

# 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)**

*Fourteenth Sitting*

*Thursday 9 June 2011*

*(Afternoon)*

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## CONTENTS

CLAUSE 77 agreed to.  
SCHEDULE 20 agreed to.  
CLAUSE 78 agreed to.  
CLAUSE 79 disagreed to.  
CLAUSES 80 to 82 agreed to.  
SCHEDULE 21 agreed to.  
CLAUSE 83 agreed to.  
SCHEDULE 22 agreed to.  
CLAUSES 84 to 86 agreed to.  
SCHEDULES 23 and 24 agreed to.  
CLAUSE 87 agreed to.  
SCHEDULE 25 agreed to.  
CLAUSES 88 to 91 agreed to.  
SCHEDULE 26 agreed to.  
New clauses considered.  
CLAUSES 92 and 93 agreed to.  
Bill, as amended, to be reported.

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**The Committee consisted of the following Members:**

*Chairs:* HUGH BAYLEY, †MR ROGER GALE, MR JIM HOOD

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

## Public Bill Committee

Thursday 9 June 2011

(Afternoon)

[MR ROGER GALE *in the Chair*]

### Finance (No. 3) Bill

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

#### Clause 77

SUPPLIES OF COMMODITIES TO BE USED IN PRODUCING  
ELECTRICITY

*Amendment proposed (this day):* 184, in clause 77, page 44, line 5, at end add—

‘(2) The Schedule shall come into force on a date specified by the Treasury by an order made by Statutory Instrument, which may not be made until an impact assessment of the effect of this Schedule has been laid before the House of Commons; and approved by resolution of the House of Commons; and the dates specified in paragraphs 8(3) and 9(5) of the Schedule shall be replaced by the date specified in the order under this section if it is later.’.—(Nic Dakin.)

1 pm

*Question again proposed.* That the amendment be made.

**The Chair:** I remind the Committee that with this it will be convenient to discuss the following: clause stand part and that schedule 20 be the Twentieth schedule to the Bill.

**Stephen Williams** (Bristol West) (LD): Good afternoon to you, Mr Gale, and to all fellow members of the Committee. We are on the home straight, which I am sure we are all very happy about. I was just warming up as we adjourned this morning, and I know that Members want to discuss several other clauses—

**The Chair:** Order. I am just about into the second half of my parliamentary career. I do not want to spend the whole of it listening to this. [*Laughter*]

**Stephen Williams:** When we adjourned at 25 minutes past 10, I was dealing with an intervention from my constituency neighbour, the hon. Member for Bristol East. I had said that one of the ways we can deal with the impact of the carbon tax is to decide what to do with the proceeds in helping the disadvantaged in society and that something we could do is help such people to retrofit their houses. I think that was as far as I had got.

I recently visited a house that it is now in my constituency, and was in the hon. Lady's, in Easton, where the Technology Strategy Board has paid for retrofitting to provide wall insulation, window insulation, an energy efficient boiler and so on. That shows people what the green deal, which is being discussed along the corridor as part of consideration of the Energy Bill, can do for us all when

it is introduced next year. Those are several of the ways we can deal with the extra costs that we all will face when the carbon tax is introduced.

Those are some of the incentives. Of course, we need disincentives to cause a change in behaviour as well. That is why the carbon tax is necessary: to drive the burning of carbon out of our economy as far as we can. The carbon tax is an essential measure. The Budget proposed that the tax should start at £16 per relevant tonne of equivalent CO<sub>2</sub> from 2013. That will increase to £70 by 2030, so the trajectory is clear and the Government's intention to meet the demanding climate targets that we have set for ourselves should be clear to every business, whether an energy company or a manufacturing company.

In the long run, the carbon tax should replace the plethora of existing taxes and schemes. I say to the hon. Member for Scunthorpe that it is not as if we do not already have taxes on high-energy-consumption industries in our country. We are not starting from scratch. We already have the climate change levy in place, and other fiscal measures as well, which it could be argued already put us at a competitive disadvantage with other countries. Over time, I hope that the carbon tax will replace many of those measures.

**Nic Dakin** (Scunthorpe) (Lab): What does the hon. Gentleman say to manufacturers who would agree with much of what he has said in his passionate contribution, but who would say that it is disadvantageous to British industry for Britain to be ahead of Europe and the rest of the world in introducing a carbon floor tax? That will export jobs elsewhere and not defeat global warming, as we want it to. What does he say to the point that people such as Karl Kohler are making on behalf of their industries?

