

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)

Tenth Sitting

Tuesday 24 May 2011

(Afternoon)

CONTENTS

CLAUSES 40 to 44 agreed to.
SCHEDULE 9 agreed to.
CLAUSE 45 agreed to.
SCHEDULE 10 agreed to, with an amendment.
Adjourned till Tuesday 7 June at half-past Ten o'clock.

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The Committee consisted of the following Members:

Chairs: †MR ROGER GALE, MR JIM HOOD

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

Public Bill Committee

Tuesday 24 May 2011

(Afternoon)

[MR ROGER GALE *in the Chair*]

Finance (No. 3) Bill

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

Clause 40

INDIVIDUAL INVESTMENT PLANS FOR CHILDREN

Amendment proposed (this day): 97, in clause 40, page 26, line 6, at end add—

‘(7) The Treasury shall, within three months of the passing of this Act publish final details of a new UK-wide Government contribution-based tax-free children’s savings scheme for looked-after children.’—(*Mr Hanson.*)

1.30 pm

Question again proposed, That the amendment be made.

The Chair: I remind the Committee that with this we are discussing the following: amendment 98, in clause 40, page 26, line 6, at end add—

‘(7) The Government will, by 30 September 2011, publish a report on—

- (a) children’s savings accounts, and
- (b) saving across society,

including the impact of Government policy.’.

Clause stand part.

Bridget Phillipson (Houghton and Sunderland South) (Lab): It is a pleasure to serve under your chairmanship once again, Mr Gale. Before we adjourned I was talking about the additional costs faced by the state as a result of young people going into care and how we can mitigate some of those deleterious effects and look to support young care leavers and those within the care system. In the long run, that may save the Government money, whether in benefits or additional costs to the NHS, council services or costs for those young people who unfortunately may end up in prison as a result of their difficult start in life, which is through no fault of their own.

I was asking whether the Government had made any assessment of those long-term costs and what measures could be put in place to mitigate the effects of those negative outcomes for young people. I was also saying that I do not for one moment suggest that a savings scheme will solve all of those problems. However, young people in the care system and those leaving care often face significant disadvantage, do not have families to fall back on and do not have a nest egg, so it is important that they receive the support that they need through the scheme that the Government are introducing. That is why it is vital that we receive proper information

and proper detail to allow us to scrutinise the Government’s proposals and to make sure that they are implemented to best effect.

My concern is that, according to the Treasury’s impact assessment of the junior ISA, only 20% of children will benefit from the new scheme and no distributional analysis has been provided. However, it is fair to assume that the young people who will benefit from the scheme will unfortunately not necessarily be those in care or care leavers, who struggle to gain access to a range of services that other young people may ordinarily access. So I hope that the Government can provide some further information on what distributional analysis has been done, whether young people in care will be properly supported through this new scheme, and whether those who will benefit will come from low and middle-income families.

As my right hon. Friend the Member for Delyn described at length this morning, our concern is that those who benefit may be those who would save anyway—those whose families are able to save—and that the proposal is simply a tax break for such families. We want to encourage saving across the board, particularly in families on low and middle incomes. They may be finding it incredibly difficult to save at the moment with the squeeze on their living costs through the VAT rise and the rising price of fuel and reduced wages, but even small amounts of savings can make a big difference to a child’s life when they reach 18 and need that money to fall back on.

I gave an example in an intervention of a case study in the report by Barnardo’s and Action for Children. A young woman was in and out of the care system through most of her teenage years and was awarded compensation after being involved in a car accident. As a result of that compensation she was able to buy a car and to go to university and move on with her life. That is something we all want. We all want to see young people able to progress, aspire and achieve the best that they possibly can. But for some young people that is more difficult than for others. That is certainly the case for care leavers, but it is also the case unfortunately for many people from low and middle-income backgrounds who do not always have that financial nest egg to fall back on or families who can support them financially.

We discussed this morning the costs of university and tuition fees and whether people might put those savings towards university education. We also had some exchanges about the scheme that the Government have brought in. I will not speak at length about that, but the point that I made then and that I would make now is that the cost of university includes not only tuition fees but living costs. It is also about allowing young people to benefit properly and fully from a university education. Unfortunately, some people from better-off backgrounds, who have more at their disposal financially, find that easier than young people from low or middle-income backgrounds, who do not necessarily enjoy the same advantages.

It is therefore important that, when the Government introduce schemes such as the junior ISA, they give proper consideration to ensuring that young people and families from a range of backgrounds and incomes properly enjoy its benefits. That is why I am concerned that the Treasury has not done a distributional analysis of where the impact will be felt and which particular families will benefit and save.

Another concern is that some families, particularly those on lower incomes, are not necessarily aware of the financial products or institutions available to them or of how they can best save. The benefit of the child trust fund was that, because it was a Government-supported scheme and the Government strongly encouraged parents to take it up, parents had confidence. From my previous professional experience, I know that parents from lower incomes had the confidence that, because the Government brought it into being and were backing it and supporting it strongly, they did not have to worry about looking for the best rate or speaking to a bank. Clearly, there are other options open to families, but, the universal nature of the benefit, meant that families could have confidence in it.

I know from my professional experience that a time of particular difficulty for young people is when they move from the care system into a life of independence. That transition is a critical period for young people. It is often when placements fall apart. Young people are expected to go and live independently. While big strides forward have been made in the leaving care service to support young people at that difficult time, it is still fair to say that those excluded young people face additional challenges that young people from supportive or stable families simply do not face. It would be wrong not to recognise those additional challenges. Care leavers are often forced to be independent at a far younger age than their peers from stable families with supportive parents who are able to encourage them, which is why it is so important that the Government ensure that they take due notice of young people within the care system. I am glad that the Government have backtracked somewhat and announced the £5 million fund to support care leavers. It is precisely those young people who would benefit from having that financial nest egg to fall back on to allow them to prosper and achieve their full potential.

Returning to the contrast between the child trust fund and the proposed junior ISA, the general difference was that the child trust fund—my right hon. Friend touched on its background this morning—involved a Government contribution. While those outside the care system could have a reasonable expectation that, if their parents could afford to do so they might make a contribution, the difference for young people in the care system is that they often have no parents. If they do, their parents have often had legal rights removed from them, and the state acts as a corporate parent. That is why it is all the more important that the state sends out a clear message to those young people that they will be fully supported to open up their life chances, to build their confidence and also to build their sense of responsibility.

Alison McGovern (Wirral South) (Lab): My hon. Friend is making an important point about the message that we send to looked-after children about the corporate parenting that the state provides. Does she agree that it is more than a message? Sometimes, for a looked-after young person at that crucial period when they are about to leave care, a financial asset might give them a wider choice that will make them a much more effective member of society in the future.

Bridget Phillipson: I am grateful to my hon. Friend for those comments. Choice within the care system is incredibly important for young people, because, as a

result of their life experiences and the damage that has often been done to them, choice has been removed. That is right; the state has to intervene, but such young people have not always enjoyed the same opportunities and choices that young people with a stable family from other social backgrounds have. It is therefore important that on this point, the state sends a clear message to young people in the care system that they have choices, and that they can broaden their horizons and have aspirations. The unfortunate reality is that too many young people leave the care system not in a position to fully benefit from the opportunities that are available in society, and not fully able to contribute. That is why so many care leavers still end up not in education, employment or training and why, unfortunately, a small but significant minority end up within the prison system. Everything that we can do to help young people, give them choices, and support them in those choices is to be welcomed.

Amendment 98 calls on the Government to publish a report on children's savings accounts and on saving across society, which would include the impact of Government policy. The DWP structural reform plan had "Get Britain saving" as a key strategic goal in the Department's plans for the years ahead. However, the measures that the Government propose would not support low-income families to save in the same way as the child trust fund, which is a concern. We want to encourage a saving culture within society, so that young people and their families are encouraged to save throughout their lives. As we all know, saving even a small amount over the course of 18 years can build up a significant nest egg for a child, so that, at the age of 18, they can enjoy the privileges that many people take for granted. That may be the opportunity to buy a car or have additional money to support them at university, so that they do not have to work full time when they are there. A whole range of other life opportunities—travelling, for example—are not always available to families from low or middle-income backgrounds, but such opportunities broaden a young person's horizons and allow them to contribute more fully to society.

The Resolution Foundation carried out a new study on the living standards of some of Britain's 6 million low and middle-income households, all of whom were in work, and who were earning just at or below the national average. It said that six in 10 were struggling to pay the bills, and that savings are already pitifully low. Half have less than a month's salary to fall back on, and two thirds are not contributing a penny to a pension. Clearly, that is a big concern, and anything we can do to support such people, even in difficult, straitened financial times, is to be welcomed. Low and middle-income earners are unlikely, at this point, to have the money spare to invest in a junior ISA, but it is not unreasonable to think that they may, in future, have an opportunity to increase their income, particularly if they are able to take on extra hours at work, and be encouraged to save throughout that time. The Government could send a clear signal—and could have done so through the child trust fund—that they wanted to support low and middle-income families to save for the future.

I press the Minister to publish the final details of the contribution-based ISA for children in care. We know that the Chancellor agreed £5 million a year for the scheme, but we are still short on the details, which is why amendment 97 proposes the following:

[Bridget Phillipson]

“The Treasury shall, within three months of the passing of this Act publish final details of a new UK-wide Government contribution-based tax-free children’s savings scheme for looked-after children.” What is also crucial, and I would like to stress this point to the Minister, is that the scheme should cover the whole of the UK, and not simply England. I would be grateful for reassurance that that will be the case.

I am pleased that the Government have listened to some arguments being made by organisations supporting looked-after children. I have referred to Barnardo’s and Action for Children, but I know that others have been working with the Department for Education to press for the scheme to have the effects that we all hope it will. It is disappointing that, although the Conservative party promised in its manifesto to keep the child trust fund for the poorest two thirds of families and for families with disabled children, it has backtracked. It has taken significant pressure for us to get the Conservatives to recognise the difficult and very different challenges facing young people in the care system. It is right and proper that we support such young people, not only because it is the right thing to do but because we should help those young people to have proper choices in their lives, so that once they leave the care system, they have the same kind of choices and opportunities that many young people outside the care system enjoy. I hope that we can get some answers from the Government about how the scheme will operate, so that we can have confidence that young people in the care system will see a proper scheme that supports them, gives them choice and allows them to benefit and contribute fully to society as they grow.

1.45 pm

Nic Dakin (Scunthorpe) (Lab): It is, as ever, a pleasure to serve under your chairmanship this afternoon, Mr Gale. I rise to speak to the amendments in the name of my right hon. Friend the Member for Delyn. As somebody who, before coming to this place, worked all my professional life with young people, I sometimes find the Government’s attitude to children and young people disappointing. From the health in pregnancy grant to Aimhigher, from the complete dismantling of youth services to the pulling back on Building Schools for the Future, there seems to be a theme of not backing rhetoric—[*Interruption.*] Does the hon. Member for Skipton and Ripon want to intervene?

Julian Smith (Skipton and Ripon) (Con): No thank you.

