PARLIAMENTARY DEBATES

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OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 4, 7, 10, 19, 35 and 72)

Third Sitting

Thursday 12 May 2011

(Morning)

CONTENTS

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Monday 16 May 2011

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chairs: MR ROGER GALE, †MR JIM HOOD

† Aldous, Peter *(Waveney)* (Con)
† Barclay, Stephen *(North East Cambridgeshire)* (Con)
† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
† Blomfield, Paul *(Sheffield Central)* (Lab)
† Bradley, Karen *(Staffordshire Moorlands)* (Con)
† Creasy, Stella *(Walthamstow)* (Lab/Co-op)
† Crockart, Mike *(Edinburgh West)* (LD)
† Crouch, Tracey *(Chatham and Aylesford)* (Con)
† Dakin, Nic *(Scunthorpe)* (Lab)
† Esterson, Bill *(Sefton Central)* (Lab)
† Gauke, Mr David *(Exchequer Secretary to the Treasury)*
† Glindon, Mrs Mary *(North Tyneside)* (Lab)
† Goodwill, Mr Robert *(Scarborough and Whitby)* (Con)
Greening, Justine *(Economic Secretary to the Treasury)*
† Hanson, Mr David *(Delyn)* (Lab)
† Harrington, Richard *(Watford)* (Con)
† Hoban, Mr Mark *(Financial Secretary to the Treasury)*
† Lee, Jessica *(Erewash)* (Con)
† Lewis, Brandon *(Great Yarmouth)* (Con)
† McCarthy, Kerry *(Bristol East)* (Lab)
McCartney, Karl *(Lincoln)* (Con)
† McClymont, Gregg *(Cumbernauld, Kilsyth and Kirkintilloch East)* (Lab)
† McGovern, Alison *(Wirral South)* (Lab)
† Mearns, Ian *(Gateshead)* (Lab)
† Murray, Ian *(Edinburgh South)* (Lab)
† Nash, Pamela *(Airdrie and Shotts)* (Lab)
† Parish, Neil *(Tiverton and Honiton)* (Con)
† Phillipson, Bridget *(Houghton and Sunderland South)* (Lab)
† Sharma, Alok *(Reading West)* (Con)
† Shelbrooke, Alec *(Elmet and Rothwell)* (Con)
† Smith, Julian *(Skipton and Ripon)* (Con)
† Wharton, James *(Stockton South)* (Con)
† Williams, Roger *(Brecon and Radnorshire)* (LD)
Williams, Stephen *(Bristol West)* (LD)
Wilson, Sammy *(East Antrim)* (DUP)

Simon Patrick, *Committee Clerk*

† attended the Committee

Public Bill Committee

Thursday 12 May 2011

(Morning)

[Mr Jim Hood *in the Chair*]

Finance (No. 3) Bill

(Except clauses 4, 7, 10, 19, 35 and 72)

Clause 11

Annual investment allowance

9 am

Mr David Hanson (Delyn) (Lab): I beg to move amendment 6, in clause 11, page 6, line 26, leave out '£25,000' and insert '£50,000'.

The Chair: With this it will be convenient to discuss the following: amendment 7, in clause 11, page 6, line 27, leave out subsection (3).

Clause stand part.

Mr Hanson: Good morning, Mr Hood. I look forward to the debate on the annual investment allowance, but I hope that you will indulge me for 30 seconds while I offer my firm congratulations to my hon. Friend the Member for Cumbernauld, Kilsyth and Kirkintilloch East. You may wish to know, Mr Hood, that last night he became the House of Commons pool champion. In a hotly contested competition, he beat my hon. Friend the Member for Rochdale (Simon Danczuk). I regret to inform hon. Members opposite that the hon. Member for Selby and Ainsty (Nigel Adams) fell at the semi-final stage. Just to rub it in, my hon. Friend won not just the pool competition but also first prize in the raffle. He assures me that his winning role will continue today with votes in the Committee before this morning's sitting ends.

Clause 11(2) cuts the annual investment allowance from £100,000 to £25,000. *[Interruption.]*

The Chair: Order. I ask hon. Members to calm down and stop celebrating the hon. Gentleman's fantastic win last night in the pool competition, and to get back to the amendment.

Mr Hanson: Thank you, Mr Hood. I am sorry to have strayed from the amendment. I know that there is universal praise for my hon. Friend and his performance yesterday evening, and his modesty prevents me from continuing still further.

The main business before the Committee is serious. Clause 11 cuts the annual investment allowance for firms from £100,000 to £25,000. Hon. Members will know that the annual investment allowance was introduced in 2008, with a limit of £50,000. The allowance allows for the cost of plant and machinery to be offset against corporation tax or income tax. In 2010, the Labour Government increased the allowance from £50,000 to the present rate of £100,000. We recognised that, in a time of recession and challenges to the economy, we needed to continue to encourage manufacturing industry to invest in manufacturing capacity and equipment, and therefore increased the allowance in 2010.

Amendment 6 is intended to probe the Government on why the reduction has taken place. If there are challenges in the economy—we accept that the deficit needs to be challenged—we would like to look at a reduction to £50,000, which was the original limit set in 2008 before the current financial difficulties and the current financial crisis. We increased the annual investment allowance to support larger manufacturing businesses. We have tabled the probing amendment to ask the Minister to justify why that should be reduced to £25,000 at a time when we still face some difficulties in the economy.

The annual investment allowance provides help and support to focus on investment in plant and machinery for manufacturing industries. The helpful note from the Treasury, on the consequences of the change to £25,000, states:

> "Who is likely to be affected? Businesses investing more than £25,000 a year in plant and machinery from April 2012."

Clause 11 is inexorably linked with previous clauses on corporation tax. On the Floor of the House, and in Committee last week and today, the Minister has said that the reduction in corporation tax is being paid for in part by the reduction in capital allowances. I want to explore the impact of that measure across the board.

Our view, expressed in earlier amendments and clause stand part debates, is that the corporation tax cut will benefit larger companies and financial institutions more than some of the smaller companies affected by the reduction to £25,000 of the annual investment allowance. The policy objective is set out in the Treasury note, which states:

> "This measure is part of the package of corporate tax reforms announced at the June Budget, which includes the phased reduction of the main rate of corporation tax, intended to create a competitive corporate tax system and to support enterprise and long-term economic growth."

It goes on to say:

> "The AIA is reduced from £100,000 to £25,000 to refocus—

a most important word—

> "the simplification and cash-flow benefits it offers on smaller businesses."

I shall show later that this refocusing is not universally welcomed by the small businesses that are being refocused. As a result of that technical but neutral word "refocus", a number of organisations representing small business interests face a big cut in their capital allowance income; that will make a severe dent in their potential profitability from next year. At a time when we need economic growth, the small business sector does not find it a helpful stimulus.