**Stephen Williams:** The hon. Gentleman is making a very important point, as did the hon. Member for Middlesbrough South and East Cleveland. I do not decry them for doing that. I grew up in south Wales in the 1980s and saw what a rapid contraction of manufacturing and industry, such as coal mining and steel working, can do. Whole communities can be put at a disadvantage and I certainly do not want the Government to risk any repetition of that contraction of the 1980s. I also know that my right hon. Friend the Secretary of State for Energy and Climate Change has said that the needs of the manufacturing sector in our economy will be taken into account. The Secretary of State for Business, Innovation and Skills has also said that that sector is a vital part of the Government's growth strategy.

The tax is not being introduced until 2013. It is not starting in this fiscal year, or even the fiscal year starting in April 2012, so there is still much time to discuss the details of how it will operate.

**Tom Blenkinsop** (Middlesbrough South and East Cleveland) (Lab): The amendment is looking for a pause for thought on the policy. We obviously want to reduce our carbon emissions in the long run, but instead of taxation going straight to the Treasury and being lost there, would it not be better to recycle that pot of funds back into industry to pay for further programmes to reduce emissions?

**Stephen Williams:** I thank the hon. Gentleman for his intervention. I am about to deal with that point, but will first conclude the points I was making. I hope not only that the carbon tax will replace the plethora of existing green taxes, but that road pricing, for instance, will replace fuel duty, which we discussed at length earlier.

The amendment tabled by the hon. Member for Scunthorpe essentially proposes a delay in introducing the carbon tax measure. However, as I have just pointed out, we are not introducing it immediately. There is already a substantial period to reflect on how the tax will work, for industries to plan and for the Government to formulate their response on how the tax will impact on different industrial activities and domestic behaviour.

We know that it is urgent to deal with climate change. We have probably all said that, if we are honest, to different non-governmental organisations and constituents who have lobbied us in this place. Right outside this room, in the Committee corridor just now, I met constituents who are lobbying us today, asking us to deal with those important measures. We cannot make promises and then say we will do it tomorrow. There is always going to be a better time to do this. The tax does not start until 2013, so there is already a delay built into the legislation and the Budget proposals announced by the Chancellor.

**Roger Williams** (Brecon and Radnorshire) (LD): Does my hon. Friend agree that the argument that we should not introduce best practice because it would make us uncompetitive could be used in other areas such as safety? Surely we should have high safety standards in this country to protect our people. It is for us to adopt best practice in those matters.

**Stephen Williams:** My hon. Friend makes an important point. As I pointed out at the start, we will not be trailblazers in Europe in introducing a carbon tax. Sweden, Denmark and the Netherlands already have it.

**Tom Blenkinsop** *rose*—

**Stephen Williams:** I will give the hon. Gentleman one last chance.

**Tom Blenkinsop:** The hon. Gentleman is making a slight error. We are complaining about not a policy to reduce our emissions, but the destination of the taxation. Once that tax is gained from manufacturing, the destination is the Treasury coffers; it goes straight in there and is not distributed back to manufacturing. That is the main issue. If we are going to talk about safety, we could make the point that the budget of the Health and Safety Executive has been reduced by 35%.

**Stephen Williams:** Of course, the initial collection point for all taxes is the Treasury. It is what the Treasury or the Government do with them afterwards that we should debate. Over the next two years, before the carbon tax is introduced, I am sure we will have several debates about how the carbon tax should operate and what should be done with the proceeds. I am going to publish a pamphlet before the end of this parliamentary Session and will send it to any member of the Committee who is interested, especially the hon. Members for

Scunthorpe, for Middlesbrough South and East Cleveland and for Walthamstow, so that they can contribute to the debate.

On the problems that have been identified, manufacturing has had a good airing from Opposition Members. Rather than look at the impact on industry itself, I want to deal with the impact on sources of energy, from which stems the concern of Greenpeace and the other NGOs that have approached several members of the Committee. The carbon tax will fall most heavily on energy produced from coal, gas and oil, and not on renewable sources, nor to any great extent on the nuclear industry, as it is not carbon intensive at the point of electricity generation.