Nic Dakin: That is fine; I will continue. The question of rhetoric and reality is at the heart of the clause and of the amendments, and the amendments try to turn rhetoric into reality. The concerns about the child trust fund uncannily resemble those about education maintenance allowance; support will be taken away from young people at the start of their lives and at a point of significant transition. Those are questions that disturb me.

Focusing on the child trust fund, let us look at a couple of quotes from people who know far more about such things than I do. David White, the chief executive of The Children’s Mutual, said in May 2010:

“The Child Trust Fund is the single most successful savings policy to date and this sort of short-term cut does not address the pressing need for families to save, or recognise the significant benefit to society that the Child Trust Fund will bring from 2020 as maturing funds return an anticipated £2.96bn each year to the economy”.

That was his view of the proposals and of what was happening to child trust funds. If we do not accept his views, let us see what Sian Williams of Toynbee Hall has said. She stated:

“My real concern around the removal of the child trust fund is not across the whole population; it is for the lowest income groups. We really believe that, for that particular income group, from 16 to 18 years was a really important time to have no assets to fall back on. That really puts people in a difficult position. It reduces their opportunities, and we think the child trust fund was really effective in tackling that.”

The child trust fund is overwhelmingly endorsed by people who know what they are talking about. Unfortunately, as my right hon. Friend was saying earlier, despite the manifesto commitments of the two parties that gained the most votes at the general election, it is not being taken forward. Instead, it is being replaced by the junior ISA proposal. No Government contributions will be made to the junior ISA, but it will be tax free up to a limit of £3,000 and will operate in a largely similar way to the adult ISA. As my right hon. Friend has pointed out, the question is who benefits. Where is the equality impact assessment? Who will get the advantage? It is good to encourage anybody to save, but the danger is that it will not encourage those families with the least income to do so.

Ian Murray (Edinburgh South) (Lab): Last year’s Conservative manifesto stated that the party would concentrate the child trust fund on the bottom third of the population. Will the proposed junior ISA concentrate those funds on the bottom third?

Nic Dakin: The worry—not only mine, but that of the sort of commentators whom I have quoted—is that it will have the opposite effect, and that the top third rather than the bottom third will take advantage of the junior ISA. That is the danger. It is quite misleading of the Government to claim that the junior ISA is a sort of successor to the child trust fund, because it is not; it is a different instrument, which performs a different function and achieves different things. My hon. Friend’s intervention and the way in which he expressed his point pulls that out very well. The measure does not take a progressive asset-based approach. There will be a tax-based break for wealthy savers, rather than an investment in people who usually do not save. The provision will not increase the saving culture that we want to encourage through the child trust fund.

According to the Treasury’s impact assessment for the junior ISA, just 20% of children will end up with one. No distributional analysis is provided but, as my hon. Friend has indicated, we can guess which 20% of children are most likely to take advantage of this tax break. The junior ISA will not improve the life chances of people from the least wealthy backgrounds, which was a Conservative party manifesto commitment; it will enhance the life chances of people who are the most advantaged.

It is sad that that is the case considering that, to their credit, both coalition parties have strong traditions of asset-based welfare development, as shown in how they

have approached things in the past. There is a social liberal tradition stretching back to Thomas Paine and his call for assets for all. I would have hoped that modern liberals would build on that strong basis today, rather than tearing it up in their approach to the child trust fund. Although the Conservatives do not talk about their “Red Tory” guru Phillip Blond much these days, his ideas about recapitalising the poor are right at the centre of things such as the child trust fund. It is disappointing that two great parties with two great social traditions should be missing the opportunity to build on that.

I shall move on to consider where we are on care leavers. When the Prime Minister spoke about them in 2010, he captured those traditions very helpfully. He said:

“We really do need to do better as a country”

for care leavers. He continued:

“We are looking at this area and I recognise that dealing with the scandal of the poor outcomes for children in care is something, frankly, that everyone in this House ought to support.”—[*Official Report*, 30 June 2010; Vol. 512, c. 887.]

Those words have a huge resonance and I think we would all support such comments, which is why I welcome the Government’s commitment to make this £5 million available for the child trust fund proposals for looked-after children.

As my right hon. Friend the Member for Delyn said, it is far from clear what the scheme will mean—whether it will cover the whole of the United Kingdom and how it will operate. The hon. Member for Erewash helpfully celebrated the fact that the commitment is there but, like her, I want answers from the Minister on how the measure is being taken forward. Today’s debate gives the opportunity for that.

Let us consider the proposals made by Barnardo’s and Action for Children in their very good document, “On our own two feet.” Their proposals sketch out various ingredients of a scheme and draw attention to those elements. I would be interested to know from the Minister whether they are the sort of elements that will be included in the scheme being initiated by the Government. The first part of the proposals contained in “On our own two feet” states that the scheme should apply

“equally to children in England, Wales, Scotland and Northern Ireland.”

The second part states:

“Any child who enters local authority care under section 20 or section 31 of the Children Act 1989 (or the equivalent legislation in Scotland and Northern Ireland) and remains in care for a minimum of 13 weeks is eligible.”

Thirdly, it states:

“After 13 weeks the responsible local authority send the child’s details to HMRC who will then open an account.”

The fourth element is that HMRC’s initial payment would be of £250, and the fifth states:

“The responsible local authority notify HMRC if the child spends more than 26 weeks of the next year in care. HMRC will then make a further contribution of £100”.

That would happen for each subsequent year of care until the child left care. Finally, the sixth element of the proposals states:

“Looked after children who currently have the Child Trust Fund would also receive the annual top-up payments if, as above, they have spent more than 26 weeks in care.”

Those six elements give us a clear basis on which to get intelligence from Minister on how the proposals and the commitments made by the Chancellor, which everybody in the House welcomed, will be taken forward. Now is the time to act.

I conclude my remarks by quoting an anonymous care leaver. After all, it is care leavers on whom we should focus, because they are the beneficiaries—or non-beneficiaries—of Government plans. My hon. Friend the Member for Houghton and Sunderland South drew attention to how investment in young people now, through such a mechanism, could have great benefits to the Exchequer in the long term by assisting them when they leave the care system to find positive pathways into their future. The quote is on the final page of the Barnardo’s document and was given this year. The care leaver said:

“By having some savings I could have set myself up when I came out of care. Instead, I had nothing and no one”.

Those words should echo round this Committee Room. Our responsibility is to step up to the plate and show leadership. The Government have committed the money, but we now need leadership, a message of hope and a direction forward, and I am sure that we will get them from the Minister when she replies.

Alison McGovern: I am honoured to serve under your chairmanship, Mr Gale. My hon. Friends have made many important points on these amendments, and the issues are important for all of us. I sat on the Savings Accounts and Health in Pregnancy Grant Committee in 2010, which removed child trust funds, and I remember those debates well. I do not propose to go through them again, but I will use them as an introduction to my remarks on transparency and the differences in savings across society.

This is part of the debate about whether Government’s role is to support income now, which Governments have a long history of doing, or to address asset inequality. As my hon. Friend the Member for Scunthorpe said, this is part of a broader, more long-standing debate about how to redistribute wealth, and what doing that does for people, especially those who have the disbenefit and misfortune to have been born without wealth or any great inheritance. I hope that most Committee members accept that one thing we have learnt over the years in this debate is that it is right for the Government to address asset inequality. There is cross-party agreement on that, although the Liberal Democrats disagreed with it when they wrote their manifesto for the last election. It is right for the Government not only to support people today, but to look at how people can build wealth, because from wealth comes independence, and from independence comes a sense of dignity and pride, which ought to be what Britain is all about. I am proud of the strides forward on that issue that my party made in government.

2 pm

I wanted to make a point about transparency, because both amendments call for the publication of information. We have debated in this Committee and on other related Bills how important it is to get information and data

out there, and how the Government should consult properly. We politicians have given the financial services sector a bit of a rough ride in recent months and years. For a moment, I would like to set the record straight and balance the argument slightly the other way. People in the financial services sector led, were involved in and consulted on the establishment of the child trust fund. I recall conversations with several experts in the field who were trying to find a way to build a product for families that would work for them. Yes, it would send a message from Government, as my hon. Friend the Member for Scunthorpe said, but would also encourage saving.

People in the financial services sector brought a great deal of expertise. I hope that the Minister will listen to those same voices now, as we go forward with a product for looked-after children. There is a need for complete transparency. I hope that those voices will be listened to in the design of the product, drawing on their expertise about which products work, are least complex to understand and most likely to bring in contributions from elsewhere. I would be grateful if the Minister could tell us what discussions there have been.

When we debated the Bill that took away the child trust fund, we discussed the possibility of establishing a product for looked-after children, who have the greatest call on us as politicians to stand up for their interests—not just their income and life chances now, but the possibility and choices they have for the future. If local authorities wanted to join us and build on this policy, and themselves make contributions to such a financial savings product for looked-after children, they might want to make it part of their own strategy for improving the asset-base, wealth, possibilities and choices in life for thousands of looked-after children. They also need to be involved in the discussions.

Nic Dakin: My hon. Friend makes a detailed and careful argument. She is drawing attention to the corporate parenthood responsibility of local authorities, and this matter plays directly into that.

Alison McGovern: My hon. Friend is right; that is exactly what I am doing. In a previous life, I was a local councillor in a borough with pretty serious deprivation in parts, although great wealth in others. It was the one responsibility that I felt more than any other. The financial management of the council was a great worry at times, as was the broad sweep of the local authority's responsibility. However, our role as corporate parent worried me more.

I hope that, with this pledge, the Government will open up an opportunity for us to do better by looked-after children than we have in the past. That is what we should aspire to. If we are going to do that, we need to learn the lessons of the most recent past, when we tried to build a savings culture among people who were disadvantaged and did not have one. It would be a terrible shame if we lost that learning, and did not encourage the people designing the project to talk to local authorities with expertise, and to the financial services sector that built the child trust fund and thought through what would work, in order to get this scheme going now that the Government have agreed to it. Will the Minister say what consultation there will be? The amendment calls for the details to be published as soon as possible. We know how difficult it can be to take

decisions while the Government are still deciding what they are doing, so having an inclusive discussion is highly important.

I will turn now to amendment 98, about savings across society, and shift away from the particular needs of looked-after children, which are great. We also need to watch what happens in children's savings accounts, and savings across society, because not all homes have a culture of saving. We might think specifically about people's inability to save at the moment as we see inflation rising much more quickly than wages. People's ability to save is squeezed every month of the year, so we need to monitor it and be very careful. There is no doubt that, in relation to looked-after children, but also the rest of society, people's ability to make investment choices about their lives is limited by their savings.

It is a fact of life that, as I go around my constituency, and as I know from friends and family, not everybody has copies of "Which? ISA" on the shelf. Not everybody is investigating the pages of *The Guardian* money supplement to discover the most beneficial savings account and which is the best ISA; I know that that is true. One of the most interesting parts of the book written by Cass R. Sunstein and Richard H. Thaler, "Nudge", about how Governments ought to manage their relationships with people, is the section on saving, and how saving money is habit-forming. People do not save because they sit and calculate like a cold logician. They do not calculate that they want to invest at some undefined point in the future so will therefore save a proportion of their income, and that gratification sacrificed now will lead to greater gratification in future. People just do not do that. They either get into the habit of saving, or they do not.