The measures come into effect in April 2012. They will impact particularly on small businesses. The Government estimate that 95% of businesses are expected to be unaffected, as qualifying capital expenditure will be fully covered by the new level of AIA. It is estimated that between 100,000 and 200,000 businesses will have annual capital expenditure of more than the £25,000 that qualifies for capital allowance. I want to test the need for support on capital allowances, and I want to hear from the Minister the logic that lies behind the reduction from £100,000 to £25,000, given that we still face severe challenges with the economy.

The Government approach, which we broadly try to support, is to develop the private sector to meet some of the big public sector job losses that are expected to occur as a result of the massive cuts in public spending. We have rehearsed these arguments before, but we believe that the cuts are too fast and too deep, and that they will damage the economy as a whole.

The Government's logic is that we should promote the private sector to replace those jobs, but Mervyn King, the Governor of the Bank of England, has downgraded the growth figures. Yesterday, in its quarterly report, our central bank lowered its forecast for British economic growth for the next two years. It is interesting to note that it cited the Government's austerity measures and struggling household budgets. Only yesterday, the Bank said that it expected annual growth of just under 2.9% in two years' time, which is lower than the 3.1% predicted three months ago.

It strikes me, with this general slowing of growth, that we should be looking at stimulating manufacturing industry. One stimulus, particularly for small manufacturing industry, has been the capital allowance. Because of concerns over the recession, the Labour Government set it at £100,000 in 2010, but the present Government want to cut it to £25,000 in 2012. In the Bank's forecast inflation remains uncomfortably high, and there is a good chance that it will reach 5% later this year. At a time when the Government are proposing these capital cuts, unemployment and inflation are going up and the Bank of England's growth forecast is coming down, so the economy is in a difficult place.

Alison McGovern (Wirral South) (Lab): Does my right hon. Friend agree that the picture that he is describing of an economy that is stuttering and stalling is coupled with the perspective from small specialist manufacturers that they are losing capital allowances that they had in previous financial years for a corporation tax cut that benefits those that are already making huge profits in the most profitable, least capital-intensive sectors?

Mr Hanson: I agree with my hon. Friend's point and will expand on it during the debate. Under previous clauses, we have discussed the corporation tax cut. The Labour Opposition tabled an amendment to say that we were concerned that its impact would be more beneficial for the financial sector—the financial sector, whatever its merits, does not invest in manufacturing industry. This capital allowance, which is being cut from £100,000 to £25,000, is exactly the sort of support that small and medium-sized enterprises need to reinvest in and grow their manufacturing and to keep up with their competitors in Europe and the far east, which will be producing goods at a cheaper price than us, often because of labour costs. We need an effective, modernised manufacturing industry to ensure that we keep up with our competitors and reverse the growth figures that were produced yesterday.

Bill Esterson (Sefton Central) (Lab): My right hon. Friend is making the case extremely well for the importance of the higher allowances that the Labour Government brought in and the reasons why this proposal will make life harder for manufacturing and particularly small business. The point is well made that, combined with the limited improvements for small business in previous clauses, the effects of this clause and other clauses will be of help to larger business far more than to small business. The important point is that small business is the engine of the economy and what we need to invest in to generate the recovery that we need.

Mr Hanson: The key test that my hon. Friend sets for the Minister is this. Corporation tax cuts such as those that have been proposed and supported in the Bill potentially benefit large businesses most. That is fine for the Airbuses of the world—Airbus has a facility in my constituency—which manufacture millions of pounds-worth of products and employ thousands of people. They will benefit from the cut; we accept that. However, if the benefit is also going disproportionately to banks and financial institutions and they are not necessarily supporting manufacturing industry in the way the major manufacturers are, and if, as I intend to show from comments made outside the House, the proposal to cut the manufacturing capital allowance from £100,000 to £25,000 will hit small businesses hardest, the Minister needs to justify to the Committee that level of cut and explain how it will help manufacturing industry, in the long term and the short term, to get through a very difficult time, to maintain its competitiveness and to reinvest in manufacturing industry equipment at a time when it will still face pressures from Europe and the far east.

Bridget Phillipson (Houghton and Sunderland South) (Lab): Has any regional analysis been done of the impact of the changes? *[Interruption.]* I wonder whether the Minister would like to comment further; he seems very interested in that point. My concern is that we want to encourage smaller manufacturing regions in areas such as my own to develop, but they will not necessarily see the full benefits of a corporation tax cut unless they are exceptionally large. My understanding was that the Government wanted to encourage the growth of manufacturing in regions such as the north-east because they believe that we depend too heavily on the public sector.

Mr Hanson: My hon. Friend makes a very good point. I intended to make the point later, but as she has mentioned it now, I will go to this quote immediately. It is from representatives of Clive Owen & Co. Based in Durham, that is a firm of tax partners advising small businesses in Durham and the north-east. It is a direct quote. An article on its website is headed, "Manufacturers will suffer unless Chancellor raises Capital Allowances." The article quotes one of the firm's partners, who says:

> "The Government needs to increase Capital Allowances so that sectors such as manufacturing can continue to thrive. If the planned cuts to Capital Allowances are allowed to come into force in April 2012 it will put a serious brake on investment by North East manufacturers in new equipment and other assets which they need to grow. In turn, if they're not spending the local economy will also be hit hard."

That firm—Clive Owen and Co—wants to see the capital allowances increased in the Budget. The Budget is not before us today, Mr Hood, but that is the firm's view. It is a firm that advises businesses throughout the north-east of England and its view, to quote from the article on its website again, is that the planned cuts

> "will put a serious brake on investment by North East manufacturers".

That is just one regional example of the kind that my hon. Friend the Member for Houghton and Sunderland South has just touched on. I am sure that my hon. Friend the Member for Gateshead will be able to back it up.

9.15 am

Ian Mearns (Gateshead) (Lab): Indeed. One of the reasons why the north-east does not have unemployment rates of 18% or 20% as we had in the 1980s rather than only the 10%—only 10%!—rate that we have now is the diversification of manufacturing into small and medium-sized enterprises, away from the heavy engineering that we had back in the 1980s. Those heavy engineering companies do not exist in the same way now. They were the sort of companies that would benefit most from increased capital allowances. The SMEs that want to make the investment that will go into a plant such as the Hitachi plant, for instance, or the SMEs in service industries servicing Nissan will not benefit from increased capital allowances in the same way. That is a great concern, particularly in areas such as the Tees valley, where there is a very large industrial estate that mainly has SMEs on it.

Mr Hanson: My hon. Friend will know that in April 3,544 people were unemployed in his Gateshead constituency. I must say to him that for those 3,544 people to have any opportunity to get back into work, not only the big employers such as the car manufacturers in the north-east, which may well benefit from some of the corporation tax cuts, will have to provide work but the small and medium-sized manufacturers will. Often they supply the big manufacturers in the north-east.

If this capital allowance cut is allowed to happen and if the Minister cannot justify to the Committee why it should happen, I fear that we will face one of two things. The first is the prospect of companies bringing forward capital expenditure to this year, so that they can benefit from the larger capital allowance this year. They will have a splurge this year and investment will dry up completely next year and the year after, when the capital allowance is smaller. The alternative prospect is that companies will not be able to afford to invest this year and they will not be able to do it next year because they will lose out on those tax breaks accordingly. So what we will face is almost a double whammy, whereby investment is either brought forward or does not take place at all.

