PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

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

Fourth Sitting

Thursday 12 May 2011

(Afternoon)

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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

(Afternoon)

[MR ROGER GALE *in the Chair*]

Finance (No. 3) Bill

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

Clause 11

ANNUAL INVESTMENT ALLOWANCE

Amendment proposed (this day): 6, in clause 11, page 6, line 26, leave out '£25,000' and insert '£50,000'.—*(Mr Hanson.)*

1 pm

Question again proposed, That the amendment be made.

The Chair: I remind the Committee that with this we are discussing amendment 7, in clause 11, page 6, line 27, leave out subsection (3).

Clause stand part.

Alison McGovern (Wirral South) (Lab): Members may recall that I had just recounted an example of a company that was closing its factory in my constituency to move the jobs to eastern Europe, and how I felt that some of the issues around investment in new technology over the years had caused that to happen. The point was debated by hon. Members from all parts of the Committee.

I would like to shift away from anecdotal evidence and ask the Minister questions about other elements of evidence that I feel should inform the debate. There is a picture of different Government interventions that make it more or less likely for companies to choose to invest in better technology, and therefore improve the productivity and success of our economy. Some have already been mentioned: regional development agencies and matters relating to general quality of life. I would like to focus on the difference between corporation tax and investment allowances, and what leads to investment in new technology.

There is a possible world where the Government no doubt believe that their corporation tax will lead to all kinds of good effects. They obviously think that lower corporation tax will lead to new businesses starting—that may be so. They may think that lower corporation tax will lead to companies using increased net profit, acquired through paying less tax, to invest in some of the new technologies that I have mentioned. There is a possible world, therefore, where the best way to have investment in companies in British business is to cut corporation tax. That may be true. It may also be the case that there is no link between lower corporation tax and investment in technology. It may be that actually increased profit is rarely used for investment in better equipment and technology, unless specifically incentivised by Government.

Those are two possible worlds, and in the field of economics it is not necessary to have a politically heated debate. It should be a matter of evidence and demonstration. I would therefore like to ask the Minister what research the Treasury has conducted into the correlation between reduced corporation tax and investment, especially in technology, but also in staff skills. Is it the case, either globally or historically in this country, that where corporation tax has been reduced, investment in those two important factors has increased? To my mind that is an entirely testable theory, and it would be strange of us to make a decision without reference to some of that evidence.

Bridget Phillipson (Houghton and Sunderland South) (Lab): That brings us back to the interventions made this morning by the hon. Member for Watford, who is not here at the moment, on whether changes in taxation lead to changes in behaviour. On the one hand, we heard in an earlier debate that a 50p tax rate could change behaviour and result in non-competitiveness. In this case, however, a reduction in capital allowance will apparently not see a change in behaviour. I do not see consistency in the Government's arguments.

Alison McGovern: I thank my hon. Friend for that helpful intervention. My answer to her point is that we should go out and put that to the test. We should look for evidence. We should find out what academic research has been done, and what research has been done by the excellent economists in the Treasury, about how such changes affect behaviour in reality—not in a text book, not in theory, not in our political debate and not as we argue about these things as Labour versus Tories versus Liberal Democrats, but in reality. Otherwise, we are taking a decision that is of very poor quality. So I ask the Minister directly what evidence he has that the corporation tax cut will, if the future resembles the past, lead to increased investment. If there is such evidence, it would be welcome if the Treasury were to share it. I have made a cursory, preliminary search to see if there is any academic research to bear that out, but was unable to find it. If there is such evidence it would be helpful if the Minister could share it.

Roger Williams (Brecon and Radnorshire) (LD): I am listening to the hon. Lady's argument carefully. However, the right hon. Member for Delyn said that he supported a reduction in corporation tax. Perhaps the hon. Lady could talk to her right hon. Friend and get the information and evidence that she seeks from the Minister.

Alison McGovern: The hon. Gentleman is trying to trap me into a disagreement with my right hon. Friend. Of course, my right hon. Friend, as a shadow Minister, is not going to have the sort of evidence for which I have asked the Minister. I mean, come on. I have asked the Minister for the evidence because he is in charge of all the very able Treasury economists who have produced the statistics, the data, the correlation and the regression that will have led the Minister to decide, I hope, that this is the best course of action. It is vital that we put to one side the idea that there ought to be a blustery party political, dogmatic debate about this. Policy made without evidence is, in the best case scenario, just guessing, and in the worst case scenario it is just ideology off the top of one's head.

It is therefore highly important that the Minister shares with us what research has been done by the Treasury so that we can ensure that this decision, which is so crucial for the good of business and therefore for people's jobs and quality of life, and for the sustainability of our country, is being made with the best case and not just on instinct or guesswork. This is a question about what is most likely to lead to investment. If we want a flat tax approach in which the Government hand over responsibility for macro decisions to each firm on a micro basis and hope that the framework is good enough to support it, we should have proof that that approach is better. I think that we should try to do what the investment allowances were designed to do, and use our role as Government to intervene in the economy, because it is necessary for the broader picture—for the macro strategy—and for the impact on people's lives that there be investment in new technology, whether or not a particular firm perceives that to be in its interests at the time.

I worry that there is not enough of a picture being drawn about how the Government will deal with some of these problems. If, two years down the line, we have seen a falling away of investment, what will the Government do? Will they change course on this? It is important that we set that out now. We could have a Japan-like situation, where because of the very severe drop that we have had in the economy, firms choose to keep a larger amount of cash and choose to pay down debts rather than invest, and they do not think about expansion because they are fearful of the situation that was caused by a global crash. I would understand that from the point of view of an individual firm. However, maybe there is a role that the Government need to take to intervene, for the good of the broader economy.

Ian Murray (Edinburgh South) (Lab): Is there not a danger that Government intervention in the form of a direct corporation tax cut, which my right hon. Friend the Member for Delyn has already demonstrated goes to bigger companies at the expense of investment in small companies, will go straight into the pockets of shareholders and not be reinvested in companies? At least the investment allowances would help the bottom line of the balance sheets and the profitability of companies; one would know that a proportion of that had gone into investment to grow the company. So there is a danger that this particular Government intervention means that shareholder value goes up but not necessarily investment in companies and, therefore, growth and jobs.

Alison McGovern: I thank my hon. Friend for that insightful intervention. We could have a long debate about shareholder value and how far it indicates real business prospects, but I fear, Mr Gale, that it would test your patience on this amendment, which I would not dream of doing.

The key point for the Minister is to tell us what monitoring is being undertaken by the Treasury to clarify how much of the tax handed back to business through this corporation tax cut over the years to come will be spent on new technology or on research and development, which is a key part of our future. We talked this morning about how we overcome the fact that we have higher wages in this country. Research and development has to be a huge part of that. How much of the tax handed back in this corporation tax cut will be invested in skills and in assets that increase profitability? The Minister has to tell us how he will monitor that so that we can be sure that we take the right decision in Committee.

Mr David Hanson (Delyn) (Lab): My hon. Friend has reminded me of something that I should have mentioned. I represent a seat in Wales; I can see her constituency from my bedroom window. I wonder whether the Minister has consulted colleagues in the National Assembly for Wales and the Scottish Parliament, as they have economic responsibility, about the regional difficulties that these capital allowance cuts may cause.

Alison McGovern: I thank my right hon. Friend for that point. I recently visited Airbus where our constituents work together to make the wings of aeroplanes that are sold around the world, and a most humbling experience it was. If anyone ever complains that Britain does not make things, let me tell them that we do. We make the planes that fly everybody around the world.

The economy is a complicated picture. Wales has a history of manufacturing that has changed over time, but there are many new energy firms in north Wales that might have made use of investment allowances and may or may not be seeing high levels of profit at the moment. I think of some of the enterprise that goes on in mid and west Wales around Trawsfynydd, which I know very well. Those firms have done a huge amount of research and development that has led to them purchasing new technologies to try to drive forward our economy. Has the Treasury discussed these proposals with the National Assembly for Wales, and what does it think the collective impact will be? That is an interesting question.

About 600 of my constituents work in that Airbus factory, and many more work in other factories in Wales. It is not because of the niceties of devolution that we need to work together with colleagues across the border, but because of the cold, hard facts of economic reality, and people's jobs and their quality of life. When I consider the importance of thinking through all the details and ramifications of this choice, it brings home to me how interconnected the economy is and therefore how important it is that the Minister shares with us today some further details about what monitoring of the investment picture he will do. How does the Treasury think that is connected to tax cuts of various kinds—specifically the corporation tax cut and the reduction in these investment allowances? How does that play out in economies across the borders between England, Wales and Scotland, and no doubt other parts of the United Kingdom as well?

1.15 pm

Bridget Phillipson: My hon. Friend is making some important points about the differential impact that the proposal could have across the regions of England, but also on England and Scotland. The impact may be felt differently because of the different challenges that areas face.

As I said earlier, I am most interested to hear what impact analysis the Treasury carried out on the differential impact across the regions. In my region, we have also lost the regional development agency, which played a crucial role in securing investment into the area, particularly in manufacturing. That has gone, and now I worry that this proposal will damage the regions in the long term.

Alison McGovern: I thank my hon. Friend for that helpful point. In previous years, I might have put some questions to the regional development agencies. Now that we do not have those houses of best practice, knowledge and research, the Treasury needs to get a grip on understanding the economy of all parts of the country. Economies cluster very differently across different parts of the country. If the Treasury does not have the expertise to monitor how the reduction in investment allowances is affecting research and development, technology and skills improvement, we are in real danger of too much of a hands-off, step-back, laissez-faire attitude to our economy. It is not that we do not want to make good decisions, we just do not invest in the evidence and research to enable us to make them.

I ask the Minister to share the evidence he has about changes to investment allowances and corporation tax. What monitoring will there be of how the reduction in investment allowances impacts as we go forward in this important time for our economy? What might have been the counterfactual situation, if we had kept things as they were? How is the Treasury going to do its job for the whole country, not just the economy to which it is closest, that of London and the south-east? How is it going to do a good job for the whole country? How will it check that the policies made in the Treasury are good ones that work for the entire economy?

It is important for the Minister to consider how the reduction in corporation tax and the move away from investment allowances are going to affect employment, and specifically different kinds of employment. When a company invests in an asset or a new piece of kit to help it be more productive, people will often be encouraged to get new skills—a knock-on benefit of the investment—and the growing company will have the confidence to employ younger people at the beginning of their careers. It has never been more important to encourage that. As my hon. Friend the Member for Edinburgh South mentioned, we need to avoid the majority of the corporation tax cut being handed back to shareholders. It should rather become part of a productive business-led economy that can help solve some of the social ills that are still with us from the recession, such as unemployment and a lack of opportunities such as apprenticeships.

How does the Minister think the measure will affect younger people specifically? If he does not have an estimate, how is the Treasury going to think about and monitor that for the future?

Ian Mearns (Gateshead) (Lab): It is a pleasure to serve under your chairmanship, Mr Gale. I want to follow on from a number of questions put to the Minister by my right hon. Friend the Member for Delyn. My remarks concern the relationship between corporation tax and tax allowances; the regional impacts, which are of particular concern to my constituents; the view of the business community; and the impact on the economy as a whole.

Before coming to the House, I was a councillor in my constituency for 27 years, and I have had the pleasure of being deputy leader of Gateshead council for the past eight years. I have therefore come to understand the place well. In that time, the economy of the area has experienced significant changes. Employment in manufacturing has been taken away from very large engineering companies such as Huwood, which manufactured equipment for use in coal mines. Since the necessary changes in the market following the closures of the mines, Huwood is gone. It employed several thousand people within my constituency.

Across the river, Parsons, a heavy engineering company, has been much reduced; it now just ticks over as a business in the locality. Vickers, the armaments manufacturer, which was at the height of its business in the war period, employed 30,000 to 50,000 people on the River Tyne. There were very large industrial engineering concerns in the north-east—Clarke Chapman in my own constituency, Rolls-Royce and Swan Hunter. The names are synonymous with the north-east region, but sadly, all are now gone or much reduced.

I am glad to say that the nature of employment in the area has been much diversified into many small and medium-sized enterprises. The Team Valley trading estate, half of which is in my constituency and half of which is in that of my hon. Friend the Member for Blaydon (Mr Anderson), is typical of the north-east industrial market now. More than 20,000 people are employed in one industrial estate in the heart of Tyneside, but mostly by small and medium-sized enterprises. Those companies employ 100, 150 or 250 people. It is their concerns that I am here to reflect, because those businesses will impact on the potential of the north-east region's economy and, within the private sector, they will help it to grow out of the recession.

Bridget Phillipson: My hon. Friend is clearly setting out the challenges that we in the north-east face. I recognise that picture well, because it is very much the same in my constituency. There has been a move from traditional heavy industry, such as the mines and the next-door shipyards, to a mixed picture and a diversified economy. Does he share my concern that the Government do not seem to understand the challenges faced in the different regions and do not appear to have a strategy to deal with them? They certainly do not have an active industrial policy, which would encourage growth in the private sector, which they say they want.

Ian Mearns: I am grateful to my hon. Friend, who has pre-empted a comment I was about to make. We have referred in previous debates to the differentiated approach that is required to stimulate the economy in different parts of the country. From the Opposition's view, it seems as though the Government, or their Ministers, find the concept of regions alien. They do not seem to like the concept, or the idea of having a differentiated regional policy, so one wonders whether they have a devil-take-the-hindmost approach.

I remember that previous Conservative Governments regarded unemployment as a price worth paying. I am glad to say, however, that as high as unemployment is in my constituency at more than 10%, it is not the 18% to 20% of the mid-1980s. There is still, however, significant capacity to grow.

Julian Smith (Skipton and Ripon) (Con): Will the hon. Gentleman update the Committee on the result of the referendum that took place in the north-east about regional governance?