We need to build a culture in which people have a rough idea of how much of their income they will save. This was part of the point of the child trust fund, and other projects that the last Labour Government introduced to try to build a savings culture. It is habit-forming, but people also need knowledge and information. The amendment specifically refers to the "impact of Government policy", which I think is very important, whatever else we might think about the state and whether it crushes individuality.

Ian Mearns (Gateshead) (Lab): Something that Ministers will undoubtedly be aware of, but which I would like to push home, is the fact that people's capacity to save varies greatly from region to region. Last week Ministers gave examples of the regional concentrations of higher rate taxpayers; those people have the greatest capacity to save because they earn the most. Out of the 275,000 higher rate taxpayers, 195,000 are in the three southern regions—the eastern region, London, and the southern region—yet there are only 5,000 in the north-east. In my constituency, Gateshead, average incomes are around £17,000 or £18,000. The capacity to save is markedly different in different parts of the country.

Alison McGovern: I thank my hon. Friend for his intervention. He is absolutely right, and that is the point I am making; there are disparate cultures and abilities to save among different groups in our society. We can say, "It's fine, everybody has the same ability to save in principle and in theory," or we can say "Governments shouldn't care about that, they should care about the

facts and what is happening on the ground.” If we ignore the fact that the savings culture—the ability to save—is different in different parts of the country and among different communities, we deny the Government their proper role in addressing inequality.

Nic Dakin: I am struck by my hon. Friend’s powerful argument about the importance of habit forming. I am interested to hear whether, despite what is not there, she thinks that what remains—the commitment to a child trust fund for looked-after children—gives the opportunity to create the right habits for those young people in the future.

Alison McGovern: I thank my hon. Friend for that intervention. Of course, it does. We can talk about the importance of financial education, but the best financial education people get is by doing it. From my life, I know the importance of having been given a demonstration of what saving can do. I remember my Dad saying to me, “Look, you’ve just started a new job. Bank a bit of that because you’ll need it later.” I did. Demonstration is the best teacher in the case of financial education.

Looked-after children know that they are at a disadvantage because they are different from the other children in school, and they know that it is not a good difference. It is important to demonstrate to them that there is something there for them that is supposed to rebalance that and that if they work hard and invest in themselves, they will have a far better future. We will then have a really strong argument.

Bill Esterson (Sefton Central) (Lab): I am struck by what my hon. Friend is saying about the differences that looked-after children see around them all the time. I have experience of that from my family and can confirm that. The logic of her argument is that savings accounts for looked-after children should be exactly the same as for all children in order to avoid discrimination. That is an argument in favour of keeping the existing child trust funds.

Alison McGovern: I have huge respect for my hon. Friend’s expertise with looked-after children and how he uses his experience to inform us all in the House. He is right. We had that debate at length on the Savings Accounts and Health in Pregnancy Grant Bill and, unfortunately, Labour Members lost that argument. However, he is absolutely right. I hate the thought of looked-after children being stigmatised in any way, shape or form. The point of the child trust fund was that it was a universal benefit that everybody got, although some people got topped up a little bit more behind the scenes. However, as children grew up and were out in the playground together, they all knew there was something there for them and that the Government and hopefully their parents, grandparents and other people were investing to enable them to have a bedrock of saving. It is a shame that that is now gone.

I shall conclude by saying that people take state advice very seriously and that it is important to recognise that Government policy can have an impact on savings across society. The Government provide advice through the national health service and the Foreign and Commonwealth Office. In Britain, we would not be

without the excellent, clear way that the NHS—often online through NHS Direct—helps us all to take the right decisions on our health. In many ways, the NHS is an absolute model of how we disperse excellent advice to ensure that people can keep themselves healthy. People take state advice about finances and savings equally seriously, so it is important that we deal with this measure transparently and that the Government publish what they believe to be the state of play with savings across society. They should also provide further information about savings, so that people can use that advice to make the best decisions.

On the debate we had about looked-after children, Barnardo’s could not have chosen a better title for its report, “On our own two feet.” To me, it describes exactly the dignity and the sense of pride that we want for looked-after children. We do not want them to feel as though they are permanently a burden or the responsibility of the state; we want them to feel as though they have been invested in because they are worthwhile members of our society. I truly hope that the Minister will recognise that and move heaven and earth to get the savings scheme for looked-after children ready and available to them.

2.15 pm

Stella Creasy (Walthamstow) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Gale, in this important debate on asset-based saving, about which many people in the House feel strongly. I want to set a series of tests, which I hope the Minister will address in his or her summing up, about the proposals for the junior ISA and what we can learn from the child trust fund, which offers some interesting evidence about how we can encourage saving in our society. In all parts of the House, there is agreement that that is a good idea; that we should do more to try to help people to develop assets so that they are able to make choices in their life to advance their own progress; and that there are things that Governments can do, and things that they should not do, to help.

With that in mind, I will start with the concept of asset-based mobility and why it matters. I am struck by the words of the Chief Secretary to the Treasury, who was in a different place—a different party, perhaps—when he talked about the importance of assets to social mobility. That is the first test that all of us would set for this proposal. Baby bonds and child trust funds were about social mobility. They helped people who did not have access to the resources that other young people did, in order to level the playing field and help them make the choices that others were making because they had access to such resources. The child trust fund was doing precisely that because of its universality, so it met the first test that we must set for the junior ISA, which is about reach. Will the junior ISA be able to reach everyone in our society and therefore be a motor for social mobility?

Roger Williams (Brecon and Radnorshire) (LD): I am listening closely to what the hon. Lady is saying about asset-based savings. Does she not realise that none of those trust funds has come to maturity yet, so we cannot demonstrate all the good outcomes that she would expect from them?

Stella Creasy: It is a marvellous experience to be able to introduce the hon. Gentleman to the concept of time and, therefore, the ability of the child trust funds to come to fruition. In 2020, the first child trust funds will do so, and I would be interested to discuss with the hon. Gentleman at that point whether he felt that the acquisition of £3,000, £4,000 or even £15,000 as a result of the child trust fund was likely to help young people make more choices in their lives at the age of 18. I wager that were he to ask that question of many of the 18-year-olds in his constituency, they might well offer him some strong evidence on that.

One of the central points about social mobility is building up such assets. We have evidence from the child trust funds, and from independent research. I direct the hon. Gentleman to the work of the university of Bristol, which is not far from his constituency; perhaps he can stop there on his way over to Westminster and talk to university researchers about their research into access to funding through the child trust fund by poorer families. We have all talked today about the evidence that the child trust fund was helping all families to save more, and we would all agree that that was a good thing. The crucial point, however, was that families on lower incomes were saving regularly, and that that was making a massive difference.

We know that there are about 4.5 million trust funds. The Children's Mutual, which is responsible for about 1 million of them, has done some research about the people who have trust funds with it that shows that 30% of children in households with an income of about £19,000—well below the free school meals level that most people generally accept as a good measure of disadvantage—were receiving £19 a month in their child trust funds. Clearly, the child trust fund was encouraging families on lower incomes to make regular payments. Some interesting qualitative research showed that a lot of that was to do with grandparents putting money into child trust funds. That is a very good example. I am conscious that the Committee has had many discussions about how taxation policy can be used to influence behaviour, but if ever there was a good policy that reflected how taxation and Government action could be used to encourage particular behaviours, it is the child trust fund. It is important that we judge the junior ISA according to whether it encourages that level of regular saving by those groups.

Bridget Phillipson: Does my hon. Friend share my bafflement that the Government seem to think that poverty and social mobility have little to do with money? The choices that people make are often determined by money. Allowing choices to be open for young people at the age of 18 would be of great benefit to young people from more disadvantaged backgrounds. As with many things in life, it comes down to money, and poverty is about money.

Stella Creasy: I completely agree with my hon. Friend. As I said earlier, I am struck that in 2008, the Chief Secretary to the Treasury agreed with us, too. He agreed that the key to social mobility is asset-based welfare. It makes me wonder what has changed the Government's thinking in the past year and a half. Apart, perhaps, from access to ministerial cars, what has changed the belief that assets are part of social mobility?

For me, one of the tests is whether the junior ISA will have the same reach that the child trust fund has had. The universality of the child trust fund has encouraged take-up in a way that many other savings products have not. The first simple test is this: some 10,000 families in Walthamstow have a child trust fund, so will the junior ISA reach 10,000 families in Walthamstow in future?

Walthamstow has a high level of deprivation. Even on the Treasury's equality impact assessment, only 2,000 families in Walthamstow will have access to the junior ISA but, assuming the impact of the junior ISA is equally distributed, as the impact of the child trust fund was equally distributed, some 2,000 families in Walthamstow would have access to the junior ISA. We can set a good test for the success of the junior ISA with that question of reach. Will it reach the same number of families, or will those families who benefit—that 20%, rather than 100%, of families—not be evenly distributed throughout our constituencies? Many Government Members claim to represent areas with high levels of deprivation, but will they see the drop-off in access to, and use of, these financial saving measures that many Opposition Members fear?

Roger Williams: I am interested in the way in which the hon. Lady is developing her argument, but in my experience—because of my age, I go back a little further than she does—families on smaller incomes were saving for their children before the child trust fund was introduced. People who save in future will not want to use the junior ISA; they will want to use whatever saving mechanism they think appropriate. The hon. Lady simplifies it by saying, "All saving is related to what the previous Government introduced or what the present Government plan to introduce in future."

Stella Creasy: The hon. Gentleman is listening selectively to our argument, which is about the success of this product in encouraging a type of behaviour that Members on both sides of the House have said is a good thing to encourage. Many members of the Committee will know about my concern about the levels of debt and spending in our society. It is important therefore to encourage people to develop assets.

As I said earlier, I note the concern about social mobility and asset-based mobility, which have motivated many people in the hon. Gentleman's party at some point in the past. Is he saying that it is no longer the belief of those within what is left of the Liberal party that asset-based mobility exists and that it is about having access to those resources?

The Opposition recognise that access to a pot of funding opens up choices and opportunities to people of all ages, particularly young people, when making key transitions in life. The more we do to help more young people to make those choices and to access those assets, the more likely they are to make choices that realise their potential which, after all, is what social mobility ought to be about. The test we should set for the junior ISA, if it is to be a successor to the child trust fund, is whether it has that reach and whether it has that ability to advance social mobility.

I am conscious of Members' previous comments. I am looking forward to hearing what the hon. Members for Stockton South and for North East Cambridgeshire

have to say, particularly about value for money, because, as members of the Public Accounts Committee, we spend much of our time on it.

Stephen Barclay (North East Cambridgeshire) (Con): The hon. Lady quite rightly draws to the Committee's attention the shocking value for money that has staggered new members of the Public Accounts Committee. Our reports over the past 12 months have all been on the record of the previous Government. I endorse her view that they reveal poor value for money and I thank her for drawing that to the Committee's attention.

