and we will find ways of doing that. I have not detected any disappointment or unhappiness amongst business about the ministerial make-up of the Department. You mentioned, Mr Oaten, Shriti Vadera. I have never thought of Shriti Vadera being hidden away; her influence and role is, fortunately, extensive.

Q42 Chairman: I have never met Shriti Vadera. We have never called her before the Committee, I have never met her personally, so I regard her as hidden away, despite her very forward public representations. We have a meeting in the diary to meet, by the way, next week for the first time, but I think there is an issue there. Lords ministers are inaccessible to members of the House of Commons.

Lord Mandelson: Are you not reinforcing the point I am making, which is that we have to work overtime to compensate?

Q43 Chairman: I think it is more than that. I have a letter here, and I meant to discuss it with you before hand—I apologise for the discourtesy (and I am not answering here as official opposition, but as the Chairman)—from Alan Duncan, the Shadow Secretary of State, saying, "The fact that there is no Cabinet level minister for the Department for Business in the House of Commons means I have concerns that a normal system of democratic accountability across the House of Commons has become impossible", and he is asking to appear before this Committee to give evidence. That poses very interesting questions that we have not discussed as a committee. I think, at the very least, we are going to have to look at quite innovative and radical solutions to try and address this problem as a committee, and we will have a discussion about that privately later on, but I would welcome any suggestions you have. I think, frankly, you coming before us three or four times a year, welcome as it is and which we embrace and we are thankful for, is not enough. Are there any suggestions you can make to change it?

Lord Mandelson: I do not know what more I can do.

Q44 Chairman: We had a private discussion and it was a frustration David Young raised with me when he was Secretary of State, but there is no mechanism for a secretary to answer questions to the House of Commons directly.

Lord Mandelson: I suggest you alter the Standing Orders of the House of Commons to allow Lords heads of department to come and answer questions in the Commons.

Q45 Mr Oaten: Would you welcome that?

Lord Mandelson: I am now straying way beyond my comfort zone in this discussion.

Q46 Roger Berry: It is on the record now.

Lord Mandelson: I thought this was a private discussion among friends, you said at the beginning!

Chairman: I think we will have to look for infinite solutions. There is one issue about work which still concerns me, the issue of accountability, perhaps some innovation, which I think should be done very quickly, because the House of Commons wants to have ministers verbally accountable to it. It might actually help address the situation. I think it is a matter of considerable concern to every member of the Committee, so far as I can tell, without dissent, that we look at some solutions and have a discussion with you about that. Have we done energy?

Q47 Mr Clapham: No, I can move to energy, Chairman? The Secretary of State will be happy to answer questions on energy, in the sense that his Department still has some responsibility, and I am referring here, for example, to the competition in markets. DBERR has the responsibility for ensuring free and fair markets. What role will that play in the future? Is there going to be oversight within that particular role for the energy markets, assuming, of course, that Ofgem will now be with the new Department?

Lord Mandelson: Ensuring that markets operate freely and fairly is a matter for the independent competition authorities—the first thing to make clear—rather than for the Government. The Enterprise Act 2002 removed ministers from competition decisions, placing them in the hands of the Office of Fair Trading and the Competition Commission. The creation of DECC does not alter these arrangements; they remain the same. What we will do in BERR is maintain close links with the newly created Department, as energy matters are an absolutely vital concern to the UK economy in every respect. So I do not think that you will find any fundamental difference in procedure as far as market governance is concerned. If industry fails to deliver in some sense, then Ofgem can refer the market to the Competition Commission. I think that Ofgem, having on 6 October given the industry notice to end practices, for example, that are failing some customers and to deliver the full benefits of competition to the entire market, illustrates to you how regulation and governance will continue to operate to the benefit of consumers in Britain.

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Q48 Mr Clapham: Within the context of the market we see, for example, the big six energy companies that have become much more integrated from wholesale to retail and we see just recently that EDF have brought British Energy. Do you feel in that sale that there is such competitiveness still retained as to show transparency?

Lord Mandelson: The Government as a whole made clear its support for an EDF takeover in part as being a good way of developing nuclear new build in the UK. The Government expressed the hope that the parties would reach agreement. We have had discussions with EDF to agree a package of sites that EDF would be willing to release under certain conditions to enable a second nuclear operator to enter the market. It is the Government as a whole which is acting and there is continuity in government policy in this handover or change over of responsibilities from one department to another. I think that is what you would expect.

Q49 Mr Clapham: It is a complicated area. As you say, there has been discussion with EDF. Has that been around the nuclear liabilities?

Lord Mandelson: There has been a discussion on that. The creation of DECC will have no effect on the funding of the Nuclear Liabilities Fund, which is an independent legal entity, as you know. When it accepts EDF's offer the proceeds from the sale of the Government's stake in British Energy will go to the fund, to the NLF, and will replace the annual, sort of, cash sweep payments currently made by British Energy. EDF will continue to be responsible for other payments which will still be due to the fund, for example in relation to fuel loaded into the reactor at Sizewell. So, there again, you have a continuity of policy and practice which will not be affected by the change over of departmental responsibilities.

Q50 Mr Clapham: This is an important question because some months ago, when it was first mooted that EDF may well takeover British Energy, there was the question as to their contributions to the Nuclear Liability Fund, but presumably that has now been resolved?

Lord Mandelson: Yes, I think it has been resolved, is my information.

Sir Brian Bender: That is my understanding.

Q51 Mr Clapham: Given that, of course, the sale raised £12.5 billion of funds, is that likely to be put into the Nuclear Liabilities Fund, the £12.5 billion that were raised?

Sir Brian Bender: The British Government has a 35% shareholding, so it would only be that share, but, as the Secretary of State said, as and when the deal is finalised the proceeds from the sale of the Government's stake will go into the NLF.