Ian Mearns: I would be delighted to diversify and speak at length.

The Chair: Order. I do not think that I would, Mr Mearns.

Ian Mearns: Just for the Committee's information, I was the chair of the campaign for a north-east assembly, so I have some understanding of what happened, but I will not go into that now, Mr Gale.

We are facing a lack of understanding about the need to develop regional economies.

Peter Aldous (Waveney) (Con): The hon. Gentleman says that the Government do not have a regional strategy and that they are turning their back on the regions. Surely the setting up of the enterprise zones rather indicates that that is not the case.

Ian Mearns: I am delighted that we had an enterprise zone in the 1980s; the Metro centre, which is a significant development in the adjoining constituency to mine, was developed on the back of such a zone. Unfortunately, however, the enterprise zone established a shopping centre, and it did not establish growth in the local economy. In fact, there was a significant amount of displacement from other parts of the regional economy. There is a concern that the policy of enterprise zones could lead in that direction again.

Peter Aldous: My understanding of the rules that the Government are putting down about bidding for enterprise zones shows that they have learnt those lessons. The rules are specifically geared towards manufacturing industry, rather than shopping centres. Does he not agree?

Ian Mearns: I would agree with the hon. Gentleman, but it was the experience that we went through that actually taught the Government those particular lessons.

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): It is interesting that we are comparing and contrasting enterprise zones with capital allowances, given that capital allowances offer a company the opportunity to set up anywhere. Enterprise zones are restrictive, in that companies must set up in a specific, limited, localised area, which may or may not suit manufacturing.

Ian Mearns: I am grateful to my hon. Friend for his point. The point that I want to develop about small and medium-sized engineering companies in my region is that they are definitely hoping to gain orders and business on the back of the development of the Hitachi plant at Sedgefield. We have been led to believe that, down the line, the Government expect some 5,000 to 7,000 supply-chain jobs to come from that particular venture into the development of high-speed trains, and we are delighted that it is coming our way.

Bridget Phillipson: Before my hon. Friend presses on, I want to return to the issue of enterprise zones. Does he share my dismay at the confusion about the location of enterprise zones and what industry-specific work they will be able to do? I do not think that the Chancellor helped matters much when he announced during the Budget that the enterprise zone for part of the north-east would be on Tyneside. That appeared not to be the case. As a Wearside MP, I was certainly rather concerned to hear that it was on Tyneside. My hon. Friends who are Tyneside MPs may feel differently, but there has been significant confusion about the location of the enterprise zone.

Ian Mearns: I share my hon. Friend's concern, and I have an additional concern that the enterprise zone might indeed go to Tyneside, but to north Tyneside rather than central Tyneside, where it would much better serve the local economy.

Nic Dakin (Scunthorpe) (Lab): What we have just heard has demonstrated the weaknesses of enterprise zones compared with the more homogeneous support of capital allowances and regional development agencies. This is a step backwards. We really need clarity on a strategy for manufacturing, and I am pleased by what my hon. Friend is saying.

Ian Mearns: While we are hopeful that there will be significant job gains in high-spec, high-tech and high-skill industries on the back of Hitachi, because the regional economy in the north-east was highly dependent on public expenditure—over 50% of women in the jobs market in my constituency were employed in the public sector—there is now a bit of a downturn in the private sector on the back of the loss of orders from the public sector.

I visited one company on the Team Valley trading estate called Petards Joyce-Loebl, which is a high-tech, high-spec company that provides equipment for Chinooks. It is still waiting for an announcement about helicopter orders. In a newly developed business park right next to the Metro centre, which is called Watermark, there is another company called Russell Telecom and it is waiting for information about superfast broadband. We are waiting on information from the Government that will be vital for those companies' investments, but at the same time, their capital tax allowances are being eroded before their eyes. We hope that the timing of those announcements does not mean that they miss the boat for those capital allowances.

1.30 pm

James Wharton (Stockton South) (Con): I have listened with interest to the comments from many of my colleagues across the north-east. The hon. Gentleman has just talked about a telecommunications company which is in a business park right next to the Metro centre. Is that the same Metro centre that is there because the enterprise zone was there? Is that business park in any way linked to the fact that the Metro centre is there?

Ian Mearns: There was a coke works on the land on which the Metro centre was developed. Part of the facilitation of the enterprise zone allowed the local authority in the area, Gateshead council, to attract many millions of pounds of derelict land reclamation grant. It was on the back of that work by the council that Sir John Hall did the work to develop the Metro centre. Without that work first being done by the local authority, albeit with a central Government grant, that land would probably have remained toxic until this day. It was a genuine public-private partnership that took that work further.

Tom Blenkinsop: My hon. Friend has alluded very clearly to the fact that private sector investment is attracted first with public sector investment.

Ian Mearns: I am grateful to my hon. Friend for amplifying the point. The different Government policies, including the changes in tax allowances, the eradication of the regional development agency, and the very strange rules that have been drawn up for bids to the regional growth fund, which to a large extent have ruled out bids from local small and medium-sized enterprises, the picture for the north-east in the medium term is not hopeful. There is a great deal of unease among the business community about the Government's attitude towards the regions and the sort of manufacturing enterprises that exist there.

Concern about the strategy is echoed by a number of different organisations. The Institute for Fiscal Studies said in its "Green Budget":

"The largest beneficiaries from the package of measures"—

including corporation tax and capital allowances—

"will be high-profit, low investment firms",

such as financial services. If the IFS takes that attitude, I do not see how the strategy will benefit a region like the north-east. We had a fairly large financial institution in the north-east of England called Northern Rock. It followed the pattern of many financial institutions across the country and invested in dodgy batches of triple A-rated loans from other parts of the world.

I am concerned that the largest impact on those firms with capital-intensive operations will not be positive. The IFS also agrees that

"The losers would be firms that invested heavily but made little profit – notably in the manufacturing and transport sectors but also some capital-intensive service-sector firms. The winners would be less capital-intensive but more profitable firms, historically typified by the financial sector."

So we are really concerned about the attitude of organisations such as the IFS.

My hon. Friend the Member for Sefton Central referred to the Chartered Institute of Taxation earlier. The Government's growth strategy seems to believe that the most important driver of economic growth is creating a low corporate tax jurisdiction for multinationals, but there is much more to a growth strategy than this. I am concerned about the reliance on multinationals to grow the British economy. I fervently believe that helping small and medium-sized enterprises to grow from within would be a much more stable growth pattern for the future.

The problem with multinationals is that they are not patriotic and do not have the desire to invest in a particular country. They are happy to move capital around the world to where they will get the best return, and that might not necessarily be to the benefit of Britain plc.

Tom Blenkinsop: The point that my hon. Friend is making is that we will attract the multinationals only if the SMEs are in place. If we do not provide at competitive rates nearby the out-sourcing services that multinationals require, there is no way that they will move here in the first place.

Ian Mearns: In conclusion, we already have a lower corporation tax than our significant competitor, Germany. The fact that the German manufacturing sector performs so much better than us suggests that there is much more to growing the economy than corporation tax cuts. When considering these measures, the Government must think about the impact that they will have on the regions, the SME sector and the economy as a whole.

Bill Esterson (Sefton Central) (Lab): We have heard compelling evidence about how the proposals of a change to capital allowances combined with a cut in corporation tax will impact on the economy. The Government have a stated aim of deficit reduction in five years. To achieve that, they have cut public spending by unprecedented amounts, raised VAT and taken a range of other measures. The reduction in capital allowances combined with the cutting of writing down allowances, which was in a previous clause that was debated last week, removes the slight benefit of the corporation tax cut for SMEs, especially, but not exclusively, those in manufacturing.

In Sefton, many small businesses need support at this stage of the economic cycle in order to grow and stimulate the kind of recovery and growth in jobs that are needed to offset the very large losses in the public sector. The 30% cut in Sefton council's funding is producing great hardship, not just for those people who have lost their jobs but for the small businesses in the area that depend on those people as their customers. The proprietor of one small business in the building industry was telling me recently that he would love to expand. He is ideally placed to benefit from the higher level of capital allowances that are in place at the moment. His business, which is typical of the type of business that benefits from capital allowances at the higher rate of £100,000, will significantly lose out by this measure and will benefit very slightly from the reduction in corporation tax because he does not make vast profits. Put together, the measures penalise the SME sector disproportionately compared with large business.

At this stage of the economic cycle, we need not just cuts but investment if we are to see the kind of growth that is needed for long-term deficit reduction. The loss of customers who work in the public sector is a key problem for small businesses across the country. It is becoming increasingly clear that the lack of a growth strategy will lead to big problems for SMEs across the country.

Pamela Nash (Airdrie and Shotts) (Lab): My hon. Friend said that the policy is an attack on small and medium-sized businesses. During the past 30 years in my constituency, the mining industry has collapsed; we have had a near wipe-out of the steel industry and, most recently, the Boots factory, a major employer, has ceased to exist. We need a diversity of small businesses to underpin growth in areas of low employment.

Bill Esterson: My hon. Friend makes a powerful point and speaks from constituency experience, as have several Opposition Members. Evidence clearly shows that we need the SME sector to drive growth, and as my hon. Friend the Member for Middlesbrough South and East Cleveland said, we need that growth from the small business sector to encourage the larger businesses as well. Sadly, the measures are aimed at helping the big business sector and the multinationals in this country at the expense of SMEs.

Nic Dakin: I have been listening carefully to what my hon. Friend said about the importance of SMEs. Some might say that only Opposition Members say that but, in its advice to SMEs about capital allowances on its website, Lloyds TSB says:

"When you buy certain new equipment, invest in buildings or research and development, you can deduct a proportion of the cost from your taxable profits and reduce your business tax bill.

This can be a huge boost to your business, especially as you need to invest to fund growth."

What does my hon. Friend think about that advice?

Bill Esterson: I am grateful to my hon. Friend. I do not always find that advice from banks is necessarily reliable, but sometimes they get it right. On that occasion, they were talking a lot of sense.

We referred earlier in the week to the need to get bank lending going again, and the fact that £5 billion less was lent to small businesses in the first three months of the year than was projected. The measures in the Bill allied to the lack of bank lending will make it very difficult for growth to start again in the SME sector. The Government need to examine the measures in conjunction with a strategy for the banks, and they need to look again at proposals such as that put forward by my right hon. Friend the shadow Chancellor.

Bridget Phillipson: My hon. Friend will be aware that it is already a difficult climate for SMEs. From my many conversations on the subject, businesses would like to be in a position where they could take on more apprentices, but are finding that difficult in the current climate. What is compounding the problem is the fact that public sector contracts are drying up, whether from local authorities or housing associations. One local electrical contractor in my constituency, Alex Scullion, has made that clear and has had to lay off apprentices. It is a difficult picture all round for SMEs, and surely the Government want all possible measures to be put in place to support the development and growth of SMEs because of the bedrock of economic growth in our communities.

Bill Esterson: My hon. Friend uses two good examples: apprenticeships and what is happening in the public sector. Both demonstrate the need for an immediate growth strategy. Unless we have that growth we shall not see an increase in apprenticeships, and unless we have continued investment in the public sector, we will have the problems that she and others throughout the country are experiencing in their constituencies, with the knock-on effect of rising unemployment on businesses which will lose their customer base as a result.

My right hon. Friend the shadow Chancellor has rightly proposed the repeat of the successful banking levy on bankers' bonuses that raised £3.5 billion last year. If that money were invested, it could be used to kick-start many small and medium-sized businesses, particularly in the construction industry. That is one possible growth strategy, and the sort of practical measure that could be used, but is sadly lacking in what is being proposed.

Roger Williams: The hon. Gentleman talks about the construction industry. We are all clear that it is a key sector of the economy. I know that it was before he was a Member of this House, but what effect did the abolition of the industrial buildings tax relief and the agricultural buildings tax relief that his Government brought in have on the construction industry?

1.45 pm

Bill Esterson: I am learning to enjoy the hon. Gentleman's interventions. I am not sure that that had the effect that he hoped I would acknowledge. The point is that we need to support the construction industry, and by cutting capital allowances the Government are doing exactly the opposite.

Tom Blenkinsop: Perhaps my hon. Friend understands, as I do, what is happening in the construction industry. In my neighbouring constituency of Redcar, the beam mill, which produces long products, has had its orders reduced over the past eight months by more than 70% as a result of the cancellation of Building Schools for the Future projects and hospital products, which has meant that the domestic market for those long products—and also rail—has fallen through the floor.

Bill Esterson: My hon. Friend makes the point extremely well. My constituency has also suffered from the loss of Building Schools for the Future projects and other public sector projects. The whole of Sefton has lost many millions of pounds of investment from Building Schools for the Future projects that will no longer take place over the coming years.

Bridget Phillipson: On the construction industry, during the year that I have been an MP I have had the pleasure of visiting hundreds of new homes that were built using the kick-start money provided by the Labour Government. They are schemes that would otherwise not have gone ahead, which have regenerated areas that were desperately in need of new homes. It is clear to me that that saw the economy through a very difficult time from 2009 onwards, and without it a far greater number of people—whether they are in electrical contracting, directly in the building trade or suppliers—would have gone to the wall. The short-term decisions that the Government are taking are simply not the right ones. We need to look carefully at stimulating growth in the construction industry.

Bill Esterson: Some more excellent points from my hon. Friend. Again, that emphasises the need for measures such as a repeat of the tax on banking bonuses to be invested at this stage of the economic cycle. Looking at the link between the cut in corporation tax and the changes in allowances, I think that Members on both sides of the Committee would accept that in principle the cut in corporation tax is beneficial to business and to the economy. As someone who ran a small business for many years before coming to this place, I know it is the sort of measure that was certainly beneficial when the previous Labour Government gradually implemented it over a number of years. The trouble is that in those businesses that really need it, it is being blown out of the water by the changes in capital allowances. I believe the evidence shows that £2.6 billion will be lost in the cuts in investment allowances as a result of clauses 10, 11 and 12, which penalise such businesses at a time when they can least afford it.