Stella Creasy: I fear the hon. Gentleman has pre-empted my comments about value for money and how we judge it. I am sure that the hon. Member for Stockton South will want to correct that opinion about some of the things that the Public Accounts Committee has been looking at. One way we judged value for money was the bang for our buck and the investment of taxpayer's money in a scheme.

Stephen Barclay: Aircraft carriers?

Stella Creasy: Aircraft carriers are a good example of that, as is reform of the NHS, as we saw yesterday. We judge whether the money invested is money well spent and whether the money that we get from taxpayers delivers a return that we can judge to be an effective use of public subsidy.

James Wharton (Stockton South) (Con): I know that the hon. Lady has not been a member of the Public Accounts Committee for quite as long as my hon. Friend the Member for North East Cambridgeshire and me. Perhaps when she has been a member of the PAC a little longer, she will realise that many of the decisions taken by the previous Government that we have been examining in what is effectively a backward-looking value-for-money Committee were terrible. That is why we are in dire financial straits and why the Government are having to take some of the decisions that they are taking.

Stella Creasy: I am always happy to bow to the hon. Gentleman's extensive wisdom and length of experience. He knows not how his contribution has enriched me this afternoon.

Ian Murray: I would just like to make the point that the Government knew the state of the public finances when they promised to keep the child tax fund before the election. They knew the state of the public finances before they promised not to put up VAT and before they broke all the promises in their manifesto. While the hon. Gentlemen make a very good point, some of their remarks are very disingenuous.

Stella Creasy: My hon. Friend makes a fair point about the changing way in which Government Members have viewed the child trust fund and its efficacy. I would hope, were we able to look at the child trust fund in the Public Accounts Committee, we could explore it in more detail. When one looks at the child trust fund's value for money, one can see that it compares incredibly

well. If our amendments are not accepted today—and given that the Government are moving towards using the taxation process to try to influence behaviour—I hope that members of the Committee who are also members of the Public Accounts Committee will join me in proposing that we look at whether this is a value for money process that we should undertake. We might conduct an investigation into that. The hon. Member for North East Cambridgeshire shakes his head, yet normally he is vigorous in his support for the idea of doing investigations. I am surprised.

I would be interested to know whether there were any other examples—I genuinely cannot think of any—where the yield for the amount of money invested versus the return is so substantial. We are looking at £500 million, which is 0.5% of the education budget, yet there are child trust funds that could yield up to £50,000 for the individuals in question. I cannot think of another policy or small investment that the Government could make with such a return.

James Wharton: Will the hon. Lady clarify this point? I know we have focused on the poorest in society, but does she expect the yield for the poorest who have benefited from child trust funds to be in the region of £50,000 each?

Stella Creasy: I genuinely think that it is an interesting point about the amount of money that we will get and certainly we will see in 2020. I hope that that answers the questions from the hon. Member for Brecon and Radnorshire, too. However, every young person who is 18 in 2020 will receive a benefit from this scheme. Looking at an investment of £500 million, the return we get in terms of the value for money will be clear. Certainly I think we will see a much higher level of return than perhaps the hon. Member for Stockton South expects. For example, I note that some child trust funds are yielding a 30% return, and I am sure that he would agree that that is a substantial return on what is a small investment for the state. That is the critical point.

2.30 pm

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): I am looking at the Government's proposal for the junior ISA. Am I right in believing that, between the ages of zero and 18, I can have a junior ISA taken out in my name by my parents or guardians, and that, between 16 and 18, I can also be in ownership of an adult ISA? What would be the tax implications when I turn 18? Also, I could be the manager of a stocks ISA and a junior ISA at the age of 16. If a 16-year-old who is going through such things as GCSEs is in charge of stock options, is that a common-sense approach for young savers?

Stella Creasy: The hon. Member for Stockton South is nodding in agreement; I am sure that he was a young Gordon Gekko in his time. Certainly, the cavalier way with which his party plays with the public finances would suggest that he has taken many lessons from that character.

There is a critical point about the value for money of the scheme, so the question that we should ask on the junior ISA is about the returns that it is able to yield.

[Stella Creasy]

My hon. Friend the Member for Middlesbrough South and East Cleveland is absolutely right to argue that there are some anomalies in the system. We might see that young people are able to put the money that they may have had in a child trust fund into a junior ISA, because they will have access to that funding. There is a crossover, and there is an interesting issue about the tax relief that might accrue as a result.

I would certainly ask the hon. Member for Stockton South whether he has a view about us spending £27 billion on pension tax relief when only 40% of people are in pension schemes. There is a question of the return from, and value for money of, investing in a product that only certain groups of society are able to access, as opposed to a scheme that all sections of society are able to access, with the state actively ensuring that that is the case. Is that an effective use of funding when compared with some of the other schemes? That is the test that I am trying to set. Is the junior ISA, with its limited reach, going to be as effective a use of tax relief—of public investment—as the child trust fund? I know that we spend £1 billion on tax relief for ISAs, but only 29% of people have one. That necessarily calls into question the measurements that we might make in the Public Accounts Committee about whether the money invested has delivered as great a return as we might expect. In the years to come, I hope that we will look at these schemes and ask whether they were effective by delivering on that investment.

Tracey Crouch (Chatham and Aylesford) (Con): Many of those who will benefit from the yield from a child trust fund in 2020 will be from groups other than those low-income groups for which the hon. Lady claims to be standing up. Does she therefore agree that the universality of the child trust fund could well have contributed to the increase in the gap between the richest and poorest members of society under the previous Government?

Stella Creasy: Actually, I do not, because one of the interesting statistics that we have seen is that of those 25% of families who did not start a child trust fund, and therefore had them start up automatically, 40% were affluent families. The scheme was a partnership between the state and the individual, and it was taken up by lower-income families in particular. It is right that we test the junior ISA accordingly. Without investment from the state, will it have the same impact?

I shall draw my comments to a close because I know that other Members want to get involved. These are the tests that we should be setting: will the scheme have the same level of reach; will it advance social mobility in the same way as the child trust fund; and will it deliver the same behaviour change delivered by the child trust fund to encourage saving among those young people and their families who previously had not been involved in a savings culture?

What are the alternatives? The amendments are important because if we all want Governments to make good policy that is based on evidence, rather than evidence that is based on policy, we need to be able to review the alternatives. We need to be able to say that the child trust fund, with that small investment from the state up front, delivers a disproportionate benefit compared

with the junior ISA. I feel that there will be less saving in the future, and certainly among particular groups, because there will not be the same culture and encouragement that the child trust fund offered, and our society and young people will be all the worse for it.

Paul Blomfield (Sheffield Central) (Lab): I am pleased to have the opportunity to speak under your chairmanship, Mr Gale, about this important topic because it is at the heart of the debate about social mobility. The issues that we are discussing set the terrain on which we can enhance or undermine social mobility, and support those who face the greatest challenges in realising their aspirations. I say that as someone who represents a constituency that straddles the heart of Sheffield. In the east and in the centre, we have some of the poorest communities, while some of the wealthiest families live on the west of the city. Practically the only thing to unite them has been rejecting the Liberal Democrats at the recent elections.

Children born in the east and parts of the centre of my constituency face enormous barriers to reaching the position of those who live just two or three miles away. The lack of assets is one of those key barriers. Finding effective ways of asset-building is a challenge for us all. As I said in an intervention on my right hon. Friend the Member for Delyn, it is also a challenge in other countries. Having scrapped the child trust fund, we need to look carefully at its replacement. As my hon. Friend the Member for Scunthorpe pointed out, the child trust fund was acknowledged by experts as an effective way to encourage savings, particularly among lower-income families. For those Government Members who might be sceptical, I cite Professor Le Grand of the London School of Economics, who said:

“Encouraging a savings culture among Britain’s families is vital if we’re serious about tackling debt and borrowing. The Child Trust Fund, the most successful Government savings scheme ever, has made great strides towards helping families save”.

Unfortunately, the Government’s combination of policies hits families on a lower income with a triple whammy: removing this proven scheme that assists in the development of assets; withdrawing education maintenance allowance while trebling tuition fees at the critical point when young people move towards adulthood; and making it more difficult for families to save. One of the constituency issues with which I am dealing relates to a pension scheme that is struggling for a number of reasons, one of which is that those on the lowest incomes, who face pressures such as a reduction in real wages, are no longer opting into the scheme. We know from our constituents that in straitened times, people use their limited funds for the present and are less likely to save for the future. We need to look positively at schemes that encourage saving, particularly among those on lower incomes. It is therefore right that amendment 98 calls for a review of the issue of savings and the impact of the policy.

The challenge of asset-building is faced by a number of countries. The trajectory of the Government’s policy is in conflict with that in many other countries. I mentioned the United States in my earlier intervention. There is a growing movement in the US, led by the Child Savings Account Coalition, where, state by state, accounts are being initiated that involve public funds contributed by the state to back up schemes. Support is given through

matching and initial bonds to encourage saving among those on lower incomes. Such schemes are being introduced in Singapore, Mexico and Korea at a time when the Government are scrapping the UK scheme.

We should look at those who are most in need and, as several of my hon. Friends have pointed out, the position of looked-after children is critical. Clearly, the Liberal Democrats took no account of the needs of looked-after children when they went for a sweeping manifesto commitment to abolish child trust funds. Given that they won so little else from their coalition partners on key policy issues, they might want to ask themselves why their partners were so willing to roll over on this issue. I shall give a hint: that was not because this is a progressive policy.

I am pleased that the Government have made a U-turn on their position, despite the fact that the Conservatives initially embraced the policy, but we need more detail on how the £5 million set aside for supporting looked-after children will be used. We know that it could make a critical difference. I highlight the point that my hon. Friend the Member for Houghton and Sunderland South made about the Government's responsibility as corporate parents, which is also set out in the Barnardo's report, which says of the child trust fund:

“For looked after children, this account was guaranteed and included additional annual contributions, recognising the role of the state as the corporate parent.”

Barnardo's and Action for Children make the case that, as the corporate parent, the country has a responsibility to pay into savings accounts for these children, in the same way in which the Government hope that parents will pay into accounts for their children. The Government have indicated that they are moving in that direction, but it is unfortunate that they have not yet been able to spell out how they intend to do so, and I hope that the Minister will give more detail in her response to the amendments.

Ian Murray: My hon. Friend makes an incredibly powerful argument, particularly about looked-after children. The Government's capitulation on this issue highlights the great importance of giving the poorest and most vulnerable people in our society an asset lift. In essence, they have U-turned on giving children in care that lift, which shows the benefit that child trust funds had across society.

Paul Blomfield: My hon. Friend makes an incredibly important point. It was unfortunate that the Government would not acknowledge the role that that asset lift could provide for a wider range of children who do not have the same advantages as those from wealthier families. It is a shame that child trust funds, which made a difference for many of those families, have been abolished.

My hon. Friend the Member for Wirral South talked about the critical importance of support in the transition to adulthood, which is much more difficult for looked-after children. The Barnardo's report highlights the fact that 21% of looked-after children leave care as young as 16, while 16% leave at 17 and 62% at 18. The “cliff edge” transition into adulthood that it describes, without the same support and networks that other children have, means that those children need intervention and support.