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): It is also the case that capital allowances take away a lot of the risks for SMEs to start up, in terms of reducing their capital expenditure. Without that initial expenditure by those SMEs on necessary machinery, we will not get the big companies—say, SSI on Teesside or Hitachi just down the road—investing, because there will not be the skills in the local area. And if the SMEs do not have the capital to spend, they will not develop the skills, so there will be diminishing returns in terms of the capital in the area.

Mr Hanson: That is absolutely right. My hon. Friend makes a very important point—this measure has a cycle, an impact. The 3,288 people in his constituency of Middlesbrough South and East Cleveland who were unemployed in April will need to have some level of investment and support to find some opportunity to get back into work and to develop their skills accordingly.

The capital allowance cut in itself is difficult enough for businesses, but I have seen a report about the Chancellor in *The Independent* today that is also worrying. As the report is in *The Independent*, I presume that it is correct. In fact, the same story is on the front page of *The Times*, so I presume that the two newspapers cannot both be wrong. *The Independent* headline is, "Osborne to target workers' rights with review of employment law", and the article underneath says:

> "Workers are set to receive less protection against redundancy, dismissal and workplace discrimination as the Chancellor George Osborne tears up sections of employment law so businesses can dispose of their staff more easily."

We are facing an attack on capital allowances and a potential forthcoming attack on the rights of people at work. That will not encourage the type of growth needed to impact on employment levels, particularly in areas such as the north-west, the north-east, Yorkshire and the Humber and parts of Scotland.

Ian Murray (Edinburgh South) (Lab): My right hon. Friend raises an interesting point that the Secretary of State for Business, Innovation and Skills failed to answer during a recent meeting of the Business, Innovation and Skills Committee. Employment law is critical for businesses and to support employees in their work environment. The Red Tape Challenge website—of which my right hon. Friend will be aware—states clearly that it is consulting on whether or not the Equality Act 2010 should be scrapped. The Secretary of State promised that a disclaimer would be put on that website three weeks ago. I know that it was not the intention of the Government, but the disclaimer has still not appeared. Does that not highlight some of the employment law regulations that are under consideration?

Mr Hanson: The key point is that at a time when the Government—according to their objectives—are trying to grow the private sector, they are cutting the capital allowance provision from £100,000 to £25,000. They are saying that if companies want to grow, they should look at changing the terms and conditions of their staff so that it is easier to make them redundant. That is not a strategy for industrial co-operation to help people feel part of industry, or to help manufacturers—particularly small manufacturers—to consider how to invest for the future.

Nic Dakin (Scunthorpe) (Lab): My right hon. Friend exposes the issue well, and we return to the debate we had in a previous sitting about where the structure is for manufacturing industry. Large or small, manufacturing industry in this country faces massive challenges to compete in a world environment. Other measures such as the carbon price floor, which we will come on to discuss, mean that without investment in capital and innovation there is no way that British manufacturing can keep its sharpness and edge. We will end up exporting both jobs and emissions to elsewhere in the world. There is a big challenge for us to have a real strategy for manufacturing, and my right hon. Friend does well to expose and raise the serious questions that need to be asked about that.

Mr Hanson: I am grateful to my hon. Friend for his support. The Minister may wonder whether he should listen to my hon. Friend the Member for Scunthorpe and me, and to other hon. Friends from the north-east. He may well think, "No, I shouldn't." He may think that we are scaremongering and driving a coach and horses through his policy, and that the Labour party is trying to pick holes in a progressive Government's attempts to ensure that manufacturing continues. [Hon. Members: "Hear, hear."] Well, let me spend the next 20 minutes reading out comments from manufacturers. At the end of that, let Government Members determine whether those concerns were raised by the Labour party or by those in the manufacturing sector and small businesses.

If we vote on this issue, Government Members will have to justify their votes to the manufacturing industry and to those small businesses in their constituencies that in April 2012 will experience a three-quarters cut in the amount of capital they can use to invest in small businesses and manufacturing capacity. The Minister should not listen to us; we are bigoted, biased, Labour politicians. He should, however, listen to those people who will have to deal with that change.

Brandon Lewis (Great Yarmouth) (Con): Does the right hon. Gentleman agree that numerous business organisations such as the CBI, the Institute of Directors and the Federation of Small Businesses, which represent the businesses he mentions, support the Government's plans for the economy, and that manufacturing is growing?

Mr Hanson: The hon. Gentleman makes my point. The CBI and the IOD welcome these moves, but they do not represent some of the small and medium-sized businesses that will need to supply some of the bigger industries—such as the car industry in the north-east—and will need that manufacturing support.

Brandon Lewis: I did mention the FSB, the biggest representative organisation of small businesses in the country, which also supports the Government's plans. As the representative of an area with some small-business interest in manufacturing, particularly in the energy industry, I have to say that the businesses and organisations that I speak to are clearly talking about growth and a positive move forward, now and for the future.

Mr Hanson: The point that I am making is that the corporation tax cut will benefit the bigger industries, but it will not benefit the smaller industries to the same extent. I will develop that point in due course.

Alec Shelbrooke (Elmet and Rothwell) (Con): It is a pleasure to serve under your chairmanship, Mr Hood. I look forward to hearing the right hon. Gentleman's analysis, because I am sure that it will be a balanced view of all the comments that have been made about the Budget. The Committee will consider all those comments and arrive at a balanced view, and I am absolutely sure that the right hon. Gentleman will not cherry-pick.

Mr Hanson: May I give the hon. Gentleman some reassurance, as is my wont? My team of one researcher typed the words "capital allowance cut" into the Google search engine. I have sifted through every comment from every newspaper article, and the comments I have here genuinely reflect the comments that have been made. I will turn to that in a moment. Members will have to excuse me, but we may not have every comment; it is difficult for one Member of Parliament and one researcher to take on the might of the Treasury, as the Minister will know from past experience. We are trying our best, however, to reflect some of the comments made outside the House.

Jessica Lee (Erewash) (Con): References have been made to the 1980s and submissions have been made to the Government, but there appears to be a lack of awareness of reality, because there was a Labour Government for 13 years. Concerns are being raised about manufacturing, but in my constituency of Erewash in the heart of the east midlands, the traditional lace and textiles industry was completely destroyed over 13 years of Labour Government. It lacked investment, infrastructure and help. The area is now part of a new enterprise zone and a local economic partnership, and for the first time in many years, local small employers are excited about the future, see hope and have expectations. I hope that that is reflected in our debate.

Mr Hanson: There will always be changes to manufacturing capacity over any period. Under the Labour Government, investment in the Airbus project and aeroplanes in my constituency meant that we expanded by about 2,500 people the number of manufacturers of a world-class product that now commands half the world market for aeroplanes. Other areas—traditional old industries—were lost because labour costs in other parts of the world undercut them and they could not compete. One of the things that we need to look at is how we make sure that we compete not just on labour costs, but on skills, quality and equipment.