[Bill Esterson]

These changes do not contribute to rebalancing the economy. That is the nub of the Opposition's argument. Bigger investment allowances help small manufacturing firms expand and build capacity, but that will go out of the window as a result of the changes. As the Institute for Fiscal Studies stated in its "Green Budget",

"The largest beneficiaries from the package of measures"—

including corporation tax and capital allowances—

"will be high-profit, low-investment firms",

such as financial services, while the cuts under clauses 10, 11 and 12

"will have the largest impact on those firms with capital-intensive operations"

such as manufacturers. The IFS agrees:

"The losers would be firms that invested heavily but made little profit—notably in the manufacturing and transport sectors but also some capital-intensive service-sector firms. The winners will be less capital-intensive but more profitable firms, historically typified by the financial sector."

PricewaterhouseCoopers has said:

"Many clients will balance the modest reduction in capital allowances rates with the staggered reduction of the rate of Corporation Tax. Whilst the declining rates of capital allowances, in isolation, do not produce any winners, some businesses will benefit when the CT rate change is also taken into consideration. Capital intensive businesses...are likely to feel the reductions more, since they will have larger capital allowances pools".

As someone who trained with one of the predecessors of PricewaterhouseCoopers, I am likely to accept their word because I know that it is well researched.

To summarise, the Government announced an additional 1p cut in corporation tax over and above the changes announced in the previous Budget. The June Budget set out a corporation tax cut of 4p implemented over the next four years, but these corporation tax cuts are paid for, in large part, by slashing investment allowances that encourage businesses to take a longer-term view. The UK should have a competitive tax regime and a corporation tax cut should, in principle, help this, but the Government are paying for it by slashing investment allowances by £2.6 billion and the package penalises companies who invest, particularly in manufacturing, in order to offer tax cuts that disproportionately benefit the banks. At a time when the Government claim to be rebalancing the economy by encouraging manufacturing, this package does the reverse.

Most of the benefit is going to large rather than small companies. For every pound going to small companies, more than £4 is going to large companies. This is the wrong approach, it is completely unbalanced, it does not rebalance the economy in the way that is claimed for it and the Government should look again at their approach and create a growth strategy.

Ian Murray: It is a great pleasure, Mr Gale, to contribute to this importance Finance Bill under your chairmanship. I would like to look at some examples from my own constituency and my own experience of how a cut in investment allowances is the wrong way to go in promoting the growth and employment that we all wish to see. The Chancellor, when he got to his feet during the recent Budget debate, said he would be promoting a Budget for growth. It must have been the first Budget for growth in the history of this great place that downgraded growth in every year after he sat down from making those claims.

Alec Shelbrooke (Elmet and Rothwell) (Con): I am sure he will also recall that on Budget day the right hon. Member for Edinburgh South West (Mr. Darling), the former Chancellor, started his comments by saying that it was a Budget for growth.

Ian Murray: I always welcome interventions from the hon. Gentleman, who always makes a very useful contribution. My right hon. Friend the Member for Edinburgh South West, to whom he refers, represents my neighbouring constituency and I would never disagree with anything he says, but let us take it away from the politicians and into the hands of the Office for Budget Responsibility who said clearly, with the figures they produced on the back of the Budget, that growth in this country would fall in every year of this cycle and unemployment would increase. The figures from the independent Office for Budget Responsibility, set up by the Chancellor himself, show quite clearly that the growth figures have gone down, as my right hon. Friend would, I am sure, acknowledge. It is written in black and white in the Office for Budget Responsibility's documents: 2.6% to 1.7%. I believe that part of that reduction in growth comes from some of the decisions that have been made and if we are looking to rebalance the economy, surely the best way of doing that is to take away some of the levers that the large multinationals—in particular, the financial sector—have on the economy and put them into the hands of small businesses and manufacturing businesses who use investment allowances to grow their business.

As I mentioned this morning, Mr. Gale, under the fine chairmanship of Mr Hood—I am sorry you were not here and I would be delighted if my right hon. Friend the Member for Delyn wanted to go over exactly the same points again later for your own edification—the profitability of companies comes from investment. If we are only looking at cutting corporation tax cut for large companies and companies in the financial sector, we are doing a disservice to the real drivers of the economy, who want to create employment and growth. Those drivers of the economy—companies that use investment allowances to invest—invest to drive up their profits. Therefore, the corporation tax cut, while welcome, comes at the end of the stage for their companies and not at the beginning in terms of some of the financial services sector.

Stephen Williams (Bristol West) (LD): I know that my hon. Friend has been in business himself. From talking to business men in his constituency, is it his experience that people are investing in capital equipment from borrowing or from working capital?

Ian Murray: I am delighted that the hon. Gentleman called me his hon. Friend. I would like to return that compliment because he is my hon. Friend as well. We spent some time on the American exchange trip together just last year. As they say, what goes on tour stays on tour.

On the particular point, many companies at the moment are using working capital to invest in infrastructure because the banks are not lending to them. When we challenge the banks about their lending, they tell us that the money is there and that the companies are not coming forward for it. Perhaps that is a symptom of the fact that they are worried about the future and their profits. If investment allowances were still in place at a far more generous level than the Government are looking at at the moment, perhaps companies would borrow money from banks to invest. But why would they if they are not going to get investment allowances and are worried about their bottom line and profits? In my constituency and experience, many small businesses look week to week to make sure that they can pay the salaries of their employees, rather than investing in large-scale machinery. That can only be turned around by telling companies that the Government are right behind them in terms of their business investment aims.

The issue about investment allowances also flies somewhat in the face of the Government's entrepreneurial relief. Entrepreneurs are creating businesses from scratch to drive growth and employment in the country, and the entrepreneurial reliefs that the Government have put in place are incredibly welcome in terms of extending that. However, the entrepreneurs will be looking at this and saying, "We want to be able to invest in the infrastructure and machinery of our businesses," and the investment allowances that are written down over time certainly help them to do so. There is, therefore, a little bit of a contradiction in the Government's policy of driving growth through private business.

Roger Williams: Such has been the length, extent and excellence of the debate that I do not think that I will be able to stay to listen to the Minister's response. However, it seems to me that, despite its length, the debate has not looked at unincorporated businesses that pay tax on a self-assessment basis. They will not benefit from the corporation tax cut, but will in effect face a reduction in the allowance.

Ian Murray: That is an incredibly pertinent point, but the hon. Gentleman is missing the point that the allowance is less than it was before. Therefore he is agreeing with the premise here. I am sorry that he will not be here—he will miss a wonderful speech in response from everyone's favourite or at least second-favourite Treasury Minister in the room.

I would like to highlight three companies: one from my constituency, one from Edinburgh and one from my own background. The one from Edinburgh is Sellex Galileo, which has been branching out for many years into the space industry and developing products within it. Although they do not directly fall under investment allowances because most of their work is done through research and development, much of what they produce is done through subsidiary companies and other suppliers in the supply chain. When they come up with a new idea and technology that allows them to develop something, they need the supply chain companies to manufacture it. In many cases, the only way they can do that is by investment allowances to allow those supply chain companies to invest in the equipment they require. Surely that is the way that we need to work in terms of running around the investment allowances to create growth and employment in the country, and to be able to allow supply-chain companies to invest in what the larger companies need in order for them to be sustainable.

Alison McGovern: Does my hon. Friend agree that our debate on this clause is extremely important at this particular moment, given that we are seeing the price of transporting supply goods to large manufacturers increasing all the time? The business case for the supply chain in the UK is incredibly strong at the moment, but if we now pull the rug of investment allowances out from underneath supply chain companies we are potentially making a huge mistake.

2 pm

Ian Murray: My hon. Friend makes probably the starkest point that we have heard this afternoon about investment allowances and the supply chain. I say that because if we consider the Government's quest for export-related growth we can see that one of the reasons Germany has been able to outstrip most of mainland Europe in increasing exports to drive its economy is because it has a well established supply chain, particularly in the car industry. The Business, Innovation and Skills Committee recently visited China to see how the UK could best put policies in place to export goods to China, the largest growing market. One of the key things that emerged from that trip is that the supply chains in the UK are either broken or the major companies that are using the supply chains are finding it very difficult to find suppliers.

The car industry is one of the key examples. Earlier, one of my hon. Friends mentioned the engines and other products that are developed in this country. Those can only be made with a supply chain that is fitting and able to supply major companies. If we are considering a corporation tax cut for the large companies that will benefit from such a cut, we must also consider that they need a supply chain in place. If a large company says, "We require product X," it would be in the interest of the Government to ensure that the supply chain company that can supply that product has the financial support that it needs. Then the supply chain company could invest in what are sometimes risky pieces of machinery that will benefit it in the long term without having to consider whether or not it will enjoy a corporation tax cut in the future rather than having its board decide on a particular investment allowance at that time. I think that that would help.

A lot of companies in supply chains across the UK are in that position at the moment. My friend the hon. Member for Bristol West made the point that investment allowances enable companies such as those in supply chains to invest with a greater degree of security, knowing that they can write off an asset over a period of time through those investment allowances rather than hoping that the profitability and the sustainability of the particular product that they have been asked to produce creates additional profit in the future that they can benefit from in the form of a corporation tax cut.

Tom Blenkinsop: My hon. Friend makes an excellent point, which I think has been made by others in the Committee. The point is that with allowances comes the ability to make judgments on purchasing and investment dependent upon a sector's industrial cycle.

Ian Murray: Absolutely. That is a critical point that connects very well with the point that my hon. Friend the Member for Wirral South made about supply chains in her intervention. It gives people a certain degree of security that the value of the asset they are being asked to develop allows them to make that investment decision over a longer period of time, rather than their having to look at the bottom-line balance sheet in terms of where the corporation tax cut might come in.

The corporation tax cut is welcome, but in terms of jobs and growth in the manufacturing sector in the area that I represent and other areas such as the north-east of England, including "Gatesheid", as I think it is called—*[Laughter.]* My hon. Friend the Member for Gateshead makes a very strong case for the importance of these particular investment allowances in his part of the world.

Let us consider the car scrappage scheme. In a lot of instances, the way that that scheme operated was almost like a reverse investment allowance for the public, because the Government said, "We will allow you to scrap your old car for a certain amount of funds that you can then put towards a new car." That not only allowed the car industry to be supported but helped to get older cars and cars that were probably less environmentally friendly off the road. With that scheme, the Government were essentially saying to the general public, "We will give you an investment allowance of x amount of cash through the framework of Government, in order for you to make that investment in a far more environmentally friendly vehicle, which will then support the car industry." That was almost an investment allowance in reverse for the public. That clearly showed that when policies like that are put in place, they not only support employment and growth in the country, but support the public in buying new goods, including more environmentally friendly cars.

The second company I would like to look at in connection with clause 11 is the Royal Observatory of Edinburgh, a world leader in providing technology and manufacturing support to the EELT. That is an acronym for something incredibly complex and scientific: the European extra-large telescope. That telescope, based in Chile, is 42 metres wide and will be the largest piece of infrastructure in the world.

Such institutions are not covered by the same investment allowance and corporation tax profile, but their supply chain is. The Royal Observatory has developed a 42-metre mirror that is operated on many small arms. One can imagine it in the desert in Chile pointing at the sky, trying to find a Liberal Democrat left in an English council, and stars that it can then look at. This 42-metre mirror has to move across the sky to identify something unimaginably far away. The Observatory has had to develop 128 arms to go around the mirror to take that piece of technology. That requirement had to be put to a supplier in the chain, which had to invest in microscopic manufacturing tools to make that incredibly complex piece of equipment.

From the perspective of the directors of that supplier, they have to decide whether to invest in a piece of technology that may never come to fruition. Of course, in Edinburgh and at the Royal Observatory, we all hope that it does. However, from the perspective of that supplier, the question is, whether to invest in it itself—in the hope that the technology works, and profits increase, with a welcome accompanying corporation tax benefit—or whether to invest in its own business, company and reputation, to be able to create profits for the future, through some proper investment allowances. There is a very keen and real issue about where companies will invest in the supply chain to be able to make those technologies work.

My third point relates to my own business, something I mentioned this morning. We were driving back through the Scottish borders one Sunday with a friend who had been made redundant from a financial institution. As we drove past a derelict hotel bearing a banner that said "Save us from the greedy developers", the friend made a flippant, throwaway suggestion that we should rescue it. Six weeks later we were in our overalls and on our hands and knees cutting tiles and sorting out the establishment. We got support through various organisations to do so.

The reason I highlight that is that when a company is faced with a decision to invest in new equipment, it takes that decision in the round, with the last thing in mind the bottom-line profit. Making profit is the bonus, but getting there is the key. When making these decisions, it is a case of whether to buy the £2,000 range for the kitchen or the £1,000 range and develop a different menu. It has to be decided whether to put various things into the infrastructure of the business such as till systems or an abacus. That kind of investment decision is made by companies all the time, on the basis of what will benefit the company and what will take the profitability of the company forward. A company is based on growth, employment and jobs.

The hotel was sold some time ago, but I believe it still operates profitably. It must have at least 30 staff and supports the local community. I am not saying that investment allowances were the be-all and end-all of that, but they allowed decisions to be made at the coalface to go towards the profitability of the company in the longer term. Investment allowances are critical to that. Anyone who has been in business—manufacturing or hospitality—where they have had to invest money in upgrading infrastructure or technology would welcome investment allowances. Nobody in business would tell you otherwise. The business that I ran for that period of time never made a profit, so a corporation tax cut would not have benefited us, but the writing-off of investment allowances did. That is very much key.