Q52 Mr Clapham: It will be the proportion of the £12.5 billion?

Lord Mandelson: Yes, that is the Government's stake in British Energy.

Q53 Chairman: This does raise another question of accountability, by the way, which is that there is no Department of Energy and Climate Change Select Committee at present. This Committee intends to exercise its authority in light of its reports over the last few years and, in fact, we are planning a session with Ofgem to discuss their response to our report which we think is material. There is another indicator here that scrutiny of energy policy is absolutely essential, again, to our competitiveness and, indeed, the other issues you rightly set out at the beginning. So I would urge you to make sure your colleagues in Government and the Leader's Office in the House, particularly, bring forward arrangements urgently for a new arrangement for select committees so we all know where we stand. Before we move on to the economy more generally and your action plan for business, which you set out, you have sent out a memorandum to your officials. Would we be able to have a copy of that for the Committee? I am sure it is a document you would be prepared to share with us.

Lord Mandelson: I would be very happy. Do we have a copy?

Chairman: That is a speedy decision. Thank you, Secretary of State. (Document handed to Committee) I think, technically, this is against Standing Orders, but we accept it with pleasure. I will hand over to Roger Berry to pursue the questioning.²

Q54 Roger Berry: Secretary of State, as part of the Government's response to the global financial crisis and its consequences, the National Economic Council was established to replace the Economic Development Committee. Now, apart from adding a few more people to the membership, what exactly is the difference between the remit of these organisations? Was this a message that Government is acting and acting more quickly, or was it a message that this Council has a specifically different function from that of its predecessor?

Lord Mandelson: I think to have such a Council, consisting of all the main Ministerial players with relevant responsibilities to our handling of the financial crisis, meeting twice a week in a very, very focused way, under the chairmanship and relying on the authority of the Prime Minister, is the best possible response we could have made. We meet in the Cabinet Office briefing rooms (COBRA), which provide a very good facility for these discussions to be held, not least because we have projected around us every relevant market movement that has a bearing on our discussions. That sort of technical facility is not available in the Cabinet Room, for example. So I cannot judge how the Economic Committee of the Cabinet functioned before because I was not a member of it, but the drive, the focus and the decisiveness of the Economic Council, I think, is very important. It is impressive to me. It allows for very well-informed discussions and decisions to take place in real time, and not only with the Prime Minister presiding but the Cabinet

² See Ev 18

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Secretary beside him and the relevant Treasury and other officials all present. It enables us to deliver very strong, very decisive, joined-up government. I am not saying that that is not always the case in all parts of the Government (before you leap in) but in this area I really think the machinery that has been created and the performance of Ministers and officials is really impressive.

Q55 Roger Berry: During the recent discussions to address the banking crisis in the UK, what was the involvement at Ministerial level and, indeed, at official level? We had that evening when the most senior bankers in the country were visiting Number 11 and gagging for recapitalisation (and I use the term “recapitalisation” advisedly) over a curry. Were representatives from Business and Enterprise present to ensure that the outcome of those deliberations fully recognised the impact on British business?

Lord Mandelson: Yes, we had a Minister there whom we share with the Cabinet Office, Baroness Vadera, and I know from everything that the Chancellor has said to me since that she made a very valuable contribution to that. They did not just come in for the evening, by the way; shuttles and relays were taking place over a weekend before the “curry night” in question. So there was a lot of activity, a lot of sleeplessness and, also, a lot of decisiveness, and the reason you had that was because you had the Chancellor in the driving seat but you had his new City Minister, Lord Myners; you had Baroness Vadera bring her experience and knowledge to bear—frankly, it was the best possible Ministerial team that you could have dreamed of working at that time. That, I think, is a tribute to the Prime Minister’s judgment and choice of Ministers.

Q56 Roger Berry: Clearly, the financial crisis was the immediate problem that had to be addressed but, obviously, the impact on the real economy and on British business, and so on, is an impact that exercised our concerns very early on. Are you saying that throughout the whole of that process, Secretary of State, your Department has been involved in all discussions to ensure that the impact on British business was going to cause as little damage as possible? Are you happy about the current arrangements for your department’s involvement?

Lord Mandelson: Yes, I am. We have done that, principally, through the Shareholder Executive, which is located in BERR, and as a department we have provided advice on a number of areas to the Treasury regarding its role in the current banking crisis (and is a 100% shareholder of Northern Rock and Bradford & Bingley) because we draw on our experience of handling this sort of government activity and responsibility in the Shareholder Executive. So governance arrangements between the Treasury and the relevant banks has been an area we have been able to contribute to: board composition and remuneration; monitoring business performance; review of business plans and review of proposed transactions. Treasury Ministers and officials are responsible for determining and leading

on these policy matters but we all have a collective responsibility and we have a unique experience to draw on from the Shareholder Executive to ensure that we are doing everything that we need to do to protect taxpayers, to maintain financial stability and to protect customers.

Sir Brian Bender: Can I, maybe, add a point about some wider discussions at Civil Service level? Before the summer break the Permanent Secretary to the Treasury was taking regular meetings among a small group of Permanent Secretaries about developments in the economy. Since the reshuffle and the establishment of the NEC, there is now a weekly meeting co-chaired by the Cabinet Secretary and the Permanent Secretary to the Treasury which I and the department’s Chief Economic Adviser, Vicky Pryce, are attending, to look at, below the NEC, the issues as they are affecting not just the banking sector but the economy as a whole.