My worry—the Minister needs to justify this—is that if we reduce capital allowances from £100,000 to £25,000, some small and medium-sized businesses in Erewash and other constituencies represented by the Committee will either not be able to afford the investment that they could have done before, take a hit on profit, or find that the resource is not saving money and is costing them elsewhere. The Minister may disagree, but in my view the corporation tax cut will benefit bigger industries most, and the capital allowance will hit smaller industries hardest. That is the dilemma that I face on the package that is being introduced.

Ian Mearns: The Government's attitude towards small and medium-sized enterprises is compounded not only by the measure that we are discussing, but by those introduced by the regional growth fund, for which the minimum bid has to be £1 million. They will argue that there is scope for businesses to combine their resources to put together bids of £1 million, but that is not realistic. Often, competing companies do not want to do that sort of work together on a growth fund bid, even on a local basis. The Government are kicking SMEs, which are so important to regenerating the economy of areas such as mine.

Mr Hanson: My hon. Friend is supportive. I hope I will be able to show, through the genuine comments of people outside the House about the proposals, that there is real concern.

9.30 am

Richard Harrington (Watford) (Con): I am pleased to be under your chairmanship, Mr Hood. I was hoping not to add to the interventions, as I felt the points were dealt with fairly by my colleagues. However, the right hon. Member for Delyn must remember that when his party was in power, 1.3 million manufacturing jobs disappeared from the British economy—from all the constituencies that he mentioned, and from those

[Richard Harrington]

represented by other parties. In 30 years in business, in which I met many people, I have not heard of one case where someone decided to set up a small business, or to expand it, because the capital allowance was £100,000. That is not the thought of business. I hope he would agree that the Government are trying to set a climate for business to expand. It is a question of the whole picture, not just one particular point.

Mr Hanson: That is where we have an honest disagreement. My contention is that we need a lower corporation tax rate, which we have supported, to help generate business. That will certainly help to ensure that larger businesses have more money to reinvest in skills, enterprise and future manufacturing. That is paid for in part by the capital allowance cut, which will predominantly hit smaller businesses; they will not benefit to the same extent from the corporation tax cut. They depend on some of the capital allowances to help them modernise and keep up to date with manufacturing industry and new investment. That is an honest disagreement. We believe that the Government should be a helping hand to support business; part of that is setting the capital allowance at £100,000 in a recession—it was originally £50,000—to ensure that we support business, so that we keep our manufacturing industry and its investment on board.

Tom Blenkinsop: Government Members need to recognise something about areas such as Teesside. In 1987, 25,000 people worked at Teesside Cast Products, and in 1992 the then Tory Government hailed the success of getting rid of four fifths of the employees. That process has been continual since the 1980s, and took place throughout the 1990s, because of the ratio of capital to employees and labour. Capital as the intensive factor, rather than the necessity for labour, became far more pronounced during the 1990s. The Government talk about the number of jobs in manufacturing; that is because the process has become far more capital-intensive.

Mr Hanson: My hon. Friend makes valuable points. We have some disagreements. Nobody will say that no manufacturing jobs were lost over the past 13 years. Manufacturing jobs have been lost across the board over the past 30 years. I was first elected in 1992, a long time ago, and I vividly remember that during my first Parliament, when I was on the Opposition Benches, jobs were lost in the steel industry, the coal mines and across the board in my constituency, because things were changing. There is always a dynamic. The purpose of the capital allowance is for small businesses to get help and support from Government to modernise and maintain capital investment, and to ensure co-operation between Government and the private sector to encourage jobs for the future.

Nic Dakin: The point that my right hon. Friend makes is sound. Jobs grow and jobs disappear; that is part of life. What Governments are obliged to do is provide the environment for businesses to prosper. With regard to manufacturing businesses, Deloitte points to the balance that my right hon. Friend quite properly probes:

"For some business the reduction in writing-down allowances for plant and machinery will be off-set by the reduction in the main rate of corporation tax from April 2012…However, capital intensive companies…may not benefit to the same extent."

That is the issue my right hon. Friend probes. Capital-intensive companies are getting the wrong message from the measure. It prompts the question: what will the Government do to support manufacturing in areas such as mine, where the steel industry is still important?

Mr Hanson: I have looked through the submissions to the Treasury Committee and to the House of Lords Economic Affairs Finance Bill Sub-Committee. One from the Association of Taxation Technicians said that

"the reduction in the limit of expenditure qualifying for the Annual Investment Allowance from £100,000 to £25,000 from 1 April 2012 is not helpful to the smaller company."

It went on:

"Whilst the largest companies"—

this backs up my hon. Friend's point—

"will be more concerned with the reduction of Writing Down Allowances, this may be more than offset by the overall reduction in the rate of corporation tax. For smaller companies, the reduction in the limit of expenditure qualifying for AIA is probably more important as this will be likely to significantly restrict the write off of capital expenditure in the year it is incurred. Many businesses start in a small way"—

that goes back to the point made by the hon. Member for Watford, who is no longer in his place—

"even if they grow over time, such that the balance between small and large companies needs to be considered carefully."

The Chartered Institute of Taxation, which made a submission to the same Committee, said:

"The changes to short life assets seem to be an attempt to solve problems created by the reduction in writing down allowance rates at a cost of increasing administrative burdens."

I now come to the key quote:

"The benefits are not wholly clear. Presumably, the change has larger businesses in mind."

The Institute of Financial Advisers said:

"The reduction in corporation tax is good news."

We accept that and agree with it. The IFA goes on to say:

"But the cut in the annual investment allowance from £100,000 to £25,000 from April 2012 has been criticised."

The IFA technology and technical director, Kim North, said:

"This is one of the biggest reductions we have seen in this Budget. This will affect all businesses in the UK, from the largest product provider to the smallest IFA, as anyone who buys assets such as office equipment could be affected."

The Institute of Hospitality, which represents hoteliers and hospitality organisations across the whole of the United Kingdom, says:

"It is estimated that 20-40% of a hotel's cost and 50-90% of a restaurant's fit-out costs could qualify for capital allowances. So the cut in capital allowances represents a potentially sizeable increase in tax for many hospitality businesses."

Ian Murray: I am glad that the hon. Member for Watford is back in his place. He is right that businesses do not always look at the capital allowance structure and say, "Isn't it wonderful? Let's set up a business." None the less, it helps businesses, especially small businesses, to invest. My right hon. Friend the Member for Delyn mentioned the hoteliers organisation. Many years ago, I started up a hotel and refurbished it. It was the use of capital allowances that allowed us to put that investment in. That business still runs today with 18 members of staff. Those staff would not be there had we not used those capital allowances. That is a real story from the front line showing that capital allowances work. A lack of capital allowances would not have stopped us setting up the business, but they certainly helped us to invest and to create employment.