Julian Smith: Was the hon. Gentleman's decision to come into politics linked to his company not making a profit?

Ian Murray: The hon. Gentleman actually makes a good point, and although he makes it flippantly, it is worth considering. Many businesses, in fact the vast majority, do not make any money, let alone massive profits. They survive on their ability to generate income to keep the business going. When we took the hotel on, it already had a massive debt infrastructure. We turned it into less of a debt infrastructure and passed it on to someone who, no doubt, is making a profit out of it now. Business is not necessarily about buying an apple for £1, selling it for £2 and pocketing the £1. What is important is where someone takes a business from and where they take it to.

In the process of leading a business from A to B, investment allowances inform part of the decisions that make businesses suitable for sale. Our object with the business in my example was to turn a derelict hotel, which some landowner in the borders was looking to demolish in order to build flats, into a community facility—it is a well used hotel for tourists and the community alike. Yes, its profitability was never forthcoming, but that was not our aim, and we sold the business on to someone who has taken it on and made a profit. It now employs 30-odd staff. I think that doing that is more valid than making flippant remakes about why I came into politics. I came into politics to create jobs in communities such as the one I represent, not to make flippant remarks about whether people are here because they have nothing better to do. The Finance Bill Committee feels like that for all the right reasons.

Tom Blenkinsop: I echo my hon. Friend's sentiments. Someone will correct me if I am wrong, but Skype—a company that does not charge its users and makes minimal, if any, profit—has recently been sold for, I think, £4 billion.

Ian Murray: That highlights how businesses are not hugely profitable sometimes, but Skype, although under a different regime, will have made investment decisions in order to make the company worth £4 billion. That does not necessarily mean that the bottom-line profit of that company is anything other than in the red, but when have companies ever been bought and sold differently? The only way that industry works is by taking something of no value and turning it into something that has value.

Mr Hanson: My hon. Friend has sparked off an interesting thought: next year, if one of the hospitality companies in Edinburgh was looking to invest in modernising its equipment, but chose not to make that investment because it faced a cut in capital allowances and fragile spending power for the hospitality and retail sector, would that help the economy?

Ian Murray: My right hon. Friend is right. That would not help the economy grow. Looking at the specifics of the hospitality industry at the moment, we can see that the major problem is lack of consumer confidence, and that is for a variety of reasons, 95% of which are the responsibility of the current Government—VAT, the threat of unemployment, the cut in public sector jobs and so on. Consumer confidence is not feeding through to those companies' profitability or their ability even to break even. If they are not allowed to take investment decisions to provide a different offer or to become a better company, they will not see the corporation tax cut because they will never get to that stage of profitability. That is one of the key elements of this package of measures, which are not about growth but about some other issue.

I have two other points, one of which is about the banks themselves. Edinburgh is one of the largest financial centres, not just in Europe, but in the world. I think I made this point earlier, but it is key: now that the Scottish National party has taken majority control in Scotland, it is looking to wrestle responsibility for corporation tax from the UK Government. That is the wrong thing to do, but the party is doing it because it knows that the independence discussions and the uncertainty about the constitutional settlement would make the major banking and financial institutions, which employ hundreds of thousands of people in Edinburgh and the surrounding area, and support employment all over the country, take fright and flee. The Scottish Government want control of corporation tax so that they can give those banking and financial institutions a corporation tax cut to keep them where they are.

2.15 pm

That shows us that corporation tax cuts are best targeted at low-manufacture and high-profit companies that are not able to spend money on investment allowances—helping the big guys but not the small guys. The only way to help the latter is to improve the supply chains, and the only way to do that is to give small businesses the investment allowances they need to invest in new technologies and new ways of working, and improve their businesses.

My final point is on employability and skills. Up until the worldwide economic crash, youth unemployment in my constituency sat at 0.01%, and we had, I think, only 14 long-term unemployed young people, because of the various programmes in place to get them back to work, including the new deal and the JET—job education training—programme. That ladder of opportunity has now been kicked away, in terms of higher education and the future jobs fund, and we need to find new ways of skilling people. The best way to reskill young people in particular is for a manufacturing organisation to invest in a new piece of technology and reskill its current work force, and then provide apprenticeships and the reskilling of young people so that the organisation has the confidence to bring them in.

This is all part of the same package. The lack of investment allowances means that if a company does not invest in a particular piece of new technology, the new jobs do not come and the ability to have young people skilled in the new technology is not there, creating a vicious circle of lower growth and lower employment. If this is about a Budget for growth, the key is to combine corporation tax cuts with capital allowances, which are so crucial if businesses are to invest in jobs and the future. That is why the amendment is critical in ensuring that the Government properly focus on growth instead of solely on their friends.

Nic Dakin: It is a pleasure to serve under your chairmanship, Mr Gale, and a pleasure to follow my hon. Friend the Member for Edinburgh South, who has most succinctly put the case for supporting the sensible amendment.

According to the most recent figures from the Office for National Statistics, the UK has a £600 billion corporate surplus, due to businesses lacking the confidence to invest in the future because the Government cuts are going too far, too fast. If we are to rebalance the economy we need to increase investment, which in Britain has always been low compared with some other countries. Cutting investment allowances does nothing to ensure that the corporate surplus goes into investment in Britain. This Chancellor goes down in history not only as a Chancellor who presented a Budget for growth

[Nic Dakin]

while predictions for growth were being downgraded even as he spoke, but as one who said that the Budget was to support exports, manufacturing and investment, and then introduced provisions to cut investment allowances—hardly the best way to support investment.

I particularly want to focus on manufacturing. Manufacturing appears to be becoming the new squeezed middle, squeezed between a Government who are cutting too far, too fast, and the banking system, which seems to be the preferred repository of bonuses from the Government.

Richard Harrington (Watford) (Con): It is a great pleasure to serve under your chairmanship, Mr Gale. Between 1997 and last year, 1.3 million manufacturing jobs were lost in this country. Would the hon. Gentleman call that the squeezed middle as well?

Nic Dakin: Manufacturing is a big challenge, and at the moment we have a squeeze on manufacturing and no optimism for it in the economy. I am very concerned. In my constituency, Tata, which is not only one of the largest companies in the world, but one of the largest companies employing people in the UK, has a significant supply chain both in the constituency and beyond, and we need ways to encourage and reward companies for investing in the future.

Bill Esterson: My hon. Friend is right that we should be worried about the future of manufacturing. The world is very different from 10, 15, or 20 years ago, with the competition and growth of economies in China, India, Brazil, and elsewhere in the former developing countries. To compete effectively against such countries, we have to get the regime right in this country now. It is no good looking at what has gone on in the past; we have to get it right now, and we have to get the right policies in place. That is why issues such as capital allowances and creating a strong, growing economy are so important, and why there is so much concern among many organisations about the Government's plans for cuts in capital allowances.

Nic Dakin: My hon. Friend puts the case very well. As has been pointed out by my hon. Friends, the existing challenge to manufacturing relates to construction, and particularly, as my hon. Friend the Member for Middlesbrough South and East Cleveland has pointed out, to long product sales across the country, which have had a real impact on manufacturing and the steel industry in particular.

Tom Blenkinsop: Capital allowances, especially for manufacturing now, allow an ability to take risk out of the market. Manufacturing is suffering most—and this is why it is the squeezed middle in this context—because we have banks that are unwilling to lend to firms, and we have a Government who, rather than giving a helping hand, have a closed fist. Therefore, firms are squeezed on the very elements of finance legislation that allow them to get that investment in.

Nic Dakin: My hon. Friend has clearly spelled out the situation and spoken eloquently about the squeeze on manufacturing between the Government and the banks, which is a pertinent point.

Let us look at the other challenges facing high energy-using manufacturing at the moment: there is the threat of carbon floor prices, the challenges of emissions trading, and the danger that we operate in such a way that we export emissions to Ukraine and Russia—such places outside the EU—and in that way, also export jobs.

Tom Blenkinsop: Is my hon. Friend, like me, concerned that in the consultation in November and December on carbon floor pricing—and with other elements of the Bill that are linked to capital allowances—manufacturing had absolutely no input? It was left to one side, and the Department of Energy and Climate Change and the Department for Business, Innovation and Skills were sidelined for a Treasury-led policy.

Nic Dakin: I share my hon. Friend's concerns that the voice of manufacturing is not being heard properly. I also welcome the earlier intervention made by the hon. Member for Watford, who reminded us that manufacturing has faced challenges over time. However, if we look at the previous Government's record in responding to those challenges—infrastructure was put in place around regional development agencies, and capital investment opportunities were created through capital allowances—there was a different approach from the one that there is now. That is why this is a very challenging time and why it is so important that the amendment in the name of my right hon. Friend the Member for Delyn is supported this afternoon.

We need to learn lessons from recoveries from big recessions—for example, from what happened to the Japanese economy in the 1990s. Richard Koo, of the Nomura Research Institute in Tokyo, said that after the Japanese recession, at the turn of the decade many businesses remained in what he described as a "balance sheet recession", preferring to pay down debt and protect cash flows, yet to shun investment. That is the danger that we currently face. That is why the capital allowance system encourages businesses not to go down that route. My hon. Friend the Member for Edinburgh South spelled out how businesses need these incentives to encourage them in the direction in which we want them to go.

Alison McGovern: Does my hon. Friend agree that the problem with this debate is that we see ourselves in too simplistic terms? We talk about tax competitiveness without realising that the challenge of the next decade, post-recession, is about which countries have managed to grow and expand their economies, and which countries stave off the worst vestiges of decline, but bump along the bottom, with no growth, no expansion and a reducing population as people leave for better climates.

Nic Dakin: My hon. Friend is quite right. Growth tends to be higher in countries that have a higher investment in social and intellectual assets, as well as good capital infrastructures. That is the point she is underlining. That is why countries such as Germany and Korea have prospered in recent years. The Government are in danger of having too simplistic a view, thinking that cutting corporation taxes will automatically lead to investment. All the evidence from the research demonstrates that that will not necessarily happen. There needs to be an investment strategy. To cut investment allowances at this time sends completely the wrong message.

Capital allowances are a significant part of the support infrastructure for business. They can boost investment and they need to be retained. If the Government fail to raise business investment then our economy could stagnate over a prolonged period. None of us want that. It is crucial that these discriminating tools of fiscal policy allow capital allowances to incentivise investment at a time of low business confidence. That is exactly what we need. The danger of this proposal, which reduces capital allowances, is that it gives completely the wrong message and the wrong driver to the economy at this sensitive time. I hope that all members of the Committee reflect on the far-reaching debate we have been having today, and support my right hon. Friend's amendment.

Tom Blenkinsop: May I, like my hon. Friends and other colleagues, say what a pleasure it is to serve under your chairmanship again, Mr Gale? My hon. Friend the Member for Scunthorpe mentioned the squeezed middle. In this context, manufacturing is the squeezed middle between the banking sector and the Government. Clauses 11 and 12 propose a reduction in capital allowances, as part of a blend of policies that either make balanced good sense or are predisposed with the desires of one or more dominant sectors, which are having greater influence on this Budget and these Treasury policies than others.

I want to ask the Ministers present a number of questions. Are the reduced capital allowances based on available evidence? Is there any evidence the Ministers can give the Committee now or at a later stage for that proposal? Are reduced capital allowances, balanced with corporation tax, favourable or not to SMEs? What has the SME community said about the reduction in capital allowances? What is the regional impact of the reduction in capital allowances, particularly on my region of the north-east? Yes, we have a large public sector in the north-east, but we also have a large heavy manufacturing sector, particularly in my area around Teesside and Teesport north and south of the river. What effect will the reduction in capital allowances have on the chemical industry? We have to remember that the UK's largest export product is chemicals. The chemical sector makes up 30% of this country's exports.

2.30 pm

What evidence is there for the Government taking on these policies in response to cyclical industrial patterns per sector and per industry? How do the Government believe that after a year of reduced growth rates this policy is helping de-risk the market? We see across the pond in America a policy of intensive investment over the last two years. Yes, they have now come up with a far more austere budget, once they have obtained growth, but we have revised growth figures down and down and down over the last 12 months. How are we de-risking the market with a policy like this?

What was the CBI's response—not just its response in relation to the capital allowances; what were its members' responses? Not EEF—I am talking about the other members, particularly in manufacturing, because certain players in the CBI are far more dominant than others, and simply quoting the CBI in relation to capital allowances or other Treasury policies is not good enough. What consultation have the Minister and the ministerial team had with the Chemical Industries Association? The North East of England Process Industry Cluster? Tata? Lucite? Other large, industrial, energy-intensive users? This is particularly pertinent to my region, as colleagues will agree.

How does the policy ensure domestic demand? We have talked about manufacturing growth; yes, it has grown, but not back to the stable levels we saw three or four years ago. It has grown back. How does this policy, in relation to capital allowances, generate domestic demand? We are seeing the effects of a drop in domestic demand in my area, and in that of my hon. Friend the Member for Scunthorpe. There are dangerously low levels of domestic demand, from which certain internal sectors within particular industries are suffering more.

I would compare that effect to the BRIC nations—Brazil, Russia, India and China. While the Government, to a certain extent, and the banks for a number of years, have applied a credit squeeze here, we are now seeing credit squeezes in places such as China and India. Will the manufacturing boost that we have benefited from in the last 10 to 12 months continue? Without capital allowances to soften the blow come quarter 3 or quarter 4, when the Chinese and Indian credit squeeze on consumption for industrial product tightens, what do we have in place to pick up the pieces? It will occur, especially as countries such as China and India are cornering markets such as iron ore and oil. China has only just got into an oilfield around Cuba, which was ignored for political as well as industrial reasons—it is high in sulphur. They are now investing there to take that oil, and also purchasing as much coke and iron ore as they can around the world. How will we compete? How will we manage our own economy through that very difficult period when we will be unable to compete for raw materials and feed our own industries?