Initially, the Government did not acknowledge that, and it was clear from their proposals that the Liberal Democrats did not either.

I welcome the move to acknowledge the arguments that have been put forward powerfully by campaigners outside this House and by Labour Members, and I hope that the Government will provide greater clarity about how they intend to implement their proposals.

2.45 pm

The Economic Secretary to the Treasury (Justine Greening): Amendments 97 and 98 seek further information on the impact of the changes introduced by clause 40. Before I turn to the amendments in detail, I would like to explain briefly what the clause will do. I will address the questions on looked-after children, and the Committee will be aware that earlier this year there was a debate in Westminster Hall that focused on that topic.

There is no doubt that the Government have had to make some tough choices in order to cut the deficit that we inherited. One was stopping the child trust fund. We believed the scheme to be poorly targeted, and the debts handed over by the previous Government make it unaffordable. It is hard to escape the conclusion that it would be reckless to leave the fiscal deficit and hand it over as a debt to future generations—the very people we say we want to help.

Alison McGovern: The Minister refers to debts being handed to the current Government. Now that the Government have been in power for a year, will she begin to refer to “the debts that my Government have created”, given that tax receipts have been falling and unemployment has been rising and that Government debt has thus become worse, not better?

Justine Greening: I am grateful to the hon. Lady for that intervention, because it gives me the chance to set out exactly what the Government are doing to tackle the underlying problem.

Debt is obviously what was left on the nation's balance sheet by the previous Government, who borrowed like no Government before. The deficit is the nation's P&L—its profit and loss. We were making a loss. The problem is that the deficit was structural. In other words, it did not matter what the economy was doing in terms of the economic cycle, because the Government were still spending more money than they received in taxation. It is that structural deficit that we seek to address. If we do not do so, we will continue to have to borrow every year. However, despite the fact that we are addressing the problem, the hon. Lady is correct that we will still have to continue living with the legacy of year-on-year debt that the Labour Government handed over.

The perversity in all of this is that the Labour party wants the deficit to continue. The most worrying thing is that even the shadow Chancellor seems to think that the structural deficit does not exist. That is deeply concerning, given that we are dealing with yet another clause that is part of what we are doing to sort out our public finances so that our children do not have to pick up this huge debt. It is baffling that the Opposition should set their face against pretty much any measure that would get our economy back on its feet and our public finances back into shape.

Several hon. Members *rose*—

Justine Greening: I give way to the hon. Member for Scunthorpe.

Nic Dakin: The Minister sets out the Government's position clearly. The Prime Minister and the Chancellor of the Exchequer—and, indeed, all Conservatives before the election—made it clear to the nation that they were aware of the problem, and that they would set out a way of dealing with the problem as they saw it. At that point, they were committed to a targeted child trust fund. Why, three days after the election result was announced, did they change their mind?

Justine Greening: I can point out a couple of straightforward facts. The first is that we are a coalition Government and, as was pointed out, the policy of one of our coalition partners was to scrap child tax funds. Another simple fact is that when the new Chief Secretary walked into the Treasury and opened his desk, he saw that a letter had been left for him by the previous occupant of that office; he was told in a simple but powerful phrase that there was no money. We need to get to grips with that situation.

Alec Shelbrooke (Elmet and Rothwell) (Con): Does my hon. Friend agree that the intervention by the hon. Member for Wirral South highlights exactly why the country is in this state, as the Opposition clearly believe that this huge financial mess can be cleared up in less than 12 months?

Justine Greening: It is like a parallel universe—we are debating the importance of savings when the savings ratio declined dramatically under the previous Government. People might have saved more if a Labour Chancellor had not told them for a decade that there was an end to boom and bust. He gave no indication that they were ever to expect financial hard times.

Another factor that has emerged in this debate is that, to my mind, we are genuinely seeing a behaviour pattern emerging from the Opposition. They have an inability to stomach taking difficult decisions. They have a brilliant ability to complain about decisions and to put off having to make them. They would say, "Let's pass a Bill to tackle half the deficit and, when we've passed that, let's not actually have a proposal underneath it or set out where our £14 billion of cuts would be compared with the current Government's £16 billion." It is a bit rich for the Opposition to claim to have any credibility. One of the reasons they did less well in last month's elections is because the public can see through their lack of economic policy, even if they are unaware of it.

Several hon. Members *rose*—

Justine Greening: I give way to the hon. Member for Wirral South.

Alison McGovern: The Minister makes an interesting commentary. Will she respond to the point I made about how many more schemes will reduce things that benefit the poorest in our society if, as is happening now, tax receipts continue to fall because of unemployment?

Justine Greening: I draw the hon. Lady's attention to the measure we are debating, which will put in place a new mechanism by which people can save. On her

specific intervention, I draw her attention to the fact that, as a Government, we are tackling the structural deficit. She will know that that is a related but slightly different matter to the question of public finances during an economic cycle. A worrying problem that our economy had and that the markets could see clearly was that, even in the boom times, we were running a deficit. Therefore, the deficit was there whatever the economic weather. That is simply not sustainable. Any household—and everybody in Britain apart from the Opposition—knows that it is simply not sustainable to borrow, borrow, borrow and never have a plan to pay it back.

I will finish my remarks on why we need to be getting on with the fiscal deficit reduction with this point. The strategy of the Labour party in the good times is, "Let's spend because we can afford to." The strategy of the Labour party in the bad times is, "Let's spend because we can't afford not to." The strategy of the Labour party in relation to the fiscal deficit when the economy is growing is, "Let's not kill the growth." The strategy of the Labour party when the economy had one quarter of flat growth is, "Let's not have the fiscal deficit because we're slipping back into a double-dip recession."

There is never going to be a good time for the Labour party to start tackling the deficit and there was never going to be a good time for it to stop borrowing taxpayers' money and passing on huge debts to future generations. That is what the markets can see very clearly. That is why, thank heavens, we have a different Government who are prepared to tackle that point. Those broad comments set out the reason why we need to get rid of the child trust fund, despite our sense that that was a difficult decision.

Several hon. Members *rose*—

Justine Greening: I give way to the hon. Member for Airdrie and Shotts.

Pamela Nash (Airdrie and Shotts) (Lab): The Minister referred to the Labour Government's spending during the boom times. Is it not true that, between 1997 and 2007, when the recession hit, the deficit was vastly reduced by the Labour Government?

Justine Greening: If the hon. Lady looks, she will find that we were running a deficit during those boom years, which is one of the reasons why the markets were so concerned about the underlying economic policy.

Ian Murray: Will the Minister give way?

Justine Greening: I shall make some more progress now. I suspect that we are not going to agree on the need to tackle the fiscal deficit and that the markets will continue to find the Opposition entirely incredible—or, as it were, uncredible—as an alternative. Based on the shadow Treasury Minister's comments, I suspect that we will continue to be told that, in terms of what they would do and whether they would bring back the child trust fund, which they have spent all morning and afternoon defending so passionately, the Labour party will continue to have a blank piece of paper in place of economic policy. Despite their warm words and the fact the Opposition believe in the child trust fund so much, I

suspect that they would still be entirely unwilling to make a commitment here and now to bring it back should they have the opportunity. I expect junior ISAs to be available from November 2011, and I reassure the Committee that it is our intention that the scheme to support looked-after children will launch later this year.

Tom Blenkinsop: Is it possible for a 16-year-old to own a junior cash ISA, a junior stocks and shares ISA, and an adult ISA all at the same time? What are the ramifications of that on the day of their 18th birthday? If they are managing a stock option ISA, how many hours a week will an average 16-year-old be able to spend monitoring their stock options?

Justine Greening: One of the key aspects of junior ISAs will be that people will have some choice. Unlike child trust funds, which were available to people from when the policy came in, junior ISAs will be available to all people who are under 18. There will be more choice for people than at present.

Looked-after children are a particularly important aspect of the provision and members of the Committee are right to address that issue. The Department for Education is taking the time to make sure that it pulls together the best possible scheme to support this vulnerable group of children, within the constraints of the public finances. As has been said, my right hon. Friend the Chancellor has made it clear that there will be investment for such a scheme. My right hon. Friend the Secretary of State for Education will provide further information to the House on the development of the scheme in due course. I want to make it absolutely clear that the Government are fully committed to supporting looked-after children through junior ISAs. As we have said, it is our intention for the scheme to be available this year. We want to make sure that it will be available as and when junior ISAs launch, so that it will be able to sit alongside them.

Mr David Hanson (Delyn) (Lab): The Minister yet again has referred to the Department for Education, but she knows that its remit is for England. The previous contributions for looked-after children, under the child trust fund, were UK-wide. Will she guarantee that whatever scheme is introduced will be available to people in Scotland, Wales and Northern Ireland on the same basis that it will be available to people in England?

Justine Greening: It will be, so those ISAs will be available.

Mr Hanson: If that is the case, how is the Department for Education advancing a UK-wide scheme when it is an England-only Department? How will that manifest itself?

Justine Greening: We are in discussions with devolved Administrations in order to do just that. The right hon. Gentleman's constituency is in Wales and there is nothing to stop his own party, which is in a minority Government, introducing a child trust fund or setting money aside to put into child trust funds, should it wish to do so.

Mr Hanson: Will the Minister acknowledge that the child trust fund was a non-devolved matter, organised by the then UK Government, and not the responsibility of the devolved Administrations in Scotland, Wales and Northern Ireland? The Minister is effectively taking away a UK-wide scheme and leaving it to the devolved Administrations to determine whether they will take it forward. The devolved Administration in Scotland is under SNP control and the devolved Administration in Northern Ireland are under the control of different parties. How will the scheme work on a UK-wide basis, given the Chancellor's commitment?

Justine Greening: Unless the right hon. Gentleman's Welsh Administration refuses to have junior ISAs, they will be able to have them. It is up to the devolved Administrations whether they want to take part. If they do not want to take advantage of the scheme, it is difficult for the Westminster Government to force them to do so.

Roger Williams: It may be that I do not understand the issue properly, but the right hon. Member for Delyn said that education is a wholly reserved matter. That is not exactly true. Some of the elements that the Department for Education delivers, such as the terms and conditions of the professions, cover all the devolved nations as well. I cannot therefore follow the argument that the Department for Education cannot deliver the ISA across the devolved nations.

3 pm

Justine Greening: My hon. Friend makes an important point. The other aspect is to ensure that we get junior ISAs right and that we take the time, as we have, to work up the parts that relate to looked-after children. Officials from the Department for Education and the Treasury last met with Action for Children and Barnardo's on 17 March, when charities raised a number of important issues, and it is right that the Department for Education should take time to consider those important matters. On the back of those discussions, robust proposals can be developed, before any further meetings.

Nic Dakin: In answer to the question that my right hon. Friend the Member for Delyn asked about the reach of the ISA for looked-after children, the Minister was definitive in saying that it would be UK-wide. However, she then began to say that what the devolved Administrations did would be up to them, so I am little confused. Will she un-confuse me?