Mr Hanson: My hon. Friend backs up my point. The Institute of Hospitality said that

"20-40% of a hotel's cost and 50-90% of a restaurant's fit-out costs could qualify for capital allowances."

Worryingly, it also made the following statement:

"Hospitality businesses that are planning to spend more than £25,000 on plant and machinery are strongly advised to do so before April 2012 when the annual investment allowance will drop from £100,000 to £25,000."

Effectively, if the measure is agreed by the House, businesses will spend the next six months bringing forward to this year capital expenditure that they may have planned for future years. They will qualify for the allowances and cause an expense to the Treasury this year. In future years, that capital expenditure will dry up, because they will have brought it forward.

How does that go back to the points that I made about the growth strategy? Perhaps that is one reason why the Bank of England has downgraded the growth figures. That decision recognises that not only do we have massive public spending cuts that go too far, too deep, too fast, but we will find capital expenditure brought forward, which means that there will be less in the future.

An article in *Business Money News* earlier this month states:

"Small companies lose out to pay for big company tax cuts."

It goes on:

"Many small businesses will have to rethink their investment plans. In most instances, they will lose more than they gain from the 1% cut in the small companies' rate and may not benefit from the cut in the main rate of corporation tax for many years—if ever."

It concludes:

"These changes will hurt many small businesses already struggling in the recession. It is hard enough to find the funds to invest in and build your business as it is: cutting capital allowance effectively puts up the cost of such investments"

to such companies.

The chief executive of the EEF, Terry Scouler, said:

"Capital allowances are how the tax system recognises the cost of investing in new machines and equipment. Cutting the level of capital allowances would make investing in the UK"—*[Interruption.]*

The Chair: Order. May I ask the hon. Member for Scarborough and Whitby to brief his colleagues outside the Committee Room, and not do so in the room while someone is addressing the Committee?

Mr Hanson: For the benefit of the hon. Member for Scarborough and Whitby I will repeat that quote, which may be the opposite of what he wanted to happen. Terry Scouler, chief executive of the EEF said:

"Capital allowances are how the tax system recognises the cost of investing in new machines and equipment. Cutting the level of capital allowances would make investing in the UK almost prohibitively expensive and force manufacturers to compete on labour cost,"—

and this is important—

"a battle they simply cannot win."

So, for the future growth of our economy, the EEF is saying that cutting capital allowances cuts the potential to invest in manufacturing industry. We cannot compete on labour because there is no minimum wage in many countries in the far east. They will force down wages. There was not a minimum wage in this country until the Labour Government introduced it. I remember staying up for 24 hours when the Tory Opposition opposed the introduction of the minimum wage. The chief executive of the EEF is saying that we cannot compete on labour, that we have to compete on manufacturing, and that capital allowances are essential to help support manufacturing industry.

Ian Murray: I think you have just hit on the crux of one of the key policies here—

The Chair: Order. I did not do anything.

Ian Murray: My right hon. Friend hits the key point—I am sure that you will recognise the key point as well, Mr Hood—about what the Government are doing. If industry in this country cannot compete on capital investment and cannot compete on employment, then what it does is cut employment rights. That is exactly what the Government are trying to do. They are trying to slash employees' rights in the guise of cutting red tape. What they are really trying to do is make it cheaper for employers in this country to employ people, to be able to get rid of them and cut their rights, in order to make them more competitive, because the capital allowances are not there.

Mr Hanson: My hon. Friend makes the point. Sadly, the Chancellor's comments last night, about the future of such things as TUPE and other measures that I think are progress, worry me. I have not spoken directly to Mr Scouler, but I am quoting him to say that we cannot compete on labour. We will be undercut on labour by countries in eastern Europe and the far east, and by India, because we cannot compete. We have to compete, therefore, on our skills, talents, investment and training, but also on our manufacturing capacity, and our manufacturing capacity is helped by the allowances for small businesses.

Tom Blenkinsop: Today being a few days after international workers memorial day, it is fitting to remember that those capital allowances are spent on much-needed health and safety equipment on site, in particular in heavy industry. Under this Government, we have seen the budget of the Health and Safety Executive cut and mothers and fathers' lives put at risk daily because of the reduction in capital allowances and HSE powers on industrial sites.

9.45 am

Mr Hanson: The purpose of a capital allowance is to help a small business to modernise its capital equipment. Self-evidently, therefore, we must be up to date with the skills and technologies of capital equipment elsewhere in the world. We need a capital allowance to help small businesses to spend money on necessary day-to-day equipment. However, there is an impact on the modernisation of equipment, as my hon. Friend said, and I should also pray in aid the comments of the tax advisers Cooper Parry:

"Although these cuts in allowances will barely be felt by the size of business which the Government hopes and arguably needs to attract to the UK, small and medium sized entities may suffer considerable, proportional increases in taxable profits which will undermine the reductions in rates of corporation tax. Therefore these companies"—

[Mr Hanson]

another key point backing what I have said—

"should give serious consideration to accelerating any significant capital expenditure in order to take advantage of the current rates of relief."

That worries me. We are fuelling a potential boom in capital expenditure this year, but with a bust in such expenditure for small businesses next year and into the future.

Bill Esterson: I am glad that my right hon. Friend has returned to the point about the potential boom in capital expenditure this year and the collapse in future years. He might well be right, but another factor is involved: the ability of, in particular, small businesses to borrow money from the banks.

In the early months of the year, lending was down by some £5 billion. Does my right hon. Friend agree about the difficulty in the current environment for small businesses to borrow money for capital expenditure from the banks, and about the worry that, even given the favourable arrangements for the remainder of this year, a challenge remains? Apart from the feeble Project Merlin, which has been a damp squib, the Government have not taken steps to reignite such lending. The problem in the current year will get worse in future years.

Mr Hanson: My hon. Friend makes a valid point, to which I hope the Minister will respond once my hon. Friends have spoken, as I suspect they will.

I have many references to the concern about the capital allowance cuts. They back up what I have said, but it is worth touching briefly on some. *Fleet News* is responsible for managing and helping to support the development of fleet purchases of vehicles. Cars are not subject to the capital allowances, but many vans and vehicles of that nature are. In response to the Budget proposals now in clause 11, the headline of *Fleet News* on 6 May 2011 described capital allowance cuts as a "drop in the ocean":

"In summary it's going to hurt a little…But, in reality, compared to the ever increasing price of fuel it's a bit like being stung by a bee when you've just been run over by a truck."

The article expressed concern about the price of fuel, while also stating that the current level of capital allowances proposed by the Government is damaging and that future levels will certainly not provide help and support.

Alison McGovern: Does my right hon. Friend agree that we need to consider the broad picture of how the reduction in capital allowances affects our economy, specifically in our development of more carbon-efficient technologies? His fleet example is well made because many companies are shifting towards a more carbon-efficient fleet. If they are getting a cut in the tax on their profits, rather than a cut in tax arising from a capital allowance, it is effectively a disincentive to invest in more carbon-efficient technology.