Q57 Chairman: Do you think it would be sensible to move to doing banking now? Before we move on to banks in slightly more detail: call me an old cynic if you like, Secretary of State, but the National Economic Council is just another Cabinet sub-committee, except a bigger one, a more unwieldy one and a less fleet-of-foot one. It was a great trumpeting, but it is just a title given to another Cabinet sub-committee—with a rather bureaucratic structure around regional councils and business ambassadors, but it is just another Cabinet sub-committee, is it not, and was not worth great trumpeting? I am not saying it was a stupid thing to have done, but hardly a great solution to all our problems.

Lord Mandelson: I do not think you are right, with respect. I think if you were to attend it you would not characterise it in the way that you have.

Q58 Chairman: It is just the situation of the urgency of the moment—the urgency of the moment giving any Cabinet sub-committee that kind of character; when the urgency has gone away in two or three years’ time it will look what it is—just another Cabinet sub-committee.

Lord Mandelson: Hopefully, the global financial crisis will resolve itself in time. It is stabilising the international financial system that we are all trying to pull together to do. When I say “we are all”, I do not mean in Britain, I mean in—

Q59 Chairman: You are saying that this has a different quality, as far as you are concerned (and you have a lot of experience in Cabinet sub-committees), from the traditional Cabinet sub-committee.

Lord Mandelson: I really do. I really do. I think it is, qualitatively, quite different in its focus, in its sense of urgency, and in the way in which departmental heads and other Ministers come, they are put on the spot and they have to do so very rapidly. We are not sort of going round the houses here, and up and down the garden path, before we arrive at some sort

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of talking point paper that is distributed around the place for a sort of vague discussion. It really is not like that at all. I wish I could smuggle you in.

Q60 Mr Edwards: I would be delighted to receive an invitation.

Lord Mandelson: Then you can see for yourself, because you get a different view of it.

Chairman: I accept the invitation! We will move to banks.

Q61 Mr Weir: There has been some concern raised by the competition within the banking sector following the creation (if it goes ahead) of the Lloyds/HBOS merger, such that the bank would control 30% of the current account market, 28% of the mortgage market, 25% of the savings and 21% of the personal loans market. It has also been pointed out that together with the part-nationalised Royal Bank of Scotland in Scotland the situation is a wee bit worse because the two groups control over 70% of the market. Does that give you concern from a competition point of view?

Lord Mandelson: I am always alert to competition issues and potential abuse of market dominance. I am a hawk when it comes to defending the consumer against inappropriate behaviour by companies in a market. However, as I have made clear from my speech in the Lords last Thursday, when I was moving an Order that would give us the necessary power to enable us to take into account the public interest issues surrounding this merger, that is not to the exclusion of competition aspects and competition considerations. If the merger goes ahead, the merged bank would not be sheltered from competition law as it goes forward from now, and were there to be evidence of market abuse the normal powers would be available to the competition authorities to step in and to protect consumers. So we are introducing an additional consideration, not one that replaces the current competition criterion for judging the appropriateness and acceptability of that merger.

Q62 Mr Weir: But, by implication, that is accepting that the market position it will have when launched (if the merger goes ahead) is acceptable to control 30% of the current account market, for example, within the UK. You are accepting that is—

Lord Mandelson: The OFT will report on this. The OFT will submit a report to me—I think it is due by the end of this week. In fact, they will produce two reports: one on competition issues and the other on the public interest issues of stability in the UK financial system. So there will be two reports looking to the two dimensions on this, which we have now incorporated into UK law as a result of the amendment to the legislation that we have invited Parliament to endorse. So I will await those reports, I will evaluate them both and I will not be ignoring one in order to focus exclusively on the other (you can be most assured of that), but as we go forward we have to keep their activities and behaviour under proper review, and I know that the OFT will do that.

Q63 Mr Weir: The takeover was mooted prior to the Government's injection of billions into the whole banking sector. Given that the circumstances have changed, Consumer Focus, for example, has pointed out that HBOS could perhaps survive as a separate entity through that cash injection, rather than being taken over by Lloyds. Do you think that is a possibility, moving forward?

Lord Mandelson: I do not think that is likely to become attractive either to HBOS or Lloyds. The Government's intervention and the recapitalisation that we have offered, and which they have accepted, is predicated on a merger of the two.

Q64 Mr Weir: They are still separate entities, as I understand it, and they have been offered recapitalisation separately. Would that recapitalisation still be available to the two separate entities if they decided not to proceed with the merger?

Lord Mandelson: As I have said, the recapitalisation that we have offered is predicated on the merger going ahead.

Q65 Mr Weir: It is going into separate entities at the moment. Are you saying they would not get that recapitalisation if this merger did not go ahead?

Lord Mandelson: I am saying that that would entirely change the proposition, and create one in which the current assumptions would therefore no longer apply. However, to be honest, I have not heard either from HBOS or Lloyds TSB that they are thinking of de-merging before they have even come together. You may have more information on that than I have.

Q66 Mr Weir: Is that not a decision for the shareholders, of which the Government is now, obviously, potentially, a very large one, as to whether the merger—

Lord Mandelson: I have not had any indication from other shareholders that they may wish to follow the course that you are hypothesising.

Q67 Mr Weir: I am not pushing a course; I am questioning. What is the Government's view, as a shareholder? Would they be voting for a merger of the two institutions?

Lord Mandelson: We, of course, are not yet a shareholder, in the sense that our recapitalisation and our holding have yet to be fully negotiated and agreed. As I have already said to you, the action we are taking is predicated very clearly on a merger of the two taking place.

Q68 Mr Weir: We will take that as a "yes" then. Part of the Government's view in pushing ahead with the recapitalisation is that there are certain conditions relating to help for small businesses, but there is a situation now where some of the banks are part-nationalised and some are not. How are you going to get those banks which are not part-nationalised to go along with your desire to be lenient to small businesses during the recession?