Ian Murray: China is an incredibly useful example. Not only are the Chinese Government and economy investing in all of these raw products around the world, but they are buying up water as well. That is another key issue in terms of the drivers of an economy as large as China's and how we will compete, particularly our small businesses. When a major world player is buying up the world's water it is a serious concern.

Tom Blenkinsop: There is a broader picture here, and I think there are members of the Government who recognise it. We have to work with them and help them in this debate. We have seen, for example, the Secretary of State for Energy and Climate Change referring to industries in my area, such as steel and chemicals, as sunset industries, whereas the Secretary of State for Business, Innovation and Skills is arguing the case on the carbon floor price. The debate is still live and kicking, and at least the Opposition get it, because for a number of reasons we understand that manufacturing does have a future, and we want to see that future blossom and develop.

There are also the front-line effects of capital allowance reductions—the consequences. Capital allowances allow firms, particularly in heavy industry, the space and the

[Tom Blenkinsop]

wherewithal to ensure that health and safety requirements on site are met. I know that from my own experience. That is not just in heavy industry. Farming is the sector that is suffering the most from accidents at work. The squeeze is hurting farmers. They are trying to balance their budgets as well. Sometimes, they would like to renew their equipment but they have to balance the books.

Bill Esterson: Does my hon. Friend share my concern, which others have voiced, that there does not appear to have been enough analysis of the impact of the changes before they have been pushed through? The OBR was unable to analyse the effects of the corporation tax cut and the change to fuel duty and incorporate the analysis into the predictions for the Budget. Does he share my concern that it is the lack of analysis of the effect of the change to capital allowances that is very worrying? What we really need from Government, as we have said in relation to other clauses, is greater evidence. That is why the amendment is so important, in calling for that work to be done.

Tom Blenkinsop: I thank my hon. Friend for his comments. This is all part of an argument that we get occasionally from the Government, based on agglomeration theory in relation to industry, but none of the policies under discussion conform to that type of view. It looks to me as though certain sectors have the ear of the Government at the moment, while other sectors certainly do not. That is pertinent to manufacturing, because there are a number of issues here that could severely hurt it and damage its long-term future.

To return to my point about health and safety, my own back story is that in 1996, when I was 16 or 17, I was an agency worker at Lionweld Kennedy, which is a steel components firm in Middlesbrough. I was a fettler and grinder—a glamorous title. I had to take beams of steel or architectural platforms and file them down to smooth components. I did not know it at the time—unfortunately, the company had very few employees and was not allowed to unionise us—but that role was at one of the highest risks, perhaps, for vibration white finger. I was a 16 or 17-year-old who had gone away to try to make as much money as possible to help me go to university and so on, and I was not aware of the risks to my own health. If it had wanted to, the company on site could, through capital allowances, have tapped into funds or made those capital investments for free, lessening the risk to my health as well as the risk to its pocket of potential future litigation.

I am a former trade union official. I remember representing workers at Sheffield Forgemasters and Firth Rixson in Sheffield, Teesside Cast Products and other steelworks, including some in the constituency of my hon. Friend the Member for Scunthorpe, and high levels of hand-arm vibration were everywhere. People were working on presses that were more than 100 years old, with vibrations going through their bodies. A firm handshake with big, burly men of 55 would have crushed their hands, because they did not have any grip left. For good reason, that equipment needs to be renewed.

Legislation is in place whereby such pieces of equipment have to be changed due to their detrimental effect on the health of employees. How will important companies such as Sheffield Forgemasters, Firth Rixson and Tata Steel be able to constantly renew equipment, for whatever reason—in this case, the health of their workers—to make sure that they are not damaging their employees, who will, ultimately, only pursue litigation against their employers for putting them in that physical condition? We have to think about a long-term policy that helps manufacturing and industry, takes the risk out of the market and stops industry being pinned down, either by litigation by its own employees, who have been physically damaged, or by the Government, who, frankly, do not get it.

The Exchequer Secretary to the Treasury (Mr David Gauke): We have had a lengthy and thorough debate on clause 11 and amendments 6 and 7. As we have heard, clause 11 reduces the maximum amount of annual investment allowance to £25,000 from April 2012. I shall come on to amendments 6 and 7 shortly, but I want first to set out the reasons for changing the AIA.

That AIA enables businesses to claim full tax relief on most plant and machinery expenditure in the year in which it is incurred. Clauses 10 and 12 make related changes to the capital allowances regime, with changes to the main rate and special rate of writing-down allowances and a doubling of the disposal period to extend the scope of the short-life asset regime.

The reduction of the AIA was announced in the June 2010 Budget. Since April 2008, businesses regardless of size have been able to claim the AIA on up to £50,000 of their expenditure each year on most plant and machinery, with the maximum increased to £100,000 from April 2010. Businesses are able to claim the AIA in respect of their expenditure on both general and special rate plant and machinery. So, in effect, the AIA is a 100% allowance that applies to qualifying expenditure up to an annual amount.

The change in clause 11 will contribute towards a reduction in the main and small profits rates of corporation tax, which will provide strong support for enterprise and growth in the UK. It is fair to say, as the right hon. Member for Delyn has acknowledged throughout, that the provision is part of a package and has to be viewed in that context.

The corporate tax package announced in the June Budget will create a competitive corporate tax system and help ensure that the world knows that the UK is open for business. The AIA has always been designed to provide SMEs with help on simplification and cash flow. That will continue to be the case.

Some 95% of all businesses will continue to have all of their annual capital expenditure covered by the AIA. Those businesses that invest more than £25,000 will continue to be eligible for plant and machinery writing-down allowances on expenditure not covered by the AIA.

The Opposition's argument is that somehow this step is anti-small business. I must stress that 95% of businesses will be unaffected by the change. They will continue to be able to claim all their capital allowances under the existing AIA regime.

The hon. Member for Sefton Central and my hon. Friend the Member for Brecon and Radnorshire both asked about unincorporated businesses, which do not benefit from the corporation tax cuts. Unincorporated businesses are overwhelmingly those smaller businesses that do not have capital expenditure above the £25,000 limit stated in clause 11.

Bill Esterson: The Exchequer Secretary is telling us how much small businesses and large businesses will either gain or lose because of the changes. Does he accept the analysis that shows that, for every £1 that goes to small companies, more than £4 goes to large companies? If he does, does he accept that that is a cause for concern when small businesses have to be the drivers of growth and recovery?

Mr Gauke: In our announcements on tax, rather than increasing the corporation tax rate from 21% to 22% as the previous Government planned to do, we are reducing it to 20%. We are expanding the SME R and D tax credits regime from 175% to 200% this year, and from 200% to 225% next year, which is as generous a regime as can be found anywhere in the world. We are increasing the size of qualifying companies and making other improvements within the EIS and VCT regime. We are extending the small business rate relief holiday, which will benefit more than 500,000 small businesses, for a further year from 1 October 2011. This Government have a proud record in providing support to small businesses. Given that Opposition Members would have increased the level of corporation tax on small businesses, I am not sure that their complaints sit terribly well.

2.45 pm

We also heard an argument that the measures are an attack on manufacturing. This Government take manufacturing seriously. The hon. Member for Wirral South was absolutely right to say that sometimes people knock manufacturing in this country and say, "All the manufacturing has gone." When she visits an Airbus factory near her constituency—in the constituency of the right hon. Member for Delyn—she sees an example of UK manufacturing that is the best in the world. I was struck by the quote from Airbus, which said, "Without us, it is just a bus." Airbus is hugely important.

Despite the fact that there are a number of very successful manufacturing businesses in the UK, there has been a certain amount of talking down of manufacturing here. The hon. Member for Scunthorpe, who is normally moderate and careful in his words, talked about the squeeze in manufacturing and the lack of optimism in manufacturing. The EEF predicts that manufacturing will grow by 3.5% this year and engineering by 7%, and these forecasts have recently been revised upwards. In March, the CBI said:

> "The manufacturing recovery is picking up pace…Total order books have strengthened…a firming of domestic demand adds to the healthy export outlook."

The position for manufacturing is looking good at the moment.

Alison McGovern: Just for my information and to be helpful for the record, will the Minister say what proportion of the growth in manufacturing over the past year the Treasury attributes to increasing domestic demand and what proportion to the position of the pound?

Mr Gauke: Clearly, the depreciation of the currency aids manufacturing and exports. From what we have heard from some hon. Members, one would think that this change in the annual investment allowance is somehow the death knell for manufacturing. The position of manufacturing looks strong. Given the overall package and our reforms of the short-life asset regime, which we will come to shortly, we are putting in place conditions for manufacturing to grow in the future.

Ian Murray: It is well documented that the OBR could not factor in the 1p additional corporation tax cut because the Chancellor brought it to the table too late before his Budget. Indeed, many commentators suggested that he may have panicked about the cut. Would the Minister not contend that, rather than making that additional corporation tax cut on top of what had already been announced to make the UK one of the most competitive countries in Europe in terms of corporation tax, it would have been better to reassess the investment allowances part of that to give a little more flexibility to the industries that we have been considering this afternoon?

Mr Gauke: When the Chancellor announced his package of policies in June 2010—and this addresses the point raised by the hon. Member for Wirral South about the modelling—the OBR looked at the impact of the corporation tax package on business investment. It modelled that, using the average reduction in tax rates and academic evidence from the UK and around the world as well as business investment responses. It forecast a future business investment increase of £13 billion by 2016. The OBR report in that Budget makes that very clear. It confirms that the growth of business investment and the intentions for further increases are based on information from businesses themselves. It stated that the reductions in the rate of corporation tax underpin its forecast for strong business investment growth over the next five years. It was argued that businesses do not necessarily want that, but it is worth quoting the British Chambers of Commerce in a survey of its members last year:

> "Asked about corporation tax, 90% of companies stated that the Government should proceed with lowering the headline rates at the expense of tax allowances."

We welcome the Opposition's support for lowering the headline rate.

It is also worth considering the previous Administration's record on enhanced capital allowances. They conceded that the effects on investment of enhanced capital allowances are probably modest. When they introduced the generous temporary 40% first-year allowances for all businesses for 2009-10, the increase in investment was estimated to be less than 1%. We believe that we are getting the balance right. It is right that we move forward in this way.

Amendment 6 would seek to reduce the AIA to its original value of £50,000. Although I understand the reasoning behind such a proposal, we do not believe that it is the right way to support business, and it would involve disrupting the overall package for business that we have set out. The changes that we are making within the corporation tax package will, as I said, encourage additional investment of £13 billion by the end of this Parliament. The manufacturing sector will benefit from the reductions in corporation tax to the tune of £700 million each year by 2015.

I must make this point, as I made it in the context of the changes to the writing-down allowance. We have heard several passionate speeches from the Opposition.

[Mr Gauke]

In 2007, the Labour Government cut capital allowances and reduced the writing-down allowance much more substantially than we have done to fund a reduction in the CT headline rate. We think that we have done the right thing, because it was important to reduce our corporation tax rate, but from listening to the Opposition today, all that appears to be forgotten. The industrial buildings allowance was scrapped, as my hon. Friend the Member for Brecon and Radnorshire highlighted; so was the agricultural buildings allowance. It is worth reminding the Opposition of that.

We have heard the Opposition argue that we should reverse the policy, but we have not heard anything about what the cost would be. I will enlighten the Committee. In 2013-14, the cost of amendment 6 would be £300 million, and for the years following, it would be £250 million. I am aware that all spending commitments proposed by the Opposition must be agreed by the shadow Chancellor and the Leader of the Opposition, but I am not sure whether that applies to tax expenditures. *[Interruption.]* Well, we have heard a lot of passionate speeches in support of amendment 6, and I am sure that when it comes to it, there will be voices calling for a Division. We will note that carefully.

As I said, fewer than 1% of all businesses would benefit from amendment 6, and 95% of businesses' capital expenditure would still be covered by the AIA. Any compromise on our planned reduction in the rate of corporation tax would affect not only businesses directly but the approach to encouraging business. It would also contradict the position, which I warmly welcomed, professed by the right hon. Member for Delyn only last week, which was that he was in favour of the reductions in corporation tax.

There is no evidence to suggest that such a change would have any significant impact on investment. We think that it is right to focus the simplification and cash flow benefits of this valuable relief on smaller businesses, in conformity with the original policy purpose. Moreover, the cuts in the small profits rate of corporation tax will benefit smaller companies seeking to invest and grow.

I am not entirely surprised that we have heard relatively little about amendment 7 during the debate, because I confess that we find it somewhat puzzling. I know what tabling amendments can be like in opposition, and I suspect that this is one of those moments when closer scrutiny shows that an amendment does not quite do what was intended.

Subsection (3) is wholly to the taxpayer's advantage, because we seek to limit the Government's existing power to change the AIA's value by secondary legislation. In future, changes by statutory instrument will be able only to increase the amount of the AIA—something wholly beneficial to business. At the moment, the power exists to increase or decrease the amount introduced by the previous Government as part of the original 2008 legislation, in which a subsection states:

> "The Treasury may by order substitute for the amounts for the time being specified in subsection (5) such other amount as it thinks fit."

So the Government could reduce the £25,000 limit by secondary legislation to £5,000, for example. Under the clause, the amount can only become greater—we can only increase it—so I do not quite understand why the right hon. Member for Delyn wants to remove subsection (3), so that we would still have the power to reduce the amount by order. Perhaps he will explain.

Mr Hanson: If the Minister reads the *Hansard* report of this morning's proceedings, he will see exactly what I said. I made the point that this is a probing amendment to find out whether that was the case. My purpose is to test whether the intention is simply to revise the amount upwards. Given that he is cutting allowances by three quarters, the Bill seems to include a bit of a churlish change.