The hon. Member for Bristol East correctly mentioned that I am not opposed to nuclear energy. Although most of my hon. Friends are opposed to it on principle, I have never shared that view. It is anti-science to say that we cannot have peaceful use of nuclear energy. It should form part of our energy mix, at least for the next couple of decades, because we cannot move from a high-carbon-dependent economy to a low-carbon economy in such a short period without help along the way—at least temporarily—from the nuclear industry, but I do not want to go back to the nuclear industry being dependent on huge subsidies from the taxpayer. If nuclear energy is to succeed, it should do so on its own merits without subsidy, direct or hidden, from the taxpayer. That is the commitment the coalition Government gave.

Is a carbon tax a subsidy to the nuclear industry? In a way, yes, of course, it is, in the same way that an alcohol tax is a tax on something that is bad, although that does not make it a subsidy to any other beverage or substance that we consume that might be harmful to humans. The nuclear industry will benefit and probably make more profit from a general rise in electricity prices, and we must respond to that. I am not saying that there should be no Government response, but to make that response we need to understand the impact of the carbon tax while it is in operation—not necessarily delay while we speculate about what it might do, but understand its impact in practice. If we find that the nuclear industry receives an indirect boost from the operation of the tax, we should act on that evidence and tax the nuclear industry differently.

**Alec Shelbrooke** (Elmet and Rothwell) (Con): As usual, it is a pleasure to serve under your chairmanship, Mr Gale. If the Opposition vote for the amendment—they seem to be pushing for a Division—will not that send the message that when the lights go off we once again we will know where the blame lies?

**Stephen Williams:** Yes, that is a very colourful way of putting the point. If the amendment were agreed to, it would send the signal that we, as a Parliament, do not think that there is any urgency in tackling climate change and instituting a carbon tax, which has existed for many years in other countries. A delay would send entirely the wrong signal about the seriousness with which all Members, on both sides of the House, consider climate change.

**Stella Creasy** (Walthamstow) (Lab/Co-op): Has the hon. Gentleman had the chance to read the parliamentary answer that revealed that the tax will deliver a windfall profit of £50 million a year to existing nuclear reactor

[Stella Creasy]

operators? Given what he has said about his concern that there could be a subsidy to the nuclear industry, I am puzzled about why he will not back the amendment, which would ensure that we had information on which to make decisions. He cannot have it both ways: he cannot say that we need to tackle unintended subsidies and then say that we must press on without addressing the concerns.

**Stephen Williams:** The hon. Lady will find that members of the Committee can often have things both ways. We are concerned about the same issue, but differ on how to address it. The amendment tabled by the hon. Member for Scunthorpe calls for a delay, but I am calling for a study while the tax is in operation and in the period to 2013 before it is introduced. We have just under two years prior to its introduction in which to carry out the study that the amendment calls for so as to understand better how the tax will operate. I ask my hon. Friend the Minister to commit the Government to annual reporting on how the tax works in practice.

It is important for the Treasury to report to Parliament annually so that we can see how the tax's impact is felt by different industries—manufacturing, steel production and the different energy generation sectors. We could see which parts of our economy were paying carbon tax year on year and where the carbon tax was being reduced due to changed behaviour, which is exactly what we want people to do, and we could see whether the economy was being skewed by the operation of the tax to the advantage of a particular industry such as the nuclear industry.

1.15 pm

I am looking for an assurance from Ministers that the Treasury and the Department of Energy and Climate Change will monitor closely how the carbon tax operates, report back to Parliament annually and include in that report segmented reporting so we can see how the carbon tax is working in practice. I want it to work in practice and we should delay no longer.

**The Economic Secretary to the Treasury (Justine Greening):** It is a pleasure to see you in the Chair for the last time, Mr Gale, although in the nicest possible way.

Clause 77 and schedule 20 amend the climate change levy to introduce a carbon price floor for electricity generation. I very much welcome the Opposition's support for that policy, although I found their arguments about the challenges from both manufacturing industry, which I will come to shortly, and the environmental lobby very contradictory. If there are aspects of the policy that both parties do not like, we may have managed to get something that is just about right because it has created the environment for the right behaviour change to happen.