Lord Mandelson: I am very concerned by what I heard last week from representatives of the small businesses, who I met at the Department last Thursday, and their descriptions of some of the difficulties that small businesses are experiencing with banks. The anecdotal evidence from small firm representatives is that credit lines are being tightened, that the terms and conditions for original loans are being changed and that refinancing is taking place in a way that is more favourable to the banks because of their view that the risk of their lending has become greater. If that is not difficult enough for the small businesses, in some cases banks are charging higher administrative costs to make these changes in the terms and conditions of the refinancing of those lending facilities. So it is a double-whammy that they face. Alistair Darling and I have invited the chief executives of all the banks, not only those that are asking for recapitalisation by the Government, and that meeting will be taking place in the next week or so. We will be discussing this situation with them and asking them to approach—not simply at sort of board level or headquarters level but on the ground, at branch level—these adjustments with far greater discretion, understanding and sensitivity to the financial situation that many small businesses are finding themselves in.

Chairman: Mike, do you have any other questions on competition in relation to the banks, because Brian Binley wants to do small businesses?

Q69 Mr Weir: One final question then. One of the other conditions was that bonuses would not be paid to traders, but *The Guardian* is reporting this morning that the Chief Executive of Lloyds TSB is saying to his employers that they are still getting their bonuses. How do you feel about that?

Lord Mandelson: You are ahead of me on the news. I have not read my *Guardian* today or, indeed, any other newspaper today because I have been busy in Cabinet. So I am really behind the curve on that. It is something that we would, obviously, look at and I am sure it is something that the Treasury will wish to discuss with those banks seeking recapitalisation.

Chairman: Julie has some questions on banks, not related to small businesses, and then we will turn to small businesses and Brian Binley.

Q70 Miss Kirkbride: I was intrigued by your answers about how the HBOS merger will be subject to normal competition rules, because there is a view in the market that Lloyds does not need this merger and would not need recapitalisation if it was not taking on HBOS, in which case it would be able to give whatever it likes to its employees. What is it in Lloyds' interest to do this if you are going to subject them to normal competition rules?

Lord Mandelson: I do not speak for Lloyds. I am not a senior manager or member of the board of Lloyds; I really cannot speak for their decision to seek recapitalisation. They obviously have

information that has caused them to make this request. It is something I think you would really have to put to Lloyds themselves.

Q71 Miss Kirkbride: As a shareholder of Lloyds, the interest that I would have in doing this is that I would have a privileged position in the market. You are now telling me that I will not have it, so why would I want to go ahead with it?

Lord Mandelson: In what way have I said that they do not have a privileged position—

Q72 Miss Kirkbride: Because they would be subject to the normal competition rules, whereas the interest to Lloyds in all of this is that they get 30% of the banking market at the end of it.

Lord Mandelson: Of course they must be subject, in their behaviour in the market, to normal competition rules. Would anyone say that the normal competition rules should be suspended?

Q73 Miss Kirkbride: They are being ignored to allow it to go through, are they not? So, therefore, what is—

Lord Mandelson: All we are doing is adding an additional criterion about financial stability and the public interest in securing that as rapidly as possible. Our judgment is that this merger and the accompanying recapitalisation may well be in the public interest, and that is why we have introduced legislation that enables us to look at that and attach weight to do that alongside the weight that we will attach to the other report from the OFT concerning competition.

Q74 Miss Kirkbride: However, in the future, the fact that they have 30% of the market will not in itself be a reason to launch a competition inquiry?

Lord Mandelson: Not in itself, but that will depend on their behaviour. If the OFT wants to raise further issues along the road and wants to deliver a report to me or to the Competition Commission, it is open to the OFT to do so.

Q75 Miss Kirkbride: You will be aware that when the Government let it be known that this merger was going to go ahead special privileges were given to employment in Scotland for the HBOS headquarters up there, but no specific provision was made about the jobs in Halifax. Do you think that is fair, as the Secretary of State who is involved with employment?

Lord Mandelson: This is precisely the sort of regional dimension which it is important to identify and bring the Regional Development Agencies into play, so that they can address employment implications of what is happening—

Q76 Miss Kirkbride: So Yorkshire Forward should be finding new jobs for Halifax employees in Halifax, whilst jobs in Scotland are going to stay in the banking industry. Is that what you are saying?

Lord Mandelson: I am sure that Yorkshire Forward will be very active indeed, as all the RDAs will be in—

Q77 Miss Kirkbride: Why should the jobs in Halifax be the ones that go rather than the ones in Scotland? Why should there be any decision by the Government as to which ones are more important, as opposed to that being a commercial decision?

Lord Mandelson: You are making a bit of an assumption there about jobs—

Q78 Miss Kirkbride: It is in the document.

Lord Mandelson:—in Halifax. All I can say to you is that I have already seen representatives of the RDAs and I think they are going to have a crucial role to play in the coming months and years. They have proven their ability to intervene to operate with flexibility, to deliver resources, to underpin the work of other public sector bodies and to work very closely with the business community in order to both safeguard jobs and generate new ones. They are going to have a lot of people looking to them during this coming period, and they are going to have to really be at the peak of their game in order to respond to those expectations. It demonstrates to me the wisdom of the Government in creating the Regional Development Agencies.

Q79 Chairman: You are talking yourself into coming and giving evidence to us in our inquiry into Regional Development Agencies. As soon as we get the Sub-National Review published we will have you in and you can talk about them. You are talking yourself into another session.

Lord Mandelson: If you want both of us, I will be there. It just shows, if I may conclude, that RDAs have, in my opinion, a good track record and their speedy, flexible and decisive ability to deliver is going to be even more important—

Q80 Miss Kirkbride: That still does not answer why one set of jobs should be more important, but we will park the RDA. Given that sub-prime got the banks into this position, has the Department made any assessment of the level of corporate debt, and whether that is going to make things worse in the future?