Justine Greening: The hon. Gentleman has invented an interesting word. The junior ISA is a national policy and we will work with the devolved Administrations to deliver the part of the policy that relates to looked-after children; as he will be aware, the responsibilities of local authorities in relation to looked-after children are another issue in the first place.

It is not a case of us simply deciding to take a different perspective on junior ISAs for the sake of it, or even in relation to the money involved. Part of the issue is that the devolved Assemblies have slightly different approaches to the roles and responsibilities of local authorities, in respect of looked-after children and the

[*Justine Greening*]

concept of the responsible adult. We need to ensure that any new looked-after-children version of a junior ISA fits in, so that it works effectively in the different Administrations.

Ian Murray: I would like to unpack the argument made by my right hon. Friend the Member for Delyn. If the Scottish National party, in government, refused to enact the junior ISA part across the border—and they are unlikely to, because it has come from Westminster and the SNP does nothing that Westminster says, for reasons of political expediency—what would the sanctions be, and what would happen to people who wish to invest in Scotland?

Justine Greening: The hon. Gentleman is opening a debate that always happens about devolution. He is making the argument that we should perhaps not have devolved some of the regulations on looked-after children, and the responsibility for developing them, to the devolved Administrations. It is a debate that we can continue to have in the House, no doubt, and I am sure that different Members from different parts of the country have different views on where the balance should be struck.

On the policy landscape and the existing responsibilities that have been devolved down, I should say that the broader junior ISA policy will be nationwide. On looked-after children, however, the policy has to be aligned and worked up with the devolved Administrations. That is simply a matter of fact; we have to ensure that it is delivered alongside them. In many respects, it is important to do that anyway, and I hope that the devolved Administrations will engage with us, as I believe they are doing. Given what many Committee members have said, I think that they can see that it is important to ensure that we get this policy in place, so that looked-after children are supported.

Bridget Phillipson: Just so that I am absolutely clear on this point, what is the time delay between scrapping the previous scheme and the new scheme coming in? I know that the Minister has mentioned the date, but will she confirm precisely what the time delay is? Does she anticipate that any looked-after children will be lost in that period? If so, what assessment has she made of the number of young people who could slip through the net between one scheme's ending and the new scheme's beginning? Will she have discussions with colleagues in the Department for Education to ensure that that does not happen?

Justine Greening: There is no time delay. My hon. Friend the Financial Secretary to the Treasury always said that junior ISAs would be brought forward this autumn. However, we will ensure that we aim to have the part of it that relates to looked-after children in place for the same launch, if you like, or the same time period. We will make sure that the two work in sync, so that we do not have any problems, as the hon. Member for Houghton and Sunderland South mentioned.

We are working with the devolved Administrations, because they clearly have a role in relation to looked-after children and the ongoing, day-to-day policy, to ensure that they are in a position to implement that policy once

we have set out more details. Today, officials at the Department for Education are meeting the charities that were mentioned, to discuss how Government can best support this vulnerable group of children.

Members from all parts of the House want to provide much-needed support to looked-after children, and the Government have confirmed that we will do so through junior ISAs. I understand the frustrations of the charities, and I know that they want to see some fully worked-up proposals. They have played their role in pointing out the specific aspects that they want us to bring forward. We have to get this right first time, and those discussions are happening intensively.

Alison McGovern: Will the Minister take the opportunity to put on the record how those discussions with devolved Administrations will move forward? Is she committing personally to meeting the relevant Ministers in the Welsh Assembly Government and the Scottish Government to discuss the matter? It is such a priority for us to get right.

Justine Greening: The hon. Lady will know that the lead Minister in the Treasury for this policy area is the Financial Secretary, who would have been here were he not on the Floor of the House handling a debate about the eurozone. I know that he is keen for this aspect of junior ISAs to work effectively. I will make sure that he writes to the hon. Lady setting out the meetings that he has had and plans to have, and the meetings that officials will have, working alongside the Department for Education, with the devolved Administrations. I assure her that when we work with the devolved Administrations on a whole range of policy areas, we are in contact with them very regularly, and this fits into that overall approach.

We have published a fair amount of information about the impact of junior ISAs in the tax information and impact note alongside the Budget, in which we stated that about 6 million children will be eligible for an account when it is introduced, and a further 800,000 will be eligible each year. As we said, we believe that over time 20% of children may have a junior ISA. Equally, the product is entirely voluntary, so we will work with providers to make junior ISAs easy to use and as broad as possible. For example, although this has not been raised today, they may be sharia-compliant, which is important for many of us who have diverse communities.

We are particularly concerned to make sure that junior ISAs are accessible to people on low incomes; that has influenced many of our decisions on their design. However, it is for parents to decide whether they want to invest in the product. Ultimately, the Government's clear approach to our national deficit is a clear signal that we believe that we must live within our means. That is a signal that many people and families will take and apply to their own lives.

Amendment 98 refers to an analysis of the impact of clause 40 on children's savings. The Budget and the Office for Budget Responsibility report both provide information on savings ratios, and HMRC publishes statistical reports on—among other topics—ISAs, the child trust fund and pensions. HMRC will publish statistical reports on junior ISAs after they are launched.

That fact base will therefore be disclosed. The Government also commission a number of savings reports, including the wealth and assets survey and the family resource survey, so a range of data will be published that will enable people to see the take-up of junior ISAs. I do not believe, therefore, that either of the amendments is necessary.

To conclude, my colleagues in the Department for Education are working intensively with charities and across Government to develop with the Treasury junior ISAs for looked-after children. My right hon. Friend the Secretary of State for Education will provide more information on the scheme to help looked-after children through junior ISAs in due course. I have explained why we believe it is so important to encourage savings for children and to instil a habit of saving that will last a lifetime. I do not believe that the amendments are necessary and I ask the right hon. Gentleman to withdraw them.

Mr Hanson: We have had a full debate, which is important, and I am grateful to my hon. Friends for their contributions. We will support clause 40 because, despite our reservations about the ending of the child trust fund, we support the scheme as a replacement.

However, I remain concerned that we still have, several months down the line, a distinct lack of clarity on the replacement of the child trust fund, particularly for looked-after children. The previous child trust fund was a UK non-devolved Treasury-led matter, which has apparently morphed into a Department for Education-led matter that will potentially be discussed with the devolved Administrations. That is not the way to devolve issues in this Parliament. We have strict conventions for devolving issues, and this is not the way to do it.

We still do not have details on how much the payments will be, who will administer them, when they will be made and over what period of time, and how the £5 million will be distributed. I therefore wish to press amendment 97 to a Division to secure a legal requirement on the Government to finalise the scheme quickly. For the reasons given by my hon. Friends, we need to have a review of the impact of the whole Government savings policy by the end of this year, so I will also press amendment 98 to a Division.

Question put, That the amendment be made.

The Committee divided: Ayes 14, Noes 16.

Division No. 6]

AYES

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

NOES

Aldous, Peter	Greening, Justine
Barclay, Stephen	Lee, Jessica
Bradley, Karen	Lewis, Brandon
Crouch, Tracey	McCartney, Karl
Gauke, Mr David	Parish, Neil
Goodwill, Mr Robert	Sharma, Alok

Shelbrooke, Alec
Smith, Julian

Wharton, James
Williams, Roger

Question accordingly negated.

Amendment proposed: 98, in clause 40, page 26, line 6, at end add—

‘(7) The Government will, by 30 September 2011, publish a report on—

(a) children’s savings accounts, and

(b) saving across society,

including the impact of Government policy.’.—(Mr Hanson.)

Question put, That the amendment be made.

The Committee divided: Ayes 14, Noes 16.

Division No. 7]

AYES

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

NOES

Aldous, Peter	Lewis, Brandon
Barclay, Stephen	McCartney, Karl
Bradley, Karen	Parish, Neil
Crouch, Tracey	Sharma, Alok
Gauke, Mr David	Shelbrooke, Alec
Goodwill, Mr Robert	Smith, Julian
Greening, Justine	Wharton, James
Lee, Jessica	Williams, Roger

Question accordingly negated.

Clause 40 ordered to stand part of the Bill.

Clause 41

GIFT AID: INCREASE OF LIMITS ON TOTAL VALUE OF BENEFITS ASSOCIATED WITH GIFTS

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

3.15 pm

Kerry McCarthy (Bristol East) (Lab): Clause 41 introduces the first of the gift aid measures that were announced in the Budget, which was presented by the Chancellor as

“a big help for the big society”—[*Official Report*, 23 March 2011; Vol. 525, c. 962.]

to use his words. It increases the limit on gift aid benefit from £500 to £2,500. As we all know, the Government are placing special emphasis on the role of charities as part of their big society agenda, with the voluntary sector expected to fill the void left by the Government’s cuts. That will not be an easy task, not least because charities themselves are being so drastically affected by the cuts, particularly with the loss of local authority grant funding. That loss is difficult to quantify, because the information has to be collated from all the local authorities across the country and the impact must be assessed on charities large and small.

[Kerry McCarthy]

The Association of Chief Executives of Voluntary Organisations has estimated that charities will lose £900 million in public sector cuts this year and £2.85 billion a year by 2014-15. The association established a commission on the big society and published a report, "Powerful People, Responsible Society", which warned:

"If the big society is to be a success, the Government will need to ensure that it protects and promotes this sector—and does not allow over-rapid and poorly-managed public spending cuts to damage it disproportionately and irrevocably."

In addition, Sue Ryder, among other organisations, is leading a campaign against irrecoverable VAT, which we shall discuss when we debate new clause 2. The Charity Tax Group has estimated that the new 20% rate will cost the charity sector an additional £150 million a year in irrecoverable VAT. This year, charities have lost the transitional relief for gift aid, which provided an additional 3p per pound to help them adjust to the reduction in the basic rate of income tax. That loss is estimated to cost them approximately £100 million. Moreover, many charities and groups, such as the National Council for Voluntary Organisations, have called for an extension to the transitional relief fund, arguing that the £100 million was not sufficient to help them adapt to the big society agenda and that it is dwarfed by the additional £250 million that the Government will receive from charities.

Meanwhile, the National Council for Voluntary Organisations reports that charitable giving remains at £700 million below pre-recession levels. In total, taking into account the consequences of all the tax and spending changes, plus the decline in charitable donations, ACEVO has identified a £4.5 billion funding gap. Clearly, that gap will make the charitable sector even more dependent on private donations. Presumably that is why the Government are so anxious to promote charitable giving.

Announcing the change that is proposed in clause 41, the Chancellor stated that the Government would "encourage wealthy people in our society to give more."

It is worth noting that recently published Cabinet Office figures show that the poorest 10% of society gives 3.2% of its income to charity, whereas the richest 10% gives only 0.8%, although the amounts that are given by the richest 10% are obviously higher. They could, however, be encouraged to give, as a proportion, a fair bit more.

Will the Minister elaborate on why she thinks that the measures in the clause will encourage people to give more? What estimate has she made of the impact? Will she clarify why the Government have chosen to introduce this measure first, which prioritises wealthy donors, while the new gift aid scheme to enable charities to claim gift aid on small donations more easily is being delayed until 2013? The focus on small donations might be more relevant to small local charities, which rely on lots of people in their community donating small amounts. That would have fitted well with the Government's big society agenda. So often, the local small charities are hardest hit by cuts to the voluntary sector grant funding, because they are less likely to attract the substantial donations from the big donors.