We are introducing the measure because the UK needs significant new investment in low-carbon electricity over the coming decades. We need clean, secure supplies of electricity to support growth and reduce carbon emissions, but this will happen only if investors have greater certainty that such capital-intensive investment is economic over the long term. The UK's out-of-date energy infrastructure faces significant challenges. First, we need to replace a quarter of our old electricity

generation capacity by 2020, as well as prepare for an increase in demand for electricity over the coming decades. Secondly, the UK needs to meet its legally binding CO<sub>2</sub> emissions reduction targets, which require an 80% reduction from 1990 levels by 2050.

To meet those objectives, the UK must encourage significant new investment in low-carbon generation—wind, wave, nuclear, and carbon capture and storage technology. The EU emissions trading system has played a key role in pricing the negative externalities associated with carbon emissions. Unfortunately, the price of carbon has neither been consistent enough nor high enough to drive investment in low-carbon electricity generation. In fact, it has led only to changes in behaviour at the margins.

**Tom Blenkinsop:** I take issue with that. The funding for the carbon capture strategy is being reduced to the extent that, where we could have had four projects, we have money for only one. Also, under the existing energy policy, never mind these new policies, we have a 10-year-old power plant on Teesside that is now half mothballed.

**Justine Greening:** I do not agree that we are dragging our heels on carbon capture and storage. The spending review announced funding to support the first plant and our intention is that it will be the first of four, so it is not right to say that. Perhaps it will help if I run through the broad changes in the clauses and some of the concerns that are being raised, then talk about the amendment specifically.

Most fossil fuels used to generate electricity are exempt from the climate change levy. Schedule 20 will remove that exemption for supplies of gas, liquefied petroleum gas and solid fuels, such as coal and coke, to electricity producers. It will also introduce the climate change levy—carbon price support rates—for supplies used in electricity generation, and introduce some anti-avoidance provisions effective from Budget day to protect revenue.

From 1 April 2013, businesses that make the final supply of those fossil fuels to a generator that burns them to produce electricity will be liable to pay the relevant carbon price support rate. Different rates will apply for different taxable commodities—gas and coal, for example—and will be based on the carbon content of those supplies. Each rate will be determined by the carbon content of the taxable fuel, with the equivalent rate of £4.94 per tonne of carbon dioxide. That rate will ensure a minimum price for carbon in the power sector, which will begin at £16 per tonne of carbon dioxide and rise to £30 per tonne in 2020. Those figures are expressed in 2009 prices.

The carbon price support rates will be set out two years in advance to provide certainty to low-carbon investors, electricity generators and the market. As the Budget sets out, we intend to set the tax payable two years in advance, which will provide an indication of the tax rates in the subsequent two years. We believe that that will provide the certainty to incentivise investors to invest substantially in lower-carbon electricity generation, which is what we want.

The measure has been welcomed by a number of key stakeholders. Centrica, for example, has described it as “an important first step”. EDF has said that the policy “strikes the right balance”, so we are moving in the right direction.

Concerns have been expressed about the involvement of BIS and DECC. BIS has been involved in the policy as it has developed, and it has had ample chance, and has taken that opportunity, to be part of the analysis as we pulled it together. DECC has been involved in drafting the proposal. I will shortly go on to talk about how the consultation was run and the range of engagement that we had.

**Nic Dakin:** Before the Minister moves on, is she comfortable with the way the proposals will, as her written answer states, give a £50 million windfall to the existing nuclear industry for no additional work? It is just an advantage.

**Justine Greening:** I will come to the nuclear issue, because I recognise that it has been raised by members of the Committee, but may I briefly talk about our informal consultation with Her Majesty's Revenue and Customs?

HMRC has had discussions with energy companies and oil and gas suppliers to ensure effective implementation of the carbon price floor. We support an approach that reduces the administrative burden on industry and HMRC, in line with our broader objective of tax simplification.

The Finance Bill 2012 will tax fuels used to generate electricity in combined heat and power plants at a lower rate. The Government continue to work with the Combined Heat and Power Association and its members to assess the most appropriate level of relief. CHP can play an important role in supporting energy intensive sectors such as chemicals, steel and refining to improve energy efficiency and competitiveness.

We also intend to introduce a partial relief for fossil fuels used in carbon capture and storage plants at the earliest practical opportunity, following further discussions with the CCS sector on how to implement and administer the relief. At the Budget, the Government announced that the relief from carbon price support rates will be equivalent to the proportion of carbon dioxide that is captured, not emitted. That approach is consistent with the overall environmental rationale of the tax.