Lord Mandelson: Sub-prime in the United States got all our banks into this position, and the rather complex and uncreditworthiness of the derivative financial products that stemmed from the sub-prime market got us into this difficulty. We are not going to get out of this difficulty entirely until we go back to the core of the problem and to put that right. That is why this crisis started in the banking sector across the Pond, and that is where the remedies have got to start as well.

Q81 Miss Kirkbride: So no worries about corporate debt. One final question: you will be aware that the building societies do not require a rating by the ratings agency, yet the Government now requires local councils to put their money with banks and other organisations that have a rating. Are you at all concerned about this and the potential impact that might have on the building society sector?

Lord Mandelson: I am certainly concerned that the credit ratings agencies need to polish up their performance as well. They need reform, they need clarification of their role and they need to give much sharper, quicker authoritative information to the market than, frankly, has been the case entirely to date.

Q82 Mr Binley: You will know that 60% of private sector employment is with the SME sector; you will know there are about 4.7 million businesses within that sector, and you will know there is some sizeable concern, and they need to know that their Ministers fully understand what their sector is about. What experience do you have of the SME sector and what understanding might you have—and how you gained it—of the culture of small businesses?

Lord Mandelson: I have represented, looked to and, indeed, received support in my stance vis-à-vis small business throughout my time, both as a Member of Parliament and as a previous Secretary of State. I also brought that concern and knowledge into the European Commission where I was a strong advocate of changes in regulation that would benefit small firms. I have never run a business myself—I have run campaigns but not businesses. I think, insofar as a politician is able to expose him or herself to the realities of everyday life amongst small businesses, I have done so. Obviously there are limitations.

Q83 Mr Binley: Of course I understand that. Let me move on from there because you went through a list of concerns that had been voiced to you: interest rates being shoved up to, maybe, 15% or 16%; facilities, maybe, being withdrawn and certainly being lessened; personal guarantees being demanded—all of which puts on extra pressure, and pressure now—and yet you tell me that you are going to meet to discuss this in a week or so. Can I impress upon you, Secretary of State, that small businesses are in serious trouble now and many of their arrangements are being worked out now? Will you give us an undertaking that you will not leave it for a week or two but that you will get in there now and make sure that the banks, which have had billions and billions of taxpayers' money, treat small and medium sized businesses fairly, because many people think they are not? Will you give that undertaking?

Lord Mandelson: Yes, firmly and clearly. I am not dragging my feet, and, to demonstrate that, I can announce that I am meeting the chief executives of the banks with the Chancellor this Thursday.

Q84 Mr Binley: I am delighted. You will tell them to play fair by small business.

Lord Mandelson: I certainly will. Look, there are two aspects of the problems, the challenges, facing small firms: one concerns cash flow and the other concerns access to finance. As far as cash flow is concerned, we have given a very strong lead (and I championed this myself within days of becoming Secretary of State) in announcing that central Government will pay its suppliers, many of whom are SMEs, as soon as

possible and within 10 days at the latest. Yesterday the Regional Development Agencies committed themselves to this, and I can announce today that my colleagues, Hazel Blears and the NHS Chief Executive, David Nicholson, are writing to the local authorities and to the NHS Trusts respectively asking these public bodies to follow suit as well. The other sources of cash flow which have got to act in this context as well are larger businesses themselves. We cannot, as a Government, force larger businesses to make sure that they pay promptly to the, literally, tens of thousands of small firms constituting their supply chains, but we can exhort them to do so and we will do so powerfully and continuously. Obviously, the other aspect of cash flow is not just the sort of cash into these enterprises but cash out, including to the Revenue. The Chancellor has indicated to his colleagues that he is going to look at what options there are for the Revenue authorities to show some discretion and flexibility towards SMEs. I welcome that. There have been particular proposals relating to VAT and to National Insurance. In one case the idea is for concessions to SMEs to be paid for by other businesses, which I do not think will appeal hugely to the other businesses. There is also a concern amongst SMEs that rolling over payments in VAT will lead to an accumulation, as it were, of debt which will make it harder for them to discharge in the future. So we must be careful in this situation of robbing Peter to pay Paul; we must be careful of creating a situation where small firms are building up further problems for themselves in the future by decisions that are being taken now. As far as access to finance is concerned, we are looking to the banks, as you know, to maintain the availability and active marketing for competitively priced lending to SMEs at a level at least equivalent to that of 2007. It is important that we focus on what that means. Availability is not a requirement to lend at 2007 levels in volume terms. Our aim is to ensure that capital provided by Government to the banks through the recapitalisation is allocated in the bank in question to their small businesses lending division to meet demand for lending. I cannot project into the future what level of demand there will be, but it is why we are also requiring banks actively to market lending to SMEs so that small businesses know the banks are open for business. We are not second-guessing the banks' judgment on particular lending decisions; banks will continue to use their own credit assessment, but they do have to offer competitive rates which will attract good business propositions. I think that 2007 gives us a benchmark to measure this against. We want to see banks taking appropriate risk assessment on SME lending and being responsible, but not being unduly risk-averse. I am talking about the banks undergoing recapitalisation. We can, alongside that, exhort banks that are not being recapitalised with that Government facility to follow the same approach, and to adopt the same—

Q85 Chairman: There is some speculation that some of the banks not being capitalised are the worst offenders in this respect, so it is a very important point you have just made.