The ACEVO commission on the big society concluded that the Government lacked "a credible plan" to make the big society a success in deprived areas, finding that nearly 60% of the public did not think it would work in

the most deprived areas. I would appreciate the Minister's comments. Is there a concern that the big society agenda, with what seems to be a focus—if the clause is an example—on wealthy donors, to the exclusion of smaller but more generous donors, will act to the detriment of communities to which the big society could be of the greatest benefit?

A research study by the South West Foundation into issues currently affecting small voluntary and community organisations, "Crisis and contradiction", warned:

"The future for community groups is looking very uncertain. 56% of the small community groups who took part in this research have less than 6 months' running costs in reserves, 49% are experiencing difficulties in raising funds for this year, 78% are having difficulties in raising funds for next year."

In the light of such reports, does the Minister not think that the Government ought to have gone further to help small community groups, rather than introducing provisions such as clause 41?

The gift aid scheme for small donations is projected to cost the Treasury £50 million in its first year and £85 million in 2014-15, while the changes to inheritance tax to promote philanthropy are estimated to cost £25 million in 2012-13. It is unclear, however, how much clause 41 is estimated to cost the Treasury. Can the Minister tell us the estimated gain for charities' incomes and how much it will cost the Treasury in gift aid if the measure works as a greater incentive to donate?

Undoubtedly, any additional donations or gift aid will be gratefully received by charities, but they do not seem sufficient to offset the increased bills this year, let alone the funding cuts. As ACEVO said in response to the Budget:

"We will also be making clear that in addition to the positive measures in the Budget, we need action now from the Government to get a grip on local cuts to the voluntary sector."

According to a recent National Council for Voluntary Organisations survey, 55% of charity chief executives plan to cut staff and 35% plan to decrease the extent of their services by June this year. I would be grateful for the Minister's comments, and to know to what extent the Treasury thinks clause 41 will help to mitigate the impact of charities' reduced income from the Government.

Justine Greening: The clause increases the amount of benefits that charities can provide to their larger gift aid donors, increasing the cap fivefold, from £500 a year to £2,500. We are doing that because the increase in the benefit limit will help charities to build sustained relationships with their largest donors.

As the shadow Minister pointed out, if we look at the amount donated by the wealthiest people in our country and compare it to the proportion of income donated by people on more modest incomes, there is a disparity. Working with the charity sector, we have an opportunity to deliver, if we are willing to look innovatively and creatively at how we can stimulate more charitable giving and a sense of philanthropy, which we might have lost in many respects over time. Not only the tax system can deliver that—the hon. Lady talked about the Cabinet Office paper on giving, which came out earlier this week—but tax has a role to play, and the Committee can see that in the package we proposed in the Budget this year, which included a number of measures.

The hon. Lady also asked about the small bucket donations aspect of our policy, but that is a spending measure, and it takes a bit longer to bring into legislation because the law around it is slightly more complex. By contrast, this measure is a much more straightforward change, which we can introduce quickly in the Finance Bill. However, it will be of benefit, because charities will be able to mark their appreciation of donations from their largest donors with a gift or reward that is still proportionately small—no more than 5% of the donation—without disqualifying the donation from gift aid.

The background to the clause is that donations made to charities by individuals and companies are eligible for gift aid tax relief but only if any benefits that donors receive as a result of making those donations are within certain limits. For donations of more than £1,000, benefits are limited to 5% of the donation, subject to an overriding cap of £500.

Kerry McCarthy: I may be pre-empting what the Minister is about to say, but she said that what she described as the “bucket donations” clause is a spending clause and therefore it will take longer to introduce. I appreciate that on the face of it clause 41 is not a spending clause, but if the underlying aim of the clause is to encourage more charitable giving and therefore more people will qualify for gift aid, surely there will be expenditure consequences. Will she go on to say what costs there will be to the Treasury, depending on how successful the measure is?

Justine Greening: In our consultation with charities, many of them told HMRC that the old £500 limit had hindered their fundraising efforts at a time when increasing charitable giving was more important than ever. It also became clear that there were misconceptions about how the gift aid benefit rules operated. For example, many charities felt that they could not offer to host a gala dinner for a major donor, to thank them for their gift and to stimulate more donations from others attending the event, without the whole dinner becoming some kind of a gift. Of course, that is not the case because those kinds of events are not benefits to the donors at all; they are also part of the fundraising process.

So charities are quite properly allowed money to pay for those events. To help them, alongside this measure HMRC also published in April some revised and improved guidance, which will help charities to understand how they can thank their donors in a way that means that they can still receive gift aid on the donation that they have received.

We expect that the impact on the Exchequer will be under £5 million, in terms of extra gift aid tax relief. During the course of this Parliament, however, the package that we announced at the Budget should see about £600 million more tax relief and support for charities. However, I must stress to the hon. Member for Bristol East that this is not just about getting more tax relief to charities. It is also about trying to make some changes in the tax system that will generally foster a system of philanthropy in Britain, which we can all benefit from.

We talked about clause 27 earlier in our deliberations. It is perhaps wise at this point for me to correct the record, because I spotted in *Hansard* that I was reported as saying in that debate that

“most donors simply make a donation and then enter into an arrangement with the charity.”—[*Official Report, Finance Public Bill Committee*, 19 May 2011; c. 321.]

However, I am absolutely sure that I said “most donors simply make a donation and do not enter into an arrangement with the charity.” Having clarified those comments, perhaps I have made sure that I have absolutely got on the record what I said at the second time of trying.

In relation to this clause, charities want to express their gratitude to donors in a small way. It helps them to develop a long-term relationship that will encourage the donor to continue making donations and contribute to the charity’s income over the years. However, there is a balance to be struck, between making sure that charities follow charity law and spend their donations on charitable causes, and enabling a charity to develop that long-term relationship with a donor. When a charity wants to say “thank you” to a donor who has given, say, £1 million, £500 is obviously a very small amount of money to help to promote that relationship between the charity and its donors. We think that increasing the maximum amount of benefits that may be given over a year to £2,500 strikes that balance more effectively. Also, it should ease the administrative burden on charities and donors who currently become involved in time-consuming paperwork to keep within the £500 limit. At the same time, it will ensure that the vast majority of any large donation—at least 95% of it—will be used for charitable purposes. Representatives of charities will continue to talk to HMRC about this measure and indeed other measures during the coming months through the new charity tax forum that we have established.

Charities are at the heart of the Government’s ambition to build the big society. We want to encourage people to give more to charities. The increase in the benefit limit will allow charities to foster long-term relationships with their largest donors, by letting them give a modest but meaningful recognition of their contribution. This is one part of a much broader philanthropy package that we brought forward in the Budget. I therefore beg to move that the clause stands part of the Bill.

Question put and agreed to.

Clause 41 accordingly ordered to stand part of the Bill.

Clause 42

ENTERPRISE INVESTMENT SCHEME: AMOUNT OF RELIEF

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

3.30 pm

Mr Hanson: I have a few questions on the clause, and I would be grateful if the Minister would respond to them.

Clause 42 increases, from 20% to 30%, the rate of income tax relief to which investors are entitled when they subscribe under the enterprise investment scheme for shares in qualifying companies. The new rate will apply to shares issued on or after 6 April 2011. The change was announced by the Chancellor of the Exchequer in the Budget on 23 March, subject to state aid approval from the EU. Will the Minister give an update on how that will progress with the EU, and how confident he is that they will approve the change?

[Mr Hanson]

What instructions have been given to officials with regard to the package of changes in this clause and clause 43, and their discussion with the EU? It has been suggested to me—though I cannot believe it is true—that the Government do not believe that most of this package will get through the EU, and that they have announced certain things that they might not get final approval for. I cannot believe that to be true, so I would welcome the Minister's confirmation that everything announced in the Budget on 23 March will occur.

Will the Minister provide costings on the income tax relief? My assessment is that, according to Treasury information, the costing for this measure is £580 million of additional investment coming in, due to schemes, over five years. The cost to the Government, however, appears to be around £450 million, which means that we would gain a maximum of £130 million due to the influence of the clause. That £580 million will not all be new investment; some of it would have happened anyway.

I would like the Minister's view on one more point. Before the Budget, his right hon. Friend the Chancellor of the Exchequer questioned whether venture capital trusts were simply tax loopholes; he is on record as saying that. Yet we find ourselves in a position where the Minister is extending that very tax loophole with the clause. Perhaps he could enlighten me as to how his right hon. Friend said one thing before the Budget, in which he passed certain measures, and is now extending that loophole considerably with clause 42, all—to my knowledge—without EU approval?

Mr Gauke: Clause 42 amends the rate of income tax relief to which investors in companies qualifying under the enterprise investment scheme are entitled. It raises the rate from 20% to 30%, and it is intended that this will apply to shares issued on or after 6 April 2011, subject to state aid approval, which I will come back to in a moment.

The enterprise investment scheme is designed to encourage investment into smaller, high-risk companies by offering a tax incentive to investors in qualifying companies. It has been in operation since 1994, with around £7 billion from private investors being contributed to qualifying companies. It is recognised as a successful scheme, and the Government intend to build on that. Small businesses are the lifeblood of the economy, and the ability to start and grow companies is vital for the country's economic well-being. That is particularly the case now, given the need for a private sector-led recovery. The Government wish to encourage investment into start-up and small, growing companies. The plan for growth, published alongside the Budget, sets out our ambition to make the UK one of the best places in Europe to start, finance and grow a business. The reforms to the EIS and the VCT scheme announced in the Budget will help the Government to achieve that ambition.

The Government recognise that higher risk companies struggle to attract external sources of finance, and that private individuals need an incentive to invest capital in them. The current level of incentive at 20% of the amount invested up to a maximum of £500,000 a year, has produced a significant amount of investment over the existence of the scheme. The Government want that

amount to grow and are offering a greater incentive for individuals to invest by increasing that relief from 20% to 30%. Those changes will be introduced through a Treasury order once state aid clearance has been granted.

It would be illegal to introduce changes without state aid approval, but we have already submitted notification of the changes to the European Commission and are currently waiting for its response. Once that has been received, the rate increase will apply to investments made after 6 April 2011. We believe that state aid approval will be received—we see no reason why not—and the scepticism of the right hon. Member for Delyn about the likelihood of that happening is not well placed. We want to increase the relief to 30%.

Mr Hanson: As the measure will be introduced by order, will the Minister indicate when he expects that to happen?

Mr Gauke: I cannot say much more than that we will introduce the order after we have received state aid approval. If he is asking when I expect that to happen, I hope that it will be relatively soon. I do not want to place a date on that at the moment as I am not in a position to do so. The matter is not in our hands. We are currently waiting for the response, and I hope it will arrive in due course.