Mr Gauke: Well, the Bill is churlish to the extent of making a change. I am grateful to the right hon. Gentleman for saying that this is merely a probing amendment, but it is somewhat puzzling and seems to run counter to his general argument. I am pleased if he welcomes subsection (3), but I did not detect much of a welcome for it this morning.

Clause 11 is a vital component of the reforms to corporation tax that are essential to achieve our goal of creating the most competitive tax system in the G20. The change is sensible and fiscally sound as part of a broader package. The AIA will still cover the annual capital expenditure of 95% of businesses. We will ensure that Parliament retains full oversight of any future reductions in the AIA. I therefore ask the right hon. Gentleman to withdraw the amendment, and I recommend that the clause stand part of the Bill.

Mr Hanson: We have had a fruitful debate of some length, but this is an important issue about the contribution of capital allowances to helping support manufacturing industry. I hope that the Minister will refer to *Hansard*, because I said that the purpose of amendment 7 was to tease out from the Government whether they intended to create a floor, so that the capital allowance could not be reduced still further. He confirmed in his final contribution that that is the intention. That was the amendment's purpose.

As I mentioned this morning, the Conservatives argued before the election that capital allowances should be reduced to 12.5%, but the clause will give the Treasury the ability to raise the allowance but not to reduce it. The amendment's purpose was to confirm that point. I am pleased that the Minister has said publicly that he does not intend to reduce the capital allowance still further. That is a positive development.

Amendment 6 on the £50,000 limit is a probing amendment designed to test the reasons why the Minister felt that the figure should be reduced from £100,000 to £25,000. I will not press the amendment to a Division—I will withdraw it in due course—because, as he has said, it involves a spending commitment. At this stage, we cannot judge the commitments for future years, when a Labour Government have been elected in due course. We will reflect on those spending commitments when we consider those points. My hon. Friends the Members for Wirral South, for Sefton Central, for Edinburgh South, for Scunthorpe, for Middlesbrough South and East Cleveland and, indeed, other hon. Friends in interventions have made the case very strongly that the proposal in clause 11 is ill thought out and has got the potential to damage small businesses.

This morning, we looked at representations—not from my hon. Friends but from business organisations outside the House—that express real concerns that the clause as drafted will benefit big businesses and financial institutions and disadvantage small and medium-sized businesses. The comments and speeches from my hon. Friends in support of my original comments have indicated that.

3 pm

We heard from my hon. Friend the Member for Wirral South about the impact on small businesses in her constituency. My hon. Friend the Member for Gateshead talked about the abolition of the RDAs and the need for that level of support to be there to help small businesses because they are the leading suppliers for big businesses in his area. My hon. Friend the Member for Sefton Central mentioned similar issues surrounding the need for investment for growth. My hon. Friend the Member for Edinburgh South spoke with real experience of building and managing a small business in his area. That experience demonstrated that the supply chain is very important and that small businesses are part of that. My hon. Friends the Members for Scunthorpe and for Middlesbrough South and East Cleveland made similar important points. We are concerned about the impact of the clause.

Although we will withdraw the amendment, the Minister needs to use that well-known phrase "a pause for reflection and thought," which is common at the moment on issues where there is considerable criticism from outside the House on key matters. I strongly take the view that the clause will be disproportionately beneficial to large businesses and will have an impact on small businesses. In terms of regional impact, the clause has not had the regional assessment that my hon. Friends mentioned. As far as I can see, in Scotland and in my area of Wales, where devolved Administrations deal with economic development, there has been no real engagement with the impact of the measure on the growth of the manufacturing industry.

I did not get any indication from the Minister about what he has discussed with DBIS and DECC—Departments in his own Government—on the issues and how they feel about it. Greater thought needs to be given to the clause. We will not press the amendment to a vote but give the Minister the opportunity to reflect on the matter and bring back proposals on Report to deal with the issue in more detail. The Minister needs to reflect on the impact of capital allowances and to listen to the representations that we have put on record today from a range of bodies—from the Institute of Hospitality to the EEF, to individual tax and accountancy firms across the north-east and other regions—and the experience of my hon. Friends.

We will not press the amendment to a vote because, as the Minister rightly pointed out, it relates to spending commitments designed simply to test his logic. However, I am not content with clause 11 because it is not well thought out. We will vote against it. When hon. Members have listened to the arguments and decided to vote with us, the Minister can take the measure away, reflect on it and bring back some proposals on Report that adequately meet the needs of organisations outside the House.

I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question put, That the clause stand part of the Bill.

The Committee divided: Ayes 15, Noes 14.

Division No. 3]

AYES

Aldous, Peter
Barclay, Stephen
Bradley, Karen
Crouch, Tracey
Gauke, Mr David
Goodwill, Mr Robert
Greening, Justine
Harrington, Richard
Hoban, Mr Mark
Lee, Jessica
Lewis, Brandon
Sharma, Alok
Shelbrooke, Alec
Smith, Julian
Wharton, James

NOES

Blenkinsop, Tom
Blomfield, Paul
Creasy, Stella
Dakin, Nic
Esterson, Bill
Glindon, Mrs Mary
Hanson, rh Mr David
McCarthy, Kerry
McClymont, Gregg
McGovern, Alison
Mearns, Ian
Murray, Ian
Nash, Pamela
Phillipson, Bridget

Question accordingly agreed to.

Clause 11 ordered to stand part of the Bill.

Clause 12

Short-life assets

Question proposed, That the clause stand part of the Bill.

Mr Hanson: I assure you, Mr Gale, that I will be brief. Clause 12 will increase the period over which expenditure on plant or machinery can be given short-life asset treatment from four to eight years. If a qualifying asset in the pool is disposed of before the end of the period, some of the expenditure can be offset against tax, and the extension from four to eight years is therefore generally beneficial for businesses.

I just want to get a flavour from the Minister of something that I think I know: how much the extension could save businesses. We believe that it could save them some £170 million, even at the end of the period. Can he confirm that figure? Compared with the cuts of about £2.8 billion that we have already agreed and discussed, this is a fig-leaf to try to deflect criticism of the cuts to capital expenditure.

Existing provisions in the Capital Allowances Act 2001 allow certain assets to be elected into an SLA pool. The benefit is that such assets—typically those with short lives, such as computer equipment—can often benefit from accelerated capital allowances if they are disposed of before the four-year cut-off point. Clause 12 will simply extend the cut-off point from four years to eight years for new expenditure. A greater number of assets could therefore benefit from SLA elections. In particular, businesses that purchase a significant amount of assets with expected lives of five to nine years are most likely to benefit.

We will not oppose the clause, and from my perspective—dare I say it?—we will not spend too much time on it. However, I would welcome a definitive figure

[Mr Hanson]

from the Minister on how much businesses could save because of the extension from four to eight years. We could then balance that against the cuts in other clauses.

Mr Gauke: Let me address this as swiftly as the right hon. Gentleman has done. He is right: the Exchequer impact for 2015-16 will be some £170 million, which is how much businesses will save by that year. We have heard much about the EEF today, but it is worth noting that its chief executive, Terry Scouler, has said:

"Extending the short-life asset election is a simple way of recognising the true cost of modern machines with shorter lives. This will make the tax system more efficient and remove in part barriers to investment."

We believe that the effective extension of the short-life asset regime to assets with longer useful lives may lead to an increase in business investment in plant and machinery. It will serve to align the capital allowances regime more closely with economic depreciation, thereby enhancing the competitiveness of the UK tax system and supporting enterprise and growth.

Question put and agreed to.

Clause 12 accordingly ordered to stand part of the Bill.

Clause 13 ordered to stand part of the Bill.

Kerry McCarthy (Bristol East) (Lab): On a point of order, Mr Gale. Are we not debating clause 13?

The Chair: I have already dealt with it: the hon. Lady needs to be fast on her feet. I cannot go back.

Kerry McCarthy: It is a completely different topic.

The Chair: I have dealt with the clause. No amendment was tabled. If hon. Members do not seize the moment, I have no option but to put the Question. I am sorry, I have ruled; I cannot go back.

Clause 14

General beer duty: reduced rate for lower strength beer

Kerry McCarthy: I beg to move amendment 8, in clause 14, page 10, line 25, leave out '1 October 2011' and insert '1 April 2011'.

The Chair: With this it will be convenient to discuss clause stand part.

Kerry McCarthy: The clause deals with the introduction of the reduced rate for lower-strength beer. I want to ascertain from the Government the reasons for delaying its introduction until 1 October, especially when the alcohol duty provisions under clause 13 came into effect at the time of the Budget. It is also unclear why the measures under clause 15 and schedule 1 have been delayed.

Obviously, we support the general principle of using alcohol duty as a revenue raiser for the Treasury. It contributed about £9 billion to the Exchequer in 2009-10, and had the matter been debated under clause 13, we would have supported the continuation of the duty escalator of 2% above inflation for alcohol duties. To what extent alcohol duty is used simply as a means of raising revenue or whether it is more about affecting behaviour, as the clause hints, is a tricky issue.

As with environmental taxation and excise duties on tobacco and gambling, there is a debate to be had about whether such taxes are used solely just to raise revenue or whether they can have an impact on binge drinking, alcoholism and other social bads. It has been argued that higher taxes on bads can change behaviour, by encouraging people to drink less or to switch to drinks that are subject to a lower rate of tax, as under the clause. Other people argue that taxation only has a limited power to change behaviour, but following the "polluter pays" principle, it is sometimes concluded that it is better to tax the bads, such as alcohol and environmentally unfriendly products, than to tax the goods on the grounds of efficiency or ethics.

We want to tease out from the Government whether they introduced the measure to encourage more responsible drinking. Evidence suggests a direct link between alcohol prices and consumption. For example, a major study carried out at the university of Florida in 2009 drew on the findings of more than 112 other academic studies and suggested that consumption did indeed increase when alcohol prices fell and that consumption fell when prices rose. Another study carried out by the university of Cardiff in 2006 went further and suggested that increased alcohol prices could lead to fewer injuries resulting from violent crime and thus a reduced demand for hospital trauma services.

Studies have also suggested that young drinkers, as well as heavy drinkers, are the most responsive to changing prices, because they tend to drink cheaper alcoholic drinks. There is certainly a debate to be had about whether pricing mechanisms alone could encourage people to switch to lower-strength beers. I should be interested in what the Minister has to say about that and in what analyses the Government have carried out of whether reducing the revenue on lower-strength beer would actually make a difference.

Tom Blenkinsop: I am looking at the details, and the clause will create a new lower rate of beer duty to encourage consumption of beer below the strength of 2.8%. I am not the biggest drinker—

Ian Mearns: You're not the biggest buyer.

Tom Blenkinsop: But I go into pubs, and I do not see many beers below the strength of 2.8%.

Kerry McCarthy: I wonder at this stage whether all the hon. Members who go to pubs ought to declare an interest when they intervene in a debate. I am possibly unique, in that I do not drink and, although I go to pubs, I tend to drink water. I am not an expert on the strength of beer, but it seems to be low. There is a quite a market now for alcohol-free beer, which is linked to the progress that has been made in tackling drink-driving. The message is, "Don't drink at all if you're going to drive." I wonder whether an equivalent market in low-strength beer could be encouraged by having a lower price because of the lower duty rate.

3.15 pm

Ian Mearns: I hope that I can help my hon. Friend out on the issue of what is common in the beer trade and the gravity of the beer consumed in most pubs. I was at a beer festival in Gateshead last weekend. There were 100 real ales on show and for sale. Of those, about 60 or 70 were what are commonly known in the trade as session beers and were around 3.8% to 4%. About 10 or 15 of them were really quite strong and beyond my normal taste. There were no beers on display in Gateshead that were 2.8%, and such beers are unusual from my perspective. One wonders whether this is an opportunity for breweries, the micro breweries in particular, to get into that sort of trade.

Kerry McCarthy: I thank my hon. Friend for educating me and adding to my very limited knowledge of the strengths of beer. As a Bristol MP, I know about the cider industry as cider is very popular in the south-west. I quite often look out from my flat at a barge called "The Apple", where people go to drink cider. I have been there on only two occasions; usually I just stand there looking wistfully across the water at people enjoying themselves on a Friday or Saturday night. *[Interruption.]* I know; it is very sad.

I went there straight after my re-election in 2010 and I was lured there the other week after we had done another typical Bristol thing and attended a gig by The Wurzels. South-west MPs have to go to a Wurzels concert at some point. I spent most of the concert begging to be allowed to leave, but it was not quite enough to force me to turn to drink. I am aware that some of the ciders are as high as 8% or 9% proof; sometimes when I am gazing out at this scene from my flat I can tell that it is 8% or 9% proof by the behaviour of the people who are leaving.

I shall return from my digression about my lack of a social life, or my exciting social life going to a concert by The Wurzels. If the Government intend to introduce this measure to encourage more responsible drinking, why is this new provision not coming into effect until October 2011 rather than at the beginning of the financial year like other measures in the Budget? The Government's review of alcohol and taxation referred to their wish to tackle problem drinking without unfairly penalising responsible drinkers. There is a careful balance to be struck. There is a complex mix of evidence on the links between alcohol consumption and/or harm, and between price generally and/or taxation levels specifically.

The British Beer and Pub Association, whose representatives I am sure the Minister has met and been lobbied by frequently, disputes the link between taxation and harm, citing international comparisons on lower duty rates. It none the less welcomes the plan to introduce the reduced rate for beers under 2.8%. It believes that the change could provide an incentive for the industry to invest in lower-strength beers and encourage drinkers to consider them.