It has been mentioned that the policy is a subsidy to the nuclear industry, which is not the case. The price floor does not subsidise any specific technology, because it allows the market, not the Government, to decide the most cost-effective mix of generation. Any benefit arising to existing low-carbon infrastructure is a result of marginally higher costs for high-carbon generation feeding through to the wholesale electricity price. In other words, it is a result of changes to the market, rather than a subsidy or state aid. The points about the measure effectively bringing in revenue to the Treasury demonstrate that it is not a subsidy for nuclear.

The carbon price floor helps to rebalance economic incentives in the power sector away from high-carbon generation. All types of low-carbon technology, whether nuclear, renewable or any other, as well as efficient gas-fired electricity generation, will be incentivised by the price floor. Government policy is clear that there will be no public subsidy for new nuclear power.

The hon. Member for Bristol East expressed concerns about fuel poverty, which is something the Government take very seriously. She will be aware that Ofgem is carrying out some work to ensure that we have good competition in the energy industry, including looking at

the recent proposals that stem from the retail market review that Ofgem launched in November last year. We are taking a range of actions to increase people's control over, and to help them to reduce, their energy bills.

My hon. Friend the Member for Bristol West spoke eloquently about some of his experiences of buildings and homes that have been retrofitted to make them more energy efficient, and we are setting up the green deal to help consumers to make their homes more energy efficient. We are supporting the energy company obligation. We are working with companies to roll out smart meters, which will enable consumers to manage their energy use better. We are introducing the warm homes discount to provide cash rebates to about 2 million vulnerable households by 2014 or 2015. We are also taking action to improve the cost-effectiveness of policies that have an impact on fuel bills, including through the electricity market reform and by not taking forward the previous Government's proposal to fund renewable heat and carbon capture and storage through an additional levy on energy bills, which would have pushed up consumers' bills and worsened fuel poverty.

**Tom Blenkinsop:** An impact assessment on agriculture and food products would also be worth while, because the majority of cereals, which are used to feed animal stock but which go into other cereal products as well, require a lot of fertiliser. Fertiliser is a product of gas-intensive industries, which will be affected by carbon floor pricing.

**Justine Greening:** That is one reason why the measure and the policies that DECC is considering as part of the electricity market review are so important. We want to move to a low-carbon electricity generation mix over time; we know that if we do not, we will face higher energy bills in the long run. The hon. Gentleman sets out clearly why that would be so damaging to our economy, because those high energy bills would feed through, and we are trying to avoid that. Taking action now will mean that we can transition to a low-carbon mix of electricity generation and avoid those higher costs.

**Tom Blenkinsop:** One more point: will an assessment also be made of the water industry, which is one of the largest process industries in the country? It feeds into manufacturing, and it is a high user of electricity and gas in delivering clean water to UK citizens.

**Justine Greening:** I direct the hon. Gentleman's attention to the carbon price floor consultation that we published last December. It has a 28-page impact assessment, which he can leaf through and which considers the impact on businesses and households. In answer to the hon. Member for Bristol East, figures relating to the impact on fuel poverty can be found on page 23 of that document.

I want to address some of the concerns that were expressed about the impact on manufacturing, particularly on energy-intensive industries. The Government have looked at that incredibly closely. We absolutely do not want to export only emissions; we want this policy to work and succeed. We are starting to see more and more progress being made on recovering our manufacturing industry, which many people would say had been somewhat hollowed out under the previous Government. BMW has today announced £500 million of extra investment

[*Justine Greening*]

in its production network, which I hope all members of the Committee would welcome. Today, the Prime Minister himself is meeting the board of directors of the European Automobile Manufacturers Association in Downing street, which shows that we are serious about our intention to support businesses across the board. In particular, there is a huge opportunity for our country to rebuild the manufacturing base that was eroded so badly under the previous Government.

1.30 pm

**Alison McGovern** (Wirral South) (Lab): It is a pleasure to serve under your chairmanship this afternoon, Mr Gale. The Economic Secretary makes the case for manufacturing. As a talented Minister, does she agree that we are in an entirely different situation because of having a low pound, compared with the relatively high pound under the previous Government? What does she think of the purchase manufacturing index that fell sharply last month? It looked as if there were rocky roads ahead for manufacturing; perhaps it is not so rosy in the garden.