The right hon. Gentleman asked whether the arrangements, particularly VCTs, encourage tax avoidance. We do not believe that to be the case, but the Government will continue to monitor the operation to ensure that investment is properly targeted. As we announced in the Budget, we want to ensure that the scheme is targeted at genuine risk capital investments, and in the context of the other steps that we are taking to make the UK an attractive place in which to do business. That is a sensible approach. We will continue to work with industry representatives to ensure that schemes operate in a satisfactory manner, and with the European Commission on the expansion of the scheme. In conclusion, the increase in the rate forms an initial part of the Government's drive to encourage the entrepreneurship and risk taking that is vital to the country's economic growth.

Question put and agreed to.

Clause 42 accordingly ordered to stand part of the Bill.

Clause 43

RELIEF FOR EXPENDITURE ON R&D BY SMEs

Mr Hanson: I beg to move amendment 99, in clause 43, page 27, line 18, leave out subsection (6).

The same principles apply to clause 43 as to clause 42. The Government have made some announcements and I would be grateful if the Minister would confirm that he still requires state aid approval for clause 43. In response to my questions on clause 42, he said that he could not give a date or a time and that he had no definitive end date for when state aid approval might be given. The same principles apply to clause 43, and it would be helpful if the Minister would say whether it might take three months, six months, nine months, 12 months—when does he expect state aid approval to be given? That is important in itself.

In a sense, this is a probing amendment. I want to get to the bottom of what the Government announced in the Budget. Unless I am mistaken—these things do happen—clause 43(6) was not mentioned during the Budget on 23 March, and that aspect of the relief for expenditure on R and D and SMEs was not included. The Chancellor covered over the measure:

“In section 1058 (amount of tax credit), in subsection (1)(a), for “14%” substitute “12.5%”.

That part of the package was not mentioned in the Budget.

First, I want some clarity from the Minister about when state aid will be approved. Secondly, I want him to stand up and say to me—if I am wrong, I will withdraw it—that clause 43(6) was not mentioned at the time of the Budget. I would be grateful if we could have that on record so that we know that the package has been amended slightly since the Budget.

Mr Gauke: As we have heard, the amendment would leave out the provision in clause 43 that reduces the figure used to calculate a company’s payable credit under the small and medium-sized enterprise research and development tax credit scheme. Although the Bill reduces the figure that is used to make that calculation from 14% to 12.5%, the overall effect of the clause is to increase the value of the payable credit from 24.5% to 25%.

I appreciate that it is a probing amendment, but let me explain how the provision works. The amendment would further increase the payable credit so that it would be worth 28% of the original qualifying R and D expenditure. Although that might appear to the right hon. Gentleman to be more generous, the situation is not quite so straightforward.

As hon. Members will be aware, the SME R and D tax credit scheme is approved by the European Commission as a state aid. As such, it must comply with the Commission’s guidelines for state aid for R and D. The guidelines state that the aid intensity of aid given through the scheme must not exceed 25%. That is, the amount of aid given must not be worth more than 25% of the company’s original expenditure on R and D.

The amendment, which I appreciate is a probing amendment, would amount to aid intensity of 28% and would mean that the overall changes to the R and D tax credit scheme proposed by clause 43 would not be accepted by the Commission.

Mr Hanson: The key point is whether the reduction from 14% to 12.5% for SMEs was announced in the Budget as part of the overall package. I accept what the Minister is saying, but my point is that the clause would disproportionately hit SMEs.

Mr Gauke: It will not. I will have to give a slightly longer explanation of the calculation of the value of the payable credit, although I had hoped not to have to do so.

The Budget slightly increased the value of the payable credit. It was a technical change. Yes, it was not highlighted in the Budget document because it was a technical change that does not put SMEs in a worse-off position. I will run through it, because I hope the right hon. Gentleman will be satisfied if I explain it.

The payable credit is calculated as a percentage of the company’s total tax relief for R and D. In the Budget, the Government announced that the total relief for SMEs will be increased from 175% to 200% in 2011, and then to 225% in 2012.

3.45 pm

The current rate at which the payable credit is calculated is 14% of the relief, which gives a cash value to the company of 24.5% of the original qualifying R and D expenditure: 14% times 175% equals 24.5%—I hope the Committee appreciates that I am showing my working. If the rate of relief increases from 175% to 200% without a reduction in the surrender rate, the cash value to the company will increase. To be precise, it will increase to be worth 28% of the original qualifying expenditure, as 14% times 200% takes us to 28%, which would exceed the permitted aid intensity limit set out in the Commission’s guidelines for providing state aid for R and D. That is why the Government propose to reduce the percentage figure used to calculate the amount of payable credit from 14% to 12.5%, meaning that the payable credit will be worth 25% of the original qualifying expenditure. That still represents an increase from the previous value of 24.5%, but importantly, the increase remains within the threshold set out in the Commission’s guidelines. I am afraid that the right hon. Gentleman tempted me into giving that explanation, but I hope that all becomes clear as a consequence.

Mr Hanson: I thank the Minister with responsibility for tax simplification for that explanation.

Mr Gauke: It is all really very simple, but it is a good thing, not a bad thing. Although the clause appears less generous, the change will increase levels of support for small businesses while remaining within the permitted limits. I am sure that hon. Members will accept that the measure is important for stimulating innovation in the UK, as it will support more than 6,000 small firms to the tune of £100 million. I urge the right hon. Gentleman to withdraw his amendment.

On his additional point, yes, state aid approval is required. Again, we have notified the European Commission of the change, and we await its response, but I cannot be more precise at this point. We anticipate that state aid approval will be granted.

Pamela Nash: On a point of clarification, will small and medium businesses carrying out research into HIV/AIDS vaccines be worse off as a result of the change?

Mr Gauke: No, they will not. The interrelation with vaccine research relief is not being changed. Any reduction in the rates of VRR is being made to ensure that in combination with the increased levels of SME research and development relief, the aid given by the UK Government to a particular R and D project does not exceed the aid intensity thresholds set out by the European Commission under the framework for state aid for R and D. It is not necessary to reduce the rate of VRR payable credit as well.

When the rate of VRR relief was last changed in 2008, the European Commission did not require the rate of the payable credit to change as well. However,

[Mr Gauke]

the hon. Lady is right to raise that point. Businesses doing research in that area will not be left worse off by the changes that we are making in the clause. With those points, I hope that the amendment will be withdrawn and that the clause can stand part of the Bill.

Mr Hanson: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 43 ordered to stand part of the Bill.

Clause 44 ordered to stand part of the Bill.

Schedule 9 agreed to.

Clause 45

COMPANY CEASING TO BE MEMBER OF A GROUP

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

The Chair: With this we may discuss the following: Government amendment 112.

That schedule 10 be the Tenth schedule to the Bill.

Mr Gauke: The amendment responds to comments on the Finance Bill clause from numerous corporate groups and their accountants, who asked that the provisions of schedule 10 be made available to companies in respect of transactions undertaken before the passing of the Finance Act. It will allow a group of companies to elect to apply the provisions of the schedule from 1 April 2011. I announced the fact that the Government would introduce the amendment in a written statement on 4 April.

The degrouping charge ensures that tax is paid on gains when, instead of selling an asset directly, a group of companies sells a company that owns an asset. Otherwise, tax could be lost, either as a result of normal commercial arrangements or through tax avoidance. Business identified the degrouping charge rules as one of the most complex and burdensome aspects of the capital gains rules affecting corporate groups.

Clause 45 and schedule 10 make a number of significant changes to the way that degrouping charges are applied. The changes are intended to simplify the operation of the rules for groups acquiring or disposing of subsidiary companies. The changes made by schedule 10 will mean that when a group disposes of a company's shares such that it leaves the group, any degrouping charge will be treated as additional consideration for the disposal. That will ensure that shareholder reliefs such as the substantial shareholdings exemption will also apply to the degrouping charge.

There is a new facility for claims to reduce the amount of a degrouping charge where tax is charged on the same economic gain both through the degrouping charge and through a chargeable gain on the shares. It will be a useful alternative way to avoid unnecessary degrouping charges where the substantial shareholdings exemption is not available and using the associated companies exception is either burdensome or impractical. We have

clarified the rules for the associated companies exception to degrouping charges, in line with expectations following the decision of the court.

The combined effect of the changes to the substantial shareholdings exemption and others outlined above is that companies will face fewer degrouping charges when they are planning an acquisition or disposal of a company. Every corporate group that makes an acquisition or disposal of a trading business will find something in schedule 10 that is useful. The improved interaction with the substantial shareholdings exemption will remove tax barriers that get in the way of assembling the assets of a trade ready for sale.

The changes improve the targeting of the rule, ensuring the aim of preventing tax avoidance is still achieved, but without the potential for double taxation. This amendment provides that these benefits are available straight away if a group would find them useful. There is protection to ensure that a company cannot be disadvantaged by an early commencement election made after it has left a group, since such a company would need to consent to the making of the election. I urge the Committee to accept this amendment.

Mr Hanson: I have one question. I am grateful to the Minister for his explanation, but we touched in discussion of an earlier clause on the question of intangibles and he said he would return to the question on clause 45. I want to be clear about what he means in relation to that. I am concerned that intangibles, such as goodwill in a business—for example, when purchasing a hotel—could be disadvantaged by this clause, or are not consistently addressed by this clause. There is an inconsistency in that old goodwill—pre-2002—will be treated as a corporate capital asset and therefore will not suffer a degrouping charge, where post-2002 goodwill could be subject to degrouping charges, so for some businesses the simplification is not as useful as it is for others. I would welcome clarification on goodwill being dealt with as part of this clause.

Mr Gauke: I am grateful to the right hon. Gentleman for raising the issue of whether the changes should be extended to the intangible fixed assets degrouping charge. We have not made a change to the intangible fixed assets regime, primarily because it is outside the scope of this review, which was directed at the simplification of chargeable gains rules.

Question put and agreed to.

Clause 45 accordingly agreed to.

Schedule 10

COMPANY CEASING TO BE MEMBER OF GROUP

Amendment made: 112, page 171, line 22 [Schedule 10], at end insert—

(4) But where an early commencement election is made in relation to a group—

- (a) sub-paragraphs (1) and (3) apply in relation to that group as if the references in those sub-paragraphs to the passing of this Act were references to 1 April 2011, and
- (b) sub-paragraph (2) applies in relation to any disposal of shares by a member of that group as if the reference in that sub-paragraph to the passing of this Act were a reference to 1 April 2011.

(5) An early commencement election in relation to a group means an election made for the purposes of this paragraph by the principal company of the group.

(6) If a company ceases to be a member of a group in the period which begins with 1 April 2011 and ends with the passing of this Act, an early commencement election may be made or revoked in relation to the group only with the consent of that company contained in a notice which accompanies the election or revocation.

(7) Where an early commencement election is revoked, the election is treated as never having had effect.

(8) An early commencement election may not be made or revoked after 31 March 2012 (and paragraph 3(1)(b) of Schedule 1A to the Management Act (amendment of elections etc) does not apply in relation to an early commencement election).—(*Mr Gauke.*)

Schedule 10, as amended, agreed to.

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

3.53 pm

Adjourned till Tuesday 7 June at half-past Ten o'clock.