The Minister will also be aware that there is a campaign within the industry to tax alcohol according to the per-unit strength, so that rather than there being differential rates for wines, spirit and cider, taxation would simply be on the basis of the alcohol strength. What consideration has she given to that? We will come in a moment to the provision about higher-strength beers. It looks as though the Treasury is going down the path of looking at alcohol strength in a bid to change behaviour, but it has not yet taken on board the wider representations that have been made by the industry.

Bill Esterson: My hon. Friend is making a lot of progress on teasing out what the Government are trying to do. To help with her social life, perhaps next time she visits Sefton she can visit the Blue Anchor in Aintree village with me, where she can also see the race course on the other side of the canal. The beer is very good, I can assure her, and none of it is below 2.8% in strength.

Perhaps we can get the Minister to comment on the current research into the effectiveness of this measure, and the question of how much beer is below the 2.8% level. I think that in supermarkets quite a lot of beer is below that strength, so maybe it will have more of an impact in supermarkets than it will in pubs.

Kerry McCarthy: I thank my hon. Friend for his offer. I believe that the Labour party conference is in Liverpool this year, and at party conferences some people indulge in alcohol consumption; my hon. Friend may be able to lure them to the Blue Anchor.

There is a concern about taking this measure one step further and looking at a per-alcohol-unit taxation across the board. When I spoke to the representatives of the spirit industry in particular—for a couple of months leading up to the Budget, it seemed as though I was stalking the Economic Secretary to the Treasury, because I had endless meetings with people from the Scotch Whisky Association, the Bingo Association and the British Beer and Pub Association, who had met her the day before or were due to meet her the day after, so I suspect we both received very similar representations—they were keen to stress that drinks that are not normally associated with binge drinking or problem drinking are often subject to much higher rates of duty on a per-unit basis.

Duty on spirits is 26p per unit, which is far higher than duty on beer at 16p to 17p. I would perhaps dispute the representatives' assertion that spirits are not associated with binge drinking; I think that high levels of vodka, in particular—people drinking a lot of vodka before they go out, or smuggling it into pubs in their handbags and topping up their drinks—are significant in binge drinking for young women. The point remains that if we are looking at taxation as a way of changing behaviour, perhaps it should be looked at across the board.

My understanding is that the current share of the beer and cider market below 2.8% is less than 1%. Perhaps the Minister could provide further details of how many such beers are available in both the on-trade and the off-trade, and what proportion of beer sales they constitute. I would also be interested to know what discussions she has had with the industry about increasing the supply of lower-strength beers, given that the small breweries relief and the lower-strength duty rate cannot be applied together.

Does the Minister have any information on what proportion of beer under 2.8% is produced by small breweries? Have the Minister or her officials at the Treasury done any calculations, on a sliding scale of lower-strength beers, about the level at which consumption

[Kerry McCarthy]

would be expected to rise and the extent to which that would be matched with the correlation in the decline of the drinking of ordinary-strength and higher-strength beers, which we will come on to?

There is obviously concern in the pub industry about the low cost of alcohol in supermarkets. The Labour Government banned irresponsible drinks promotions under their Policing and Crime Act 2009. There is a real issue about loss-leading in supermarkets by pricing alcohol under cost price. The debate relates not only to alcohol duties and taxation, but to public health measures and whether there should be a minimum alcohol price. Pubs and bars cannot compete with the prices offered by supermarkets and they have lobbied me—and, I am sure, the Minister—claiming that the lower off-trade cost contributes to the trend of pre-loading before a night out.

The pub industry accordingly argues that off-trade sales are the more significant factor in problem drinking, but either way, it does not seem that alcohol duty alone will significantly change the existing balance. I return to my point about drink-driving; people may well turn to lower-strength beers if they want to drive home at the end of the evening, so they are carefully watching their alcohol intake. If they are buying alcohol from a supermarket, however, it is far more likely to be for home consumption. The strength of the alcohol may not, therefore, be such a deciding factor. The price differential may not be sufficient to persuade them to go for a lower-strength beer instead of buying something of ordinary strength.

Bill Esterson: My hon. Friend pulls together a number of alcohol issues, such as the health aspects, drink-driving and pricing. Will the Minister say how the Government will bring those aspects together to make the most of the provision? Without doing so, there is a danger that supermarkets will be able to carry on with the sort of loss-leading behaviour that my hon. Friend has referred to. Recently, I was looking at high-alcohol lagers that are only about 50p a bottle.

The Chair: Order. I am terribly sorry to interrupt the hon. Gentleman, but I remind him that this is an intervention on the hon. Member for Bristol East, not a question to the Minister. He can put whatever questions he likes to members of his own party at this stage. If he chooses to catch my eye later and make an intervention, he can say whatever he likes, so long as it is in order, but he cannot question the Minister now.

Kerry McCarthy: My hon. Friend raises an important issue. Again, we go back to how effective taxation and price differentials are in modifying behaviour. In particular, are we simply trying to reduce alcohol consumption across the board, which would have an impact not only on binge drinking but on people who drink responsibly, or are we mostly concerned with tackling binge drinking?

I question whether lower-strength beer appeals to people who are more prone to excessive or binge drinking. The measure might therefore benefit people who drink responsibly, but it will not tackle the underlying public health issue, which also affects the public purse because people are admitted to A and E. Binge drinking has an impact on domestic violence, family life and policing. The cost of policing binge drinking in city or town centres at the weekend, in many areas across the country, is astronomical. Although I welcome the measure, it does not in itself address those problems.

Significantly, attitudes towards drink-driving, and behaviour patterns, changed not as a result of any financial measures, but because of public information campaigns and subsequent peer pressure. The position on drink-driving shifted. It used to be very much accepted—it was something that people did. There would be debates about whether people could get away with being over the limit and it was accepted that people at pubs or dinner parties would drink a fair bit and then drive home. That has significantly changed and drink-driving is now very much frowned upon, but taxation did not play a major role in that change.

3.30 pm

The National Institute for Health and Clinical Excellence has commented on evidence linking advertising to drinking and the Advertising Standards Authority has very strict regulations on alcohol advertising, including a prohibition on any health claims. Can the Minister tell us whether the Government will work with industry to improve awareness of, and potentially the demand for, lower-strength beer? Also, will the Government propose targeting such beer at a particular section of drinkers? For example, could the current strict rules on advertising alcohol be relaxed so that lower-strength beer could be promoted in a more positive way, to try to create more of a market for that type of beer than for higher-strength beers?

I have received some interesting evidence from the National Association of Cider Makers on consumption trends, which could well inform this debate. The NACM reports that there has been a significant change in the distribution of cider sales according to alcohol by volume band, with a reduction in the average ABV from 5.6% in 2000 to 5% in 2010. The NACM attributes that to the marked rise in the popularity of premium but lower-strength ciders such as Magners, Bulmers and Gaymers.

The NACM report did not comment on the reasons for the increasing popularity of those brands, but it is notable that they have all been very heavily marketed. I am not proposing that the Government start an advertising campaign for lower-strength beer brands; I am merely asking whether duty alone can have a significant impact on drinking habits or whether it comes down to marketing, changing social attitudes, peer pressure and so on. Will the Minister tell us, therefore, what is the projected impact of the lower beer duty rate on alcohol consumption? Also, what is the projected impact of the lower beer duty rate on the Treasury's revenue streams from alcohol?

Previously, the Economic Secretary has told the House that it is not possible under EU directive 92/83 to apply the reduced duty rate for beers on beers that are above 2.8% in strength, but she intimated that the Government would like to increase that threshold at some point in the future. Can the Minister update us on the Government's discussions with the EU on this issue? I would particularly like to know what threshold the Treasury would ideally set if it was able to go above the 2.8% threshold dictated by the EU. Also, what proportion of the beer market would be affected by such a change? What impact would there be on the Treasury's revenue? And does the

Minister believe that a higher threshold would have any benefits in terms of reducing alcohol-related harm?

Finally, I turn to the amendment itself. Although the precise causes and effects may be disputed, the Government clearly believe that a reduced duty rate for lower-strength beers will have significant benefits for the Treasury, drinkers and society more generally. Even if it were to apply to relatively few beers that are currently being produced, it seems preferable to allow those benefits to be reaped sooner rather than later and to promote the idea of lower-strength beer within the industry and among drinkers as soon as possible. So I hope the Minister will be able to clarify why the date of 1 October was chosen.

Karen Bradley (Staffordshire Moorlands) (Con): I wonder whether the shadow Minister can clarify something for me. I understand that this clause will be retrospective, so how does she propose the Government should deal with the period from 1 April until now?

Kerry McCarthy: This is a probing amendment to find out why the Government are acting in the way that they are. It is not an amendment that we will push to the vote and we do not have any expectation that we would win a vote on it. Nevertheless, as I have said already there were many other measures in the Budget that came into effect on 1 April and I am just seeking clarification from the Minister as to why that was not the case with this measure.

The hon. Lady stopped me about three words from the end of my final contribution. *[Laughter.]* I was just about to say that I hope that the Minister will now clarify why the date of 1 October was chosen. Obviously, the measure cannot be brought forward now to apply from 1 April because there would be difficulties with retrospective implementation, but perhaps it could be brought forward from 1 October.

Stella Creasy (Walthamstow) (Lab/Co-op): I want to speak about the amendment and indeed the clause itself, because it is a really interesting clause. It has wider ramifications for how this Government act. It seems to be one of the most explicit examples of "nudge". I know that many people have talked about "nudge" and the principles behind it, arguing that Government policies can effect behavioural change in the population. I must say that all I have seen in the last year is a large "shove" for many people in my community of Walthamstow, as we have seen massive cuts to public services and to the benefits and support that they all rely on.

However, this policy is explicit about changing people's behaviour by introducing a higher rate of duty on super-strength lager. It also speaks to a concern, with which many of us are sympathetic, about the difficulties of dealing with problem drinking and the impact that it has on all our communities. It is therefore worth asking the Government to clarify what they mean by problem drinking and what type of drinking they are attempting to tackle. Does that have a knock-on effect—I do not want to use the word "nudge" twice—on other public policies and on other concerns, which are dear to many members of the Committee, about the future of pubs in our local communities? I know well the concerns of Opposition Members about the regular distribution of pubs, and I am sure that they are shared by Government Members. What does the policy mean for the public purse?

There are dangers in the use of nudge in public policy. I would be happy to give Government Members a treatise, if they so desire at 4 o'clock on a Thursday afternoon, on why we should not read Thaler's work; why we should be critical of the rather unimaginative philosophical and psychological principles behind it. I am sure that they would welcome that opportunity. It creates complications for public policy. If we seek to effect change in one area through measures in another, those measures interact.

With that in mind, it is worth looking at what we mean by problem drinking, because the clause relates to a specific type of alcohol, and asking whether that will affect the people about whom we are talking. Many members of the Committee are concerned, as I am, about the increase in binge drinking among young people. Having worked with young people for many years, I know that it is a new phenomenon. Indeed, some of us may remember. In the inter-war years, the 18 to 24-year-old age group were the lightest drinkers but, by this century, they have become the heaviest drinkers in our communities. There is trend towards drinking to intoxication. It is not just that people are drinking a lot; they are drinking to get very drunk. Many of us will have seen the impact of that on the streets of our town centres on a Friday and Saturday—and indeed, on midweek nights.

As a former youth worker, I am concerned about the evidence of that trend spreading to younger children. It is very worrying that, of 15 and 16-year-olds, nearly 20% of boys and 25% of girls have been drunk three times or more during the last 30 days. When we think about the impact of that on their ability to learn at school, on the relationships that they form with their peers and on their personal safety, that is a real problem. Much of that drinking starts not in pubs but at home. Kids start trying alcohol with their parents and then, for reasons of peer pressure, use alcohol not only to have a good time but because their friends are drinking and it is seen as the thing to do.

We must think about how the measure will affect people with such a form of problem drinking. I am sure that Ministers would accept that the clause probably does not make much difference to young drinkers, because the evidence shows that they do not drink the type of alcohol to which the clause refers. The measure will, however, have an impact on our pubs, which are really struggling. Many hon. Members are worried about what is happening to pubs, not necessarily because of drinking problems, but because of the wider social and economic ramifications for our local communities. At present, there are 52,000 pubs in Britain and, through the income that they generate, each adds about £80,000 to their local community. In London, five pubs are closing each week. I can see some members of the Committee starting to panic about that already.

Beer sales are falling, and I am sure that hon. Members throughout the House have been lobbied by the pub and beer industries about the impact of changing duty on beer and what that might do to those trends. That seems to be a different question. The problems to be dealt with are binge drinking, especially among young

[Stella Creasy]

people because, if people start drinking early, they continue that pattern into their later life and we all know the health and social consequences of that. However, actions to deal with problem drinking might have unintended consequences on other parts of our economy, be it the pub industry, which employs nearly 600,000 people in this country, or on our ability to engage with young people.

My hon. Friend the shadow Minister has set out admirably some of the challenges involved in getting the policy right. No one wants to make partisan points, because it is a difficult policy area, but we need to recognise the complex factors that are in play. Problem drinking among young people calls for a different set of measures from problem drinking among older people, who can go into pubs and buy alcohol at discounted rates from supermarkets. In that sense, it is worth thinking about the context in which we operate, because if we are discussing that second category of people, who are legally eligible to drink, we are looking at some different challenges.

We know that the UK has one of the highest rates in western Europe of people who consume alcohol and of people who consume to excess, but we are not actually the worst. About 26% of men in the UK drink five units or more a day, which is in contrast to 49% of men in Ireland and 42% of men in the Netherlands. We know that the trend of binge drinking and drinking to intoxication on a regular basis increases with age. Beyond the 18 to 24-year-old age group, 30% to 40% of the population in their late 20s, early 30s and, indeed, 40s, continue to drink in such a way.