Lord Mandelson: It is a very important point, which is why the Chancellor and I are meeting their chief executives on Thursday. The three putatively recapitalised banks in question do make up 50% of small business lending. Given that they operate in a competitive environment (they are competing with other banks), we can expect other banks to match this activity in the marketplace. They do not want to fall behind in their lending in a way that would put them at a sort of permanent disadvantage in the future. The Government will monitor how the recapitalised banks are delivering their commitment on SME lending. We will ask the banks how they will achieve this, including the availability of capital and liquidity allocated for their small business division, as well, of course, as their mortgage lending. We will be asking them about their marketing plans and their principles for SME lending from head office to branch level. There is no point in talking a good game at the top when what is happening on the ground is very different.

Q86 Mr Binley: Can I just pursue that theme, because the whole structure of banking has changed and, in many respects, moved away from small business in terms of decision making. It is much harder to get a decision—a quick decision particularly—and at this time quick decisions are vital. You only need a bad debt of £8–10,000 in a small business to be in quite serious trouble, and you need to know your bank is going to get you over that hit, even though you have a profitable business. Will you also impress upon the banks that quick decision-making for small businesses, right at the lower level that you have just talked about, is a vital part of this process?

Lord Mandelson: It is vital, but it is also important that whilst we have to accept that a good risk for lending to an SME 12 months ago could, for perfectly understandable reasons, look like a much worse risk now, which the banks will have to take into account, that should not mean that they should either drag their feet or attach onerous conditions and interest to that lending which goes beyond the risk that the banks are taking on in making that lending. So there is plenty of discussion to be had between us in the months to come. As I say, what we want is good practice from the non-recapitalised banks as much as we do from the recapitalised ones, but, also, we want some care and sensitivity from the Revenue authorities when it comes to—

Q87 Mr Binley: That is going to be a difficult task.

Lord Mandelson:—interacting with business in the current climate. I recognise the important role that Her Majesty's Revenue and Customs approach to business tax compliance can play in managing the economic downturn for small businesses, and my officials have already raised the matter directly with the Treasury and with the Revenue authorities. Actually, they already have a policy of flexibility in dealing with struggling businesses, and I know that the Treasury will impress upon the Revenue and Customs the importance of implementing and publicising this policy in the current climate.

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Mr Binley: I am grateful for that, Secretary of State. Can I just come on to the final point, because you say in your action programme that not only will you look at issues to do with cash flow and finance for investment, but you also talk about regulation.

Chairman: That is what Adrian Bailey is going to ask about. We will move on to Mark Oaten and then deal with regulation.

Mr Oaten: Very briefly, your announcement is very welcome about Government and local government and help in trying to pay those bills within 10 days, and we will see how that works through. However, nothing, of course, can replace the concept of being able to win more business for those small businesses. I wonder whether you could do another memo to those various government departments to ask them to look at the incredibly complicated procurement that you have in government. I do a couple of days of help for small businesses and just trying to put the tender together, trying to win anything off Government, at whatever level, is very, very difficult for small businesses. The process is incredibly complicated. I am sure that when you meet with businesses again they will make that point to you. This would make a massive change to the businesses' ability to win more business, if you could just relax the procurement system. It really would help them get more business for the future.

Chairman: In the interests of making progress I will ask Lindsay Hoyle to ask his question too and you can wrap up in one answer.

Q88 Mr Hoyle: Obviously, as has been pointed out, we all welcome the act of ensuring bills are paid quickly, but can we also look at another part where small businesses are struggling and that is the business rate. Local authorities are very quick to chase people for money, and not so much a holiday period but a little bit of relaxation to give time for people to pay the business rate rather than taking them straight to court would be one area. The other one, of course, is capital schemes by the health authorities and local government. What we are seeing is those being deferred. At least bring them on time, or bring them forward to, obviously, stimulate the construction market and actually get business going as well. Is there anything that you can do there, through your good offices, to channel those communications?

Lord Mandelson: I am sorry, which communications?

Mr Hoyle: Hospitals and local government have got capital schemes and some are deferring them. Rather than deferring them, bring them forward or ensure that they come on time to make sure we get—

Q89 Chairman: These are the two aspects of procurement: small and large.

Lord Mandelson: This is very important indeed. We have to recognise that the costs of not doing what you advocate, and allowing the economy to slow down even further and for unemployment to rise, will lead us to much higher costs than we would be incurring if we brought forward these projects and maintained spending and investment in the

economy. I think the Chancellor is very mindful of this, and I know that he is weighing these issues very carefully in the run-up to the Pre-Budget Report. In answer to Mr Oaten's question, again, you put your finger on a very, very important issue. We had already asked Anne Glover to review the access of SMEs to the Government's procurement programme. I think she is being invited to report in time for the PBR, which is not, therefore, so long away—although I do not think we have decided on a date for the PBR, but it is not so many more weeks away. So that will be a very important and welcome piece of analysis and advice from Anne Glover.

Chairman: Can I just add to Mr Hoyle's plea on the business rate, also, that I do hope your department will make representations on the Business Rates Supplement Bill that is coming forward because there are a lot of concerns that businesses have about that as well. I would pursue that at greater length, but in view of the time we will not do that.

Q90 Mr Bailey: Secretary of State, I represent a Black Country constituency with quite a considerable manufacturing base—virtually all SMEs. Whenever I visit companies there are ongoing complaints about regulation. Obviously, the reported plans that you have to look at that will be very welcome. Can I just bring your attention to an article in the *FT* this morning (which I appreciate from what you said earlier you will not have seen), and if I can quote from it: there is a "furious backlash from union leaders" because it was reported that you intend to postpone the new working rights directive—the statutory paid maternity leave. Then, subsequently: "Ministers have backtracked" on it. Can I invite you to put the record straight? What are your plans for reducing regulation and are these measures part and parcel of it?