Mr Hanson: My hon. Friend makes a valuable point. We touched in detail on those matters when we dealt with clause 10 on the Floor of the House last week.

The proposals before the Committee today were effectively announced via the Chancellor in the June 2010 Budget. They have been subject to consultation and I have read some of the comments made by individuals post-consultation. Before the Chancellor was in post, he was warned strongly that the policy would be damaging. In January 2010, the *Financial Times* stated that the shadow Chancellor

"faces intensifying business lobbying over how a Conservative pledge to cut the headline rates of corporation tax will be funded, amid manufacturers' concerns that his pre-recession plan to axe certain capital allowances to finance the cuts would be a 'disaster'…Manufacturers are urging the Tories to revise their original target list of capital allowances affected by the reforms, fearing the economic recovery could be damaged if the changes penalise companies that invest heavily."

I believe that they could do so. The article goes on to state:

"'Reducing the level of capital allowances would be a big problem for manufacturers'".

Shadow Ministers at the time proposed to cut capital allowances still further to 12.5% rather than 25%. Presumably in the face of the manufacturers' comments before the election and pressure on Ministers, the Government have revised those proposals to 25%.

Before we give the Exchequer Secretary a chance to respond to comments on the clause, that leads me to a further point. Will he say whether he still intends over time to maintain the trajectory of the Conservative party's proposals before the election to reduce capital allowances to 12.5% and, presumably, ultimately to abolish them altogether? He has a duty to the Committee to comment on that. I quote from a Conservative party document produced before the general election:

"The principle of reducing rates of capital allowances so that they are closer to the actual depreciation rates used in accounts and using the resulting revenues to fund a lower rate of corporation tax"

is something we supported. The document goes on to state:

"This suggests that reducing the rate for general plant and machinery from 20% to 12.5% as in the table above will move the tax depreciation rate closer to the average depreciation rate used in company accounts."

I want to know from the Minister why, not just today, he has proposed moving to £25,000 from £100,000 and whether he intends to reduce the figure further over the course of this Parliament, because we need certainty on such matters.

Amendment 7 would leave out subsection (3). As I understand it—again, I would welcome clarification from the Minister on this—subsection (3) also makes a change, so that the limit can only be increased by Treasury order and no longer lowered. That goes back to the point I have just made. Before the election, the Conservatives were saying, "Let's cut this from £100,000 to 12.5%." That was their position before the election. They have now gone to £25,000 for the cut. Subsection (3) appears to be saying that the figure would only be increased, so it will not be decreased. That is the position as I understand it.

I want to be clear whether the Minister is therefore saying that Tory policies before the election will not be progressed any further in this Parliament? If that is the case, it is a bit rich to cut the limit by three quarters and put a clause in the Bill saying that they promise not to cut it any further. I would like to hear his understanding of what subsection (3) means. That is my understanding of it, but I need the Minister to confirm that if he does cut to £25,000, that is it and it can only be revised upwards, not as per Tory proposals before the election.

Ian Murray: Is this not a prime example of the Chancellor having trumpeted a Budget for growth that is based on downgraded growth figures? One reason the growth figures have been downgraded is that clauses such as this mean that growth will be slower and more sluggish, because manufacturing will not invest or spend money. It is a Budget for downgraded growth, given some of the clauses in the Bill.

Mr Hanson: Indeed. It is extremely important that we reflect on the matter. As I said, forecasts by the Governor of the Bank of England show a slowing in that growth. It is most important that we hear the Minister's view.

Bill Esterson: I wonder whether my right. hon. Friend is aware of the comments of the Chartered Institute of Taxation, the well-known Labour supporter? It says that Government proposals on capital allowances will increase the administrative burden on companies. It also states:

> "It would be better to have a proper long-term commitment to capital allowance rates. Reducing capital allowances to 'pay' for corporation tax rate cuts penalises unincorporated businesses and make the business tax system look as if it is lacking coherence."

That is hardly a ringing endorsement. What concerns me is what is implied when it refers to "unincorporated businesses". It will hit small businesses really hard, particularly small manufacturing businesses, and we need them to grow in order to kick-start the economy.

Mr Hanson: The comments made by the Chartered Institute of Taxation reflect strongly the comments of other organisations that I have put before the Committee.

The Minister should listen to the Chartered Institute of Taxation, to EEF, the manufacturers organisation, to the Institute of Hospitality and to the many tax experts, including those in the north-east whom I have quoted, who say that the changes will damage regional employment. Self-evidently, the development and modernisation of manufacturing industry, and particularly support for small businesses, is the key to economic growth. The Minister said that he believes that the private sector is the key.

We have discussed the level of regional long-term unemployment on many occasions, especially people claiming jobseeker's allowance for 12 months or more. In the north-west, part of which is represented by my hon. Friends the Members for Wirral South and for Sefton Central, about 26,000 people have been unemployed for over a year. In the Yorkshire and Humberside region, where the constituencies of my hon. Friends the Members for Sheffield Central and for Scunthorpe are to be found, 22,310 people have been unemployed for more than a year. In Scotland, which is well represented in the Committee, about 20,415 people are on long-term jobseeker's allowance. My region of Wales has 9,500 long-term unemployed.

Big companies in my constituency are trying their best to take on unemployed people. Currently, Airbus has about 100 new apprentices. The company is supported by many small businesses, which develop products and components, and manufacturing capital allowances have helped them to keep modernising. For companies with small margins, those allowances are important in ensuring that they continue to provide support for manufacturing.

Tom Blenkinsop: The Government must also take account of the fact that manufacturing is undoubtedly recovering—but not to the extent that they say. However, much of that growth is based on inventory spending, because most stock yards are empty; and employees on site are going back to normal working hours after working to short-time working agreements—agreements, incidentally, that recognised on-site trade unions had negotiated with management. Without those strong trade union relationships with management and the work force, there would be none of those agreements.

10 am

Mr Hanson: I am grateful to my hon. Friend for his observations. The key point for me takes us to my next argument. What is the impact of these manufacturing capital allowance cuts? What assessment has the Treasury made of their impact on jobs? The Treasury said that it believes that around 100,000 to 200,000 businesses will be disadvantaged because of that. Has the Treasury undertaken any assessment of whether this cut in capital allowances will have any impact on jobs?

If the clause is approved, capital allowances will exist this year and will be at a reduced rate next year. The argument that has been put to me is that much of the capital investment will be brought forward to get the benefits of those capital allowances this year, which may dry up some of the capital expenditure in future years. Has the Treasury done any modelling on the impact of that on people who manufacture the goods that might be bought by the capital allowances? Given our current levels of unemployment, what modelling has been undertaken of the impact of this downstream on those people who depend on capital allowances for manufacturing and who make the equipment that might be bought if the manufacturing capital allowances were in place?