Looking at those facts together, we see that we have a culture of drinking in the UK that we must tackle if we want to deal with its social and health consequences. Our approach must transcend the rather narrow one of duty alone. I am not suggesting that the pricing of alcohol has no role to play, but we have to look at all the factors. We have to be clear about what we mean by problem drinking and the consequences for one group over the other. The shadow Minister was discussing the different types of alcohol that people are consuming, and, again, I return to the point about who the problem drinkers are. One trend that I have noticed among some of the young people with whom I have been working is that they have started drinking gin. I must say that I did not associate gin with the younger age group, but it has become a trendy spirit. I can see the shock and horror among hon. Members faces.

Alec Shelbrooke: Will the hon. Lady give way?

Stella Creasy: I am very interested to hear what the hon. Gentleman has to say about his consumption of gin.

Alec Shelbrooke: Does the hon. Lady's constituency include West Ham United? That might explain the increase in the drinking of gin.

Stella Creasy: While we do have a number of Hammers fans in Walthamstow, West Ham United is not even within the borough boundary. We do, however, have Leyton Orient, and that may well account for some of the challenges that people face with their alcohol consumption. I am sure that the hon. Gentleman did not intend to be flippant, but he made an interesting intervention. If we are going to start looking at the way in which economic policy can effect behavioural change—I have big reservations about whether that really works—trying to understand what behaviour and by whom and in what context is really critical when we consider whether any of the measures will actually make an impact.

The danger is that the Government will introduce the wrong measure and seek to affect one sort of behaviour in one group of people in one particular context. Young people who are learning about alcohol and who live in a culture where alcohol is, frankly, widely celebrated are different from those people who may well drink exactly the same amount of alcohol over a similar period of time when watching football on a Saturday afternoon, and they will be diversely affected by the proposal. We know that the biggest drinkers of high-strength beer are men over 35, not the 15, 16, 17 or 18-year old kids—the biggest youth drinkers—who are finally getting into pubs.

It is a shame that we cannot have some of the Health Ministers here to try and tease out a little bit more of the thinking behind this particular policy.

The Economic Secretary to the Treasury (Justine Greening): Won't I do?

Stella Creasy: I hesitate to answer, but I am trying to make a general point that the issue is cross-cutting. When we get to policies such as this one, it would be helpful, so that the Opposition can understand the motivation, to have a broader conversation, so that we understand if the Government say, "In the first instance, we want to act on the duty on high-strength beer; we may leave spirits alone." If the Government are going to use economic and fiscal policy to effect behavioural change in such a specific manner, do we need to review the entire application of taxes to alcohol? That is not to dismiss the value that I am sure the Minister will bring to the debate when she replies, but these are cross-cutting, complex issues.

Behaviour is not something that you can poke with a stick from Whitehall and expect to change on the streets with such simplicity. That is precisely why I have grave concerns about nudge. For the Government to embrace nudge as a philosophy perhaps reflects some of the philosophical vacuum that overcomes them, because it does not reflect the complex, messy reality of the groups of people whom they are trying to deal with.

I hope, therefore, that when the Minister comes to respond to some of the points that hon. Members on this side have raised about this particular proposal, and whether duty can be used to effect behavioural change, she will set out that broader context for us to better understand where she sees that fitting. What is it a harbinger for, in terms of how the Government will approach alcohol taxation, and might we see a whole-scale review not just of alcohol taxation but of alcohol policy in the round? I think that all of us recognise that measures needs to be taken not just by the Treasury or even the Department of Health, but perhaps could also involve schools and local councils, which have to deal with some of the consequences of not getting alcohol policy right.

3.45 pm

Pamela Nash: It will not surprise anyone that I find this debate fascinating, being from the west of Scotland. I am in full support of the measures to increase the rates on higher strength beers. I am extremely concerned, however, by the assertion, in the coalition agreement of last year, that the proposed changes in alcohol duty pricing will tackle binge drinking. Alcohol pricing is clearly a tool in the arsenal of the Government against alcohol-related problems. It should be noted that a much wider package of measures is required, and that pricing does not always have an effect.

For example, I was pleased to learn recently that, according to NHS Scotland's report, "Health Behaviours in School-Aged Children", the number of our young people who are drinking is now a third less than it was 20 years ago. That flies in the face of the stereotype of teenagers binge drinking and behaving badly. I have to say that I did not really help to dispel that myth myself in Scotland not so long ago, but I am glad that it does seem to have been reduced now. That reduction has come in spite of the fact that alcohol prices in Scotland are now cheaper than they have ever been. I can only put that drop in young people drinking down to the excellent public health campaigns we have had in the past 15 years in Scotland by NHS Scotland and education work in schools.

The problem we have in Scotland is the consumption of higher strength beers and also alcohol products with high levels of caffeine content, such as Buckfast, which is widely consumed in my constituency. Therefore, I strongly support the proposed higher rate of beer duty. High-strength lagers have often been consumed by the most vulnerable in our society and I believe that the proposal will make an impact on those problems. However, I have seen no specific mention of caffeinated alcohol products from the Government in the past year, which is a shame because they are such a scourge on many communities, and certainly my own.

I recently had a meeting with my local police officers in the lead up to the last old firm game.

The Chair: Order. I am sorry to interrupt the hon. Lady. She is right at the far end of the room. It is quite difficult to hear from here, and that affects both the Chair and the *Hansard* reporter. I would be grateful if private conversations could be kept to an absolute minimum.

Pamela Nash: I recently had a meeting with my local community policing team in the run-up to the last old firm game. Related problems around that period were much reported on here as well as in Scotland, and included a vast increase in domestic violence and assaults. That is directly related not just to alcohol consumption, but to high-strength beers and alcohol products with a high caffeine content. I hope that that toxic mix is something that can be addressed by the Government, both by Treasury and Public Health Ministers in the near future. I hope that these proposed measures become a part of a large package from different Departments in Government.

Justine Greening: It is a pleasure to see you in the Chair this afternoon, Mr Gale. We have had a debate that has focused on high-strength beer, which is actually tackled in the following clause. Clause 14 relates to lower strength beers. Perhaps I can address some of the broad issues around problem drinking. The two clauses are clearly related. If we have the debate now, it will still be relevant to clause 15.

The provisions are part of a series of measures that the Government have introduced and are introducing to tackle problem drinking. The Treasury recognises that duty has a role to play, but it is clearly part of the bigger package of measures that is needed if we are to challenge the relatively deep-seated drinking culture in our country, and, as some hon. Members said, the changing nature of problem drinking over time. I assure hon. Members that the Treasury has worked with the Department of Health and the Home Office, which clearly has a role to play. The hon. Member for Airdrie and Shotts mentioned that.

The hon. Member for Walthamstow referred to a segmentation strategy for problem drinking, and the need to recognise that there are different sorts of problem drinkers. I agree. There are perhaps four-plus segments: alcoholics; young, under-age drinkers; binge drinkers, and home drinkers—an increasing proportion of middle-income people drink too much at home. In the workshops that we held last summer, we talked to not only the industry but to other stakeholder groups about their views on problem drinking, and another category of problem drinking emerged from those discussions. It comprises perfectly normal people, who, when out celebrating a particular occasion, drink too much. Setting aside those particular instances, they may drink responsibly for the rest of the year.

Clearly, the matter is complex, and we are right to consider a mix of solutions, depending on which group of problem drinkers we particularly want to influence. The solutions include duty, the Home Office, local authorities and the police, and the Department of Health, which can play a role in education, changing the culture, and perhaps working with the Department for Education in tackling younger drinkers, their perceptions of drinking and the peer pressure that is sometimes applied to them to drink.

I assure the Committee that the provision is part of a much wider piece of work. From my perspective as a Minister, clauses 14 and 15 are a start. We are one of the first countries to introduce a low-strength duty. At the moment, it is very much couched in terms of what we can do in Europe, but we are interested in how the market—demand and supply—responds to the duty provision that we are discussing.

Ian Murray: I refer the Committee to my entry in the Register of Members' Financial Interests. Before we move on to the technicalities of the policy, will the Economic Secretary give us some views on the Government's approach to over-the-counter off-sales in licensed premises? All the evidence shows that if we tackle the cheaper, supermarket alcohol and off-sales

[Ian Murray]

generally—it is not just the supermarkets; I do not mean to pick on them—and benefit the on-trade, which is one of the most highly regulated industries in the world, it could regulate the matter for the Government. The policies that we are considering will do nothing to regulate the off-trade. We should make a distinction, and if the Government increased duties on the off-trade and benefited the on-trade, that would go a long way towards resolving some of the problems that the Economic Secretary has started to highlight.

Justine Greening: The hon. Gentleman makes a point that many people in the industry, particularly the pub industry, raised. The Government have introduced measures to ban below-cost sales to start to tackle that. However, I think that he asked how we could link the two clauses with tackling the off-trade issue. We will define "below-cost" as duty plus VAT. We are therefore clearly linking the two approaches in a helpful way, which means that our decisions about levels of duty and VAT will feed directly into that below-cost definition. So there is a way to link them together.

I will now take the Committee through some of the technicalities of the clause, so that I may put on record how it will work. Clause 14 introduces a new reduced rate of duty for beers at or below 2.8% ABV. That will help to encourage development of lower-strength beers and give responsible drinkers a wider choice of products.

The reduced rate is being introduced following the review of alcohol taxation, which I briefly mentioned, and was announced in my statement to the House on 30 November last year. The measure corresponds to the new high-strength beer duty that we will address in the next clause. As well as introducing a new duty to encourage people not to drink super-strength lagers, it is right that we provide encouragement to those who wish to consume lower-alcohol beers.

The clause introduces a new reduced rate at 50% of general beer duty for beers at or below 2.8% ABV. We will continue not to charge duty on beers at or below 1.2% ABV. That will reduce the price of a pint of lower-strength beer by between 12p and 18p. It will provide an incentive for brewers to develop and retail new lower-strength products. As we have heard, the measure has been welcomed by the industry and beer groups.

Some Members wanted to know how big the market currently is. As we have heard, it is relatively small at the moment. There are a few limited brands that brewers are putting on the market. As important as price is, taste is important, too. Many companies are now working to produce low-strength beers that have the taste that consumers want.

I am sure hon. Members will be pleased to know that a number of producers are already experimenting with new lower-alcohol brews, and they are making good progress. We expect the reduced rate of duty to allow pubs and other retailers to offer lower-strength beers at a lower price. A price differential will hopefully encourage consumers to try, and enjoy, a wider range of products. We hope that the new lower rate of duty will encourage growth in that part of the beer market.

In terms of where we set the definition of lower-strength beer, it is not possible at present for us to apply a reduced rate of duty for beers with an ABV above 2.8%, because the 2.8% ABV threshold is set directly by the EU directive on alcohol structures. As Members may be aware, that directive is currently under review. We are working with our European partners to try to increase the threshold, which would give us more flexibility nationally to raise the definition of lower-strength beers should a Government wish to do that in the future.

Kerry McCarthy: Has the Minister been given any indication of how long it would take to get EU agreement to change the 2.8% limit? At some point next week we will go on to talk about fuel duties. There has been an issue with the derogation of VAT on fuel, which the Minister has said will be a complicated and lengthy process to implement. Are we talking about a similar time scale for this, or could it be achieved much more quickly?

Justine Greening: The difference between the two measures is that this directive is already under review. Because of the introduction of the new lower rate of duty, we are now able to participate meaningfully in the European debate. We are one of the countries that is using the ability to set a lower rate of duty.

At the moment, of course, there is no review of the VAT directive looking at whether any product should go from a zero rate of VAT to a reduced rate of VAT or a full rate of VAT. That is the difference. This is under review, and, as a country, we want to make our view known. We expect the measure will have a relatively small cost to the Exchequer, but that will be offset by the revenues from the new high-strength beer duty.

I was asked about the impact on small breweries, and the clause includes provisions that ensure that all small breweries receive the full 50% duty reduction for lower-strength beers. That will help to limit the complexity of having to apply reduced rates to reduced rates.

Amendment 8 seeks to advance the date for the introduction of the reduced rate of duty. The measures are to encourage the production and consumption of lower strength beers, but a retrospective introduction of the reduced rate would not achieve that, instead giving a duty rebate to lower strength beers that have already been produced. Also, as one of my hon. Friends pointed out, producers paying the higher rate of duty until now would then have to claim a rebate, which would be an added complexity.

The date of 1 October 2011 was chosen for three main reasons. First, HMRC needs to make changes to its systems, so as to collect the new duty and to apply the reduced rates. Without the changes, collection of the duty would have been burdensome for businesses and for HMRC, imposing unnecessary costs. The system changes needed time, and would not have been achieved by 1 April.

Secondly, the level of the reduced rate was only announced in the 2011 Budget and, consistent with our aim of better tax policy making, we decided that eight days was simply not sufficient time for businesses to adapt their accounting systems to a structural change in the duty regime.

Thirdly, the longer lead-in time will allow all brewers to develop a product that will benefit from the favourable rate of duty—we hope to see that take place. Earlier introduction of the measure would have been unlikely to help bring new lower strength beers to the market more quickly.

Accepting the amendment would also have had revenue implications for the Government. Without the parallel amendment to the timing for the introduction of the new high strength beer duty, we would have had a reduction in revenue because of the lower strength beer duty. Without the corresponding higher strength beer duty to pay for reduction, a loss to the Exchequer would have resulted.

For those reasons, with the reassurance to the Committee that this is a sensible package of measures and because we will debate clause 15 shortly, I ask that the amendment be withdrawn.

Kerry McCarthy: I thank the Minister for that comprehensive response, and I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 14 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. —*(Mr Goodwill.)*

4.2 pm

Adjourned till Tuesday 17 May at half-past Ten o'clock.