Lord Mandelson: This very fierce backlash, if that is what it is, has not reached me yet, and my telephone number is in the book. So I do not know about that, although I did hear what I thought was an intelligent and persuasive interview on the *Today* programme this morning, by a senior TUC official, Sarah Veale, on this subject. I do not know whether you heard it.

Q91 Mr Bailey: No, I did not.

Lord Mandelson: Or whether it is linked to this alleged backlash. Let me say that what I feel my job is, in these circumstances, is to take up questions and look at issues when they are presented to me. If I have the British Chamber of Commerce and the Engineering Employers' Federation saying to me: "Look, your proposals for regulation X or regulation Y is going to be particularly onerous in the emerging economic climate. Can you postpone it for one year or more?" I will consider that. However, that is not the same as agreeing at the outset with the proposition that they are making. I saw a headline yesterday suggesting that I had reached conclusions about one item which was to do with flexible working. It is simply not the case that I have reached a conclusion or that the Government, as a whole, has yet considered it. Indeed, the headline did not

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actually correspond to what the journalist actually wrote, I noticed. I welcome the views expressed by the TUC, and other trade unions if they are formulating their views, just as I welcome the views of employer organisations as well. I am sure that in an economic climate of the sort we are getting into such debate needs to take place, but it is not a forgone conclusion that we will reach one view or another ahead of that assessment, which we are bound to undertake.

Q92 Mr Bailey: Yet you can confirm that you are making an assessment of, if you like, legislation which could impact on business regulation?

Lord Mandelson: Yes, business representatives have asked us to look at future plans for regulation, and I have said that it would be irresponsible of me not to take their concerns into account and to give them proper consideration. So I will do so, but without prejudice to what the Government finally decides on any particular measure.

Q93 Mr Bailey: Could I just turn now to the Administrative Burdens Reduction Programme and the Department's business plan 2008–11 on reducing administrative burdens. The National Audit Office has said that estimates and reported savings should be treated with caution. If we are to convince business that we are reducing regulation, we obviously must have a robust statistical base for proving that. How much confidence do you think we can have in estimates of reducing administrative burdens and regulatory burdens?

Lord Mandelson: Let me bring Brian in on this. You have got to have some confidence in the impact assessments that your officials undertake on your behalf. If you take, for example, the impact assessment that was undertaken for the extension of the right of parents of children aged 16 and under to request flexible working, that showed a cost to businesses of £69 million but, also, benefits of £91 million. So that would indicate that that particular flexible working measure—the right to request—shows a net gain or net benefit for businesses. I think that is the sort of impact assessment that we need to take into account. I realise that many of the benefits from such a flexible working measure (for example, improved productivity, reduced staff turnover and lower absenteeism) will not be immediately obvious to employers, and I understand that. I also understand that there is a perception that flexible working can be difficult and burdensome. However, on the other hand, employers in many cases recognise that flexible working brings business benefits. Even if they cannot quantify them, evidence shows that 92% of employers thought people worked best when they can strike a better balance between work and the rest of their lives. So there are complex assessments to be made but they can be undertaken, and I think that we should be guided for them, as illustrated in the case that I have just described to you. Brian, do you want to come in? May I just say, I have a slight problem about time. I have got to be on a train at one o'clock.

Q94 Chairman: In that case, after Sir Brian's answer we will move on to the Royal Mail group straight away.

Sir Brian Bender: I will try and be brief—just two or three points. First of all, as I am sure you are aware, Mr Bailey, the Administrative Burdens Reduction Programme refers to the time it takes business to do things—not the policy cost of implementation but simply the time. So the sort of things it has delivered are things like replacing 79 health and safety regimes by one; planning applications being submitted online and what used to take a day taking an hour. The point that the NAO were making, as you say, is that they commented that the savings should be treated with caution because they are only indicative estimates. Those estimates have been established using an internationally recognised standard cost model, and the NAO report that it published a few weeks ago goes on to acknowledge that attempting to carry out a statistically representative assessment would have been time-consuming, more expensive and difficult to achieve due to the variation of business processes. So it is indicative, but the whole exercise focused on the time business takes to do things. I could go on, but I do not think the Committee would want me to, with examples of actually what is meant in practice.

Chairman: We are going to have you back, Sir Brian, for a session on the Annual Report specifically, so we will keep it for then. There are lots of questions we wanted to ask you but we are running out of time. Lindsay Hoyle.

Q95 Mr Hoyle: Straight into Royal Mail and the future of the Post Office. You have dismissed the reports in the *FT*. Time has moved on but we believe in the Post Office (or I certainly do) and the Post Office network. My concern is I believe that the Government has got to ensure that Royal Mail remains. I hope that you are a supporter of Royal Mail. Some of the key questions about it are: have you any insight into the Post Office Card Account, which will help ensure that we do have a Post Office network? The other key one where we are losing money hand-over-fist is bulk mailing. We know that every private company is being subsidised by the British taxpayer because the cost of universal delivery is more than what we are charging the bulk deliverers. Are you going to renegotiate that and ensure that the good old British taxpayer is not subsidising the likes of TNT right through to Business Post, because that is one of the biggest failings. If we can get a real price increase on that and ensure that Royal Mail makes profit out of the universal delivery, rather than losing money, these are the things that will turn Royal Mail round. The thing that I want to know is, do you stand by the '95 commitment to Royal Mail, which is the manifesto that we stood on, and I am sure that you will have adopted it now you have come back into government?