Bridget Phillipson: My right hon. Friend is making an important point about the evidence base for this and the impact of the changes. My concern is that the Government may simply once again assert their case without providing the evidence, which was exactly the position we found ourselves in with the abolition of the regional development agencies. The RDA in the north-east was crucial in driving private sector growth in supporting small businesses, particularly manufacturing businesses. Now that is gone, there has been a great deal of uncertainty. What is replacing it will not provide that support to enable private sector-led growth. My concern is that these measures will compound that change and lead to real difficulties for small and medium-sized enterprises.

Mr Hanson: My hon. Friend will know that, irrespective of the manufacturing issues, we face a downward spiral of growth in the next few years which has been confirmed by the Bank of England. That is partly due to the issues she has raised but also to the massive, front-loaded public spending cuts. They will hit demand and hit people's money in their pockets, coupled with the squeezes on income that we talked about earlier. All that has a downward effect on economic growth for the future. The capital allowance is but one factor in a range of assaults on the economy's ability to grow. We need some clarity from the Minister about its impact directly on jobs before we approve the clause today.

Alec Shelbrooke: The right hon. Gentleman has put forward several arguments as to why we should not do x, y and z to help the economy and try to move it forward. Surely he must recognise that if we had not taken those measures there would be an inevitable rise in interest rates, as we have seen in other European countries that have been unable to get their deficits credibly under control. That rise in interest rates would have just as devastating an effect as the potential effect the right hon. Gentleman is trying to portray.

Mr Hanson: May I help the hon. Gentleman by killing one myth—that the Labour Government had no deficit reduction plan—straight away? We would have taken steps to reduce the deficit. Let me give him one example without straying too far. I had the great honour in the last year of the Labour Government to be the Minister for Policing, Crime and Counter-Terrorism. I had a budget that was going to be reduced by £1.3 billion because we recognised that we had to reduce it. The Government are reducing that policing budget by £2.5 billion. The first thing I heard on the radio this morning was Kent police federation saying that it is concerned about the impact on crime in their community. We would have cut the deficit in a range of ways and we would have looked at a number of issues.

One of the reasons that we set capital allowances at £100,000 in last year's Budget is that we recognise that one of the key ways to get the deficit down is not just slashing and burning public expenditure across the board, but growing the economy, creating jobs, creating wealth and ensuring that people are in work. A range of measures such as this, which have cut public spending and squeezed living standards, means that we now face a reduction in the economy as a whole. That will increase the level of debt, because we will face increased unemployment. Capital allowances are part of that proposal.

I want the Minister to justify his proposals. What assessment has he made of the impact of the proposals, not only next year, when they come into effect, but this year? Many accountants are advising people to bring forward the purchase of capital equipment to this year, when allowances are higher, rather than making such purchases next year. We face a dry-up of capital expenditure by small businesses next year.

Alison McGovern: Does my right hon. Friend agree that one of the most worrying aspects of the proposal is the changes that we might see to pro-growth tax breaks for businesses in addition to this? It is especially worrying given the evidence last week that the Government might not meet their own deficit reduction target by the end of this Parliament.

Mr Hanson: We will see whether the Government meet their deficit reduction target by the end of this Parliament, but there is a cost of unemployment and failure to grow the economy and manufacturing industry. That cost will be paid for by falling tax revenues, people spending less, unemployment costing more and increased exports not materialising. My worry is that the high unemployment in many of my hon. Friends' regions will not be helped by the cut in manufacturing allowances of a capital nature from £100,000 to £25,000.

I have used these figures before, and I make no apology for using them again, because they are the nub of the argument on capital allowances. I am not in the business of testing the proposals on capital allowances for the sake of it. I believe that capital allowances potentially help manufacturing industry grow. In April we faced: 10.2% unemployment in the north-east of England; 9.9% in the west midlands; 9.4% in the area that my hon. Friend the Member for Walthamstow represents in London; 9.3% in Yorkshire and Humberside; 8.7% in Wales; and 8.1% in Scotland. Those figures are all above the UK average of 8%. The north-east, the west midlands, Yorkshire, London, Wales, Scotland, the east midlands and Northern Ireland all have above-average levels of unemployment.

What regional assessment has the Minister made of the impact of the manufacturing capital allowance cut? Does he have an understanding of that? Has he done modelling in the Treasury of whether the change will disproportionately hit those regions that currently have the highest unemployment? What we are trying to look at, and what we are concerned about, is the need for employment, particularly in the regions that are hardest hit.

I take the Minister back to his comments and the policies that the Government have followed. The Government have recognised that public sector job cuts will disproportionately hit regions outside London, the south-east and the east. For that very reason, before Christmas the Minister introduced the Bill that enacted the national insurance contributions holiday proposal. That has been an abject failure, but let us put it to one side for the moment. At the time, the logic of the Minister's proposal was that public spending cuts that went too far and were too deep and too draconian would hit the regions represented by Opposition Members very hard; Government Members represent those regions, too. The Minister proposed, therefore, that we should have a national insurance holiday to assist job creation in those regions.

I have just said that we face unemployment levels above the UK average in six regions of the United Kingdom. Sadly, those regions happen to be predominantly in the north, the midlands and Scotland—my constituency is in north Wales, but it is on the border of north-west England and is linked as much to the economy of Liverpool as to that of north Wales. The issue also affects London, but as the Minister accepts, London has more economic activity and a higher turnover of jobs.

It cannot be denied that structural unemployment problems, not helped by massive cuts in public spending, exist in the north-east, north-west, Yorkshire and Humberside, the west midlands, Wales, Scotland and the east midlands. Before we approve the clause, will the Minister tell the Committee what assessment and modelling he and his Treasury colleagues have done on the provision's impact, and whether it will disproportionately affect industries in the north in terms of capital investment?

There are large companies and small companies—I do not have the figures; perhaps I should have done more research and spent time looking at small business distribution across the United Kingdom. I am sure the Minister will receive help on that issue from his fantastic briefing pack, possibly very soon. Will he tell the Committee whether any modelling has been done on those issues, and if so, what it shows?

Paul Blomfield (Sheffield Central) (Lab): I want to follow up my right hon. Friend's point about modelling. Is this not another example of the lack of joined-up thinking within Government policy? My hon. Friend the Member for Edinburgh South and I listened to Government Members on the Business, Innovation and Skills Committee, and questioned them on several occasions about the strategy for economic growth which, as we have been told, is heavily dependent on small businesses. This measure is another example of the left hand not knowing what the right hand is doing in terms of undermining small businesses in their attempt to drive economic recovery. As my hon. Friend the Member for Sefton Central pointed out, that view has been endorsed by the Chartered Institute of Taxation, which has said on that issue that Government policy lacks coherence. Do we not need an answer from the Minister on that?

Mr Hanson: My hon. Friend speaks with experience of the city of Sheffield, which has historically been dependent on a large manufacturing industry, and on the many small suppliers that support it. We need a strategy to ensure that when public sector spending cuts hit that city, manufacturing growth will help replace those jobs in the private sector. The Government purport to bring forward such a strategy, but that is not evident in their actions such as the provisions in clause 11.