Lord Mandelson: The biggest problems facing Royal Mail today are the fall in the volumes of letters being sent through its network, and the size of its pension deficit, which is ballooning. These are not down to

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the regulator and the current price controls applied to Royal Mail. Volumes were down a further 3% last year. The main reason is that domestic consumers and businesses are moving away from the post and using digital media instead. Now, it has therefore become clear that the market conditions for all postal service operators are challenging, to put it mildly, and it is in the light of these developments, which are not new, that an independent review was set up under Richard Hooper, announced in December 2007. I believe that initial findings paint a rather stark picture of the huge challenges in the postal market: new technologies are transforming the way we communicate and this will only intensify in the coming decade. I do not, if you do not mind, want to be drawn on premature responses or conclusions before I have even seen the Hooper review. There is no set timetable for that review, and indeed I may ask Richard Hooper to widen his review and to examine additional factors. It is too early for me to say, but, nevertheless, I am not prepared to put a timetable on publication as of today, but I can reassure you and Members of this Committee and the public that I remain most strongly committed to the Royal Mail. What we want to see is it being efficient, modernised and viable in the face of dramatically changing structural conditions in the market. It is a tough challenge but it is one I come back to after 10 years having been away, and I am up for the job.

Q96 Mr Hoyle: The point on bulk mailing—and you can understand the frustration—that they are being forced to deliver letters at below cost and subsidising those businesses. There is something wrong when the taxpayer is subsidising these private companies, who have an unfair advantage because Royal Mail has to deliver their mail. If they had set up the universal postage delivery, I could understand it; the fact is that we are actually charging them less than what it costs to deliver. Could you look into renegotiating that to ensure that there is a profit in delivering your rivals' letters rather than subsidising your rivals?

Lord Mandelson: I will look at all those issues, that included, in the wake of the Hooper review when we take delivery of that.

Q97 Mr Hoyle: Okay, but it is important. The last, quick question I wanted to ask about is Warwick—the importance of Warwick and, in particular, from my point of view, its procurement. I believe that UK procurement (and we have touched on it)—how that can actually support manufacturing jobs and ensure that that procurement can take place—and it is actually getting the message across: “Where Government is going to buy, let’s support British industry”. Let us use the same rules as our rivals do.

I think there is something absolutely absurd that we buy cars built in Japan with not one British component, not one British job, it is shipped all the way round in cargo polluting ships for Ministers to ride round thinking they have ticked some kind of green box. Surely what we ought to see is the way that Tom Watson has done it and is being driven round in a British-built Mini. That might be the best example of supporting British industry. So can we support Warwick and can we support the procurement part of Warwick?

Lord Mandelson: I insisted on being driven around Brussels in a British-made Jaguar, and I am still being driven around now, as a new member of this Government, in a British-made—

Q98 Mr Hoyle: Excellent news.

Lord Mandelson: And long may it last.

Chairman: On the subject of British cars.

Q99 Miss Kirkbride: The Rover inquiry, Secretary of State, has been dragging on for three-and-a-half years and has cost many millions of pounds. It is extremely offensive to many people I represent who lost their jobs when Rover went pear-shaped. When are we going to finish the inquiry, and are you going to look into the system that allows what appears to be an abuse of public money that it should go on for so long without any conclusion?

Lord Mandelson: As the Committee knows, this is an ongoing independent Companies Act investigation. It is independent of the Government, so it would not be proper for me to discuss the substance. I can say that BERR and the inspectors are intent on completing this inspection as quickly as possible.

Q100 Miss Kirkbride: Any timescale?

Lord Mandelson: Obviously, with due regard to the fairness of procedures and thoroughness of the task. It says here.

Q101 Chairman: Secretary of State, we must let you go, but you have confirmed that you are reviewing the possibility of flexible working and maternity leave being altered, and you have confirmed, I think—I am not sure what you have confirmed about the Post Office, frankly; you have left me almost more confused than when I began the Royal Mail Group. You have completely disavowed the report in the *Financial Times* of yesterday, which you said was based on an out-of-date interview—

Lord Mandelson: I was not aware that I had completely endorsed, embraced, disavowed anything that I have seen in the newspapers in the last two or three weeks. If I were to spend my time chasing round newspaper stories I would not have any time left for my day job.

Chairman: We will have you back shortly to pursue some of these issues at greater length, I hope.

Memorandum submitted by BERR

ACTION PROGRAMME FOR BUSINESS

The Secretary of State wants BERR to be completely focused on getting UK business through the present economic downturn and emerging stronger on the other side. The Department therefore needs to develop an Action Programme for Business (APB) urgently. Its proposals will go straight to the Prime Minister's National Economic Council. In due course, the Secretary of State will publish a White Paper on the UK's industrial future, including a low carbon industrial strategy, as he believes the UK must do more to broaden its economic base beyond its financial sector.

The APB will include the following areas:

- Measures to help SMEs, especially on cash flow, finance for investment, and regulation.
- Analysis of impacts of the economic downturn on other businesses and the corporate sector, identifying the key sectors for future growth and what we can do to help.
- Building on our manufacturing strategy, bringing forward a White Paper on the UK's industrial future, including a low carbon industrial strategy (accelerated from Summer 09).
- Opening markets for UK business (UKTI).
- Research and Development and innovation (working with DIUS).
- Maintaining our commitment to an open economy.
- Action by the RDAs.
- Ensuring UK citizens can take full advantage of future economic opportunities (skills, with DIUS; links to DCSF).

The APB will build on the Departmental strategy session earlier this year and subsequent work led by John Hutton on how the exam question has changed for BERR in the light of the economic challenges ahead.

Immediate next steps

The Secretary of State will hold a seminar on the morning of Friday 17 October to seek external and internal ideas to inform the APB. SofS will join DGs' all-day Strategy Session in afternoon of Friday 24 October to discuss implementation of the APB. Brian will take a meeting (tomorrow) on Thursday 16 Oct to discuss organising work on the APB.

15 October 2008