I hope that I have at least made a case that deserves an answer, and that my hon. Friends will support me. The Minister has four points to consider in his response this afternoon. Does he share my view about the impact of corporation tax cuts versus capital allowances on small and medium-sized businesses? I contend that small businesses will be disproportionately hit by the cut to capital allowances and will not benefit to the same extent from corporation tax cuts. The Minister needs to address that issue fair and square.

For my hon. Friends in particular, the Minister should look at the regional impact of the proposed cuts to capital allowances, and at whether those cuts will disproportionately hit those regions where economic growth is needed to tackle the appalling levels of long-term and regional unemployment in the north, Scotland and Wales, which are higher than in other parts of the United Kingdom. He needs to respond to comments that have been made by many organisations regarding the impact of the clause on business potential for the future. He needs to give an assessment of the impact of the changes on the economy as a whole and particularly of the impact on those companies that bring forward capital expenditure and therefore will dry up capital expenditure in future years. He needs to explain how the measures fit into an overall growth strategy when we face massive cuts in public spending over and above what the Labour Government proposed. The present Government are cutting too far, too fast and too deep. The cuts will hit businesses in the private sector hard, as well as the public sector.

10.15 am

At a time of squeezed incomes, child benefit changes and tax changes, which we have discussed, and at a time when we face increasing competition, the only solution that the Conservatives, who sadly are supported by the Liberal Democrats on these matters, have—it is one of the main thrusts of their economic policy—appears to be the Chancellor of the Exchequer saying, “Well, let’s just start to rein back on the well earned and hard fought for rights that people have at work”—rights that make people feel part of the business, not just tools of the business. That is what we need to discuss today.

I hope that I have outlined the benefits of the probing amendments 6 and 7 and raised some testing points on the clause as a whole. I look forward to the Minister responding to those issues later today. I hope that my hon. Friends will be able to comment on them before then.

Alison McGovern: In addition to the comments made by my right hon. Friend the Member for Delyn and the questions that he has clearly set out for the Minister, I want to focus on one problem in clause 11 concerning investment allowances. Before I do, I will give one example from my constituency. Unfortunately, in my relatively short time as a Member of Parliament, I have already had the experience of visiting a smallish factory in my constituency, with about 150 staff, which was due to close because it was being relocated to eastern Europe. It had a full order book, but sadly it was being relocated and the jobs were moving out of my constituency, which was very depressing.

In discussions with the owners of the factory, I tried to ascertain what investment had taken place and what the real underlying reason was for shifting the jobs out of the UK—they were going to Hungary. Because there was a full order book, they wanted to invest in some new equipment to increase the productivity of the operation. I wanted to know why they were not going to do that in Bromborough in my constituency and why they were shipping out to Hungary. They talked about emerging markets, but it became clear that the factory in Bromborough in my constituency had very old equipment. Despite having a highly productive, efficient work force, with a proactive trade union that worked alongside management to keep that full order book, there was no reason to invest, because the factory was so run-down.

I asked the site manager when the last investment had taken place, and he said 1985, which was highly depressing. My only wish at that point was that these investment allowances had been in place in 1990, in 1995 or in the early stages of the Labour Government. That might have meant that that company would have continued to invest, little and often, which is actually what is key to keeping jobs in the UK.

Richard Harrington: What happened to this business was very unfortunate—please do not feel that I am making light of people losing their jobs, Mr Hood—but does the hon. Lady really believe that the thought process of the owner of this business with 150 workers was, “Oh, what a pity. If we’d had a £100,000 tax allowance instead of a £25,000 one, we wouldn’t be moving to Hungary”? The reason for moving is that labour costs in Hungary are 25% of what they are here. I am very sorry about what happened to that factory. It has happened all over the country under Governments of all colours, but this small point about the capital allowances is the last thing that employers think about.

I am sorry that the hon. Member for Edinburgh South is not in his place, because he mentioned his experience of the hotel business. I have been in the hotel business. I have developed a hotel not 10 miles from his constituency. These allowances are the sort of thing accountants mention as a good wheeze, but in no way are they part of the thought process of doing a job or keeping a factory open, and I hope that the hon. Lady will consider that.

Alison McGovern: I thank the hon. Gentleman for his intervention. I fear that it would test your patience, Mr. Hood, if I expostulated at length about the interplay between labour costs in eastern Europe and the use of technology. Despite the wide disparity in labour costs between our economy and that of other economies, success in manufacturing tends to be in areas of highly productive industry, which, over the years, have regularly made small investments in technology, so that they compete not on labour costs but on high-tech production. If we balanced it out, it is not as if that factory could compete on the basis of labour costs if only it invested now, using today's capital allowance. As an economy, we need to compete on high-tech manufacturing. If these investment allowances persist over many years, they could help us to achieve that.

Nic Dakin: My hon. Friend makes a powerful argument. I am particularly taken by her reminder that capital investment is needed on a cyclical basis. She told us a story about a company in her own constituency that had not invested for many years. These capital allowances are part of a package on offer to manufacturing and small companies and they really need supporting. What is happening at the moment is that all the supports are being taken away. The regional development agencies were there to support companies in difficulty and to ensure that investment was available in the long term. I am concerned that the changes in capital allowances imperil the current situation.

Alison McGovern: I thank my hon. Friend for his intervention. Later, I will talk about the interplay between corporation tax and investment allowances. An additional aspect relates to the regional development agencies, which had a high level of expertise—certainly in my part of the world—in the proactive intervention in the manufacturing market.

Tom Blenkinsop: The hon. Member for Watford must remember that the Government are not just making a reduction in capital allowances, but slapping on a carbon floor price increase, thereby placing a huge burden on energy intensive industries. If labour costs were of such great concern, why are countries such as Brazil, India and China hugely investing in capital? They are making massive allowances for capital investment. I agree that labour costs are an issue, but unless we get to grips with creating domestic demand and stop having a growth strategy that is totally reliant on foreign demand, we have no growth plan at all.

The Chair: Order. There have been three excellent interventions, but they were more like speeches. Any future intervention should be a little bit shorter.

Alison McGovern: In response to my hon. Friend's intervention, which was, as you said, Mr. Hood, excellent, I quote the president of the World Bank, Robert Zoellick, who said that the Chinese are investing in infrastructure because it is jobs today and productivity tomorrow. That is the point I am making. We need a view not just on the GDP figure, but on the long-term productivity of our economy, of which investment allowances have been a key part. I suggest that in our changing economy, they should play an even bigger part.

Bill Esterson: My hon. Friend makes a good case for capital allowances. Her example explains why, over a long period of time, the right level of capital allowances make a difference. It is not just about labour costs. The problem with what the hon. Member for Watford said is that while labour costs are an issue, they are only an issue when a company tries to compete on cost and price alone. We have to have a high-skill and high-tech economy that is based on high quality industry. Then we can pay decent wages and compete on quality. We should be competing not just on cost but on quality. That is the way forward for the economy.

10.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at One o'clock.