**Justine Greening:** It is a lot rosier in our garden than it would be if we were faced with a Government who had no economic policy whatsoever, and the potential threat of a downgrade to our credit rating status. That is what the country faced before the election. Instead, we have brought forward a range of policies across the board that support businesses. Rather than having corporation tax rise for large and small companies, we are cutting it year on year. In particular, we are targeting, providing for, and introducing measures to support energy intensive industries and manufacturing.

Let me run through some of the things that we are doing. As I have said, we reduced corporation tax, and an extra 1% reduction was announced in the March Budget. We also announced an increase in the discount on electricity for participants in the climate change agreement scheme, from 65% to 80%. That will be worth £50 million to those participants from April 2013. A consultation on options to simplify the scheme will be published by this summer. In addition, we responded to requests from industry concerning its uncertainty about the future of climate change agreements, and we have extended those agreements to 2023. We are not going ahead with the planned complex and costly carbon capture and storage levy. That would have weighed heavily on those companies about which Labour Members have raised concerns, and it would also have increased electricity bills by 2% from 2015.

We put a cap on the cost of policies funded through energy bills, which we know means a lot to businesses and consumers. More broadly, a range of policies in the plan for growth are intended to stimulate growth and support job creation, not only in the south-east and the financial sector—as we saw over the past 10 years—but across the whole country. A plan is already in place, but members of the Committee will also be pleased to hear and will welcome the announcement made by the Secretary of State for Energy and Climate Change on 17 May:

“We are working up a package of measures, to be announced by the end of the year, to help energy intensive industries adjust to the low-carbon industrial transformation while remaining competitive.”—[*Official Report*, 17 May 2011; Vol. 528, c. 176.]

We are tackling the issues raised by hon. Members.

**Tom Blenkinsop:** Will the Minister give way?

**Justine Greening:** I will give way one last time—that is the second time I have said that. Perhaps this really will be the last time.

**Tom Blenkinsop:** I thank the Minister. With all due respect, the Secretary of State for Energy and Climate Change said that we would watch what our European competitors are doing, and that when they shift their policy on carbon emissions, we will match it. There is no incentive for financial investment in manufacturing capital if we are watching, and then matching our competitors. Why do the Government not wait for a universal policy across the EU, rather than having a unilateral policy that makes us less competitive?

**Justine Greening:** Because we know that if we do not take action, our households and businesses will, in the longer term, face higher energy bills if we simply wait. Over the past 10 years, it has been a difficult issue for Government to grapple with. It was challenging for the previous Government, and I remember regular stories in the newspapers discussing the fact that we may face the lights going out.

Clearly, we need to renew our electricity generation capacity, but we need to do that in a way that is consistent with the need to move to a low-carbon economy. In fact, the carbon price floor will increase energy bills in the short to medium term, and that is clear in the impact statement. By 2020, however, gross domestic product will only be 0.1% lower than it would be without the price floor. In the long term, of course, bills will be lower than they otherwise would have been, because low carbon capacity leads to cheaper electricity.

**Ian Murray** (Edinburgh South) (Lab): I congratulate the Minister on being nominated as the Commons' best Minister in the Dod's parliamentary awards, and if she votes for the amendment, I am sure that she can count on 14 votes from this side of the Committee.

Will the Minister reflect on what she just said about the impact assessment stating that energy bills will go up in the short term and on whether that is desirable when household incomes are being squeezed considerably by the Government?

**Justine Greening:** One reason why I ran through the measures that we are taking was, first, to understand the Bill's impact on fuel poverty. The amendment is no doubt well-intentioned, but given some Opposition Members' questions about the kind of analysis that they wanted, those who had actually read the carbon price floor consultation could be forgiven for thinking that some Opposition Members had not read it. A huge amount of analysis—29 pages—covers a whole range of the policy's aspects and impacts. In fact, even Robert Peston commented on his BBC blog how transparent the consultation had been. Of course, we always believe whatever Robert Peston says, but even he acknowledged that we had worked hard to ensure that we were transparent about the policy's impact, so that we could understand what that would be.

The amendment calls for the publication of an impact assessment, which would delay the implementation of the measure. That would create uncertainty for investors, which is the exact opposite of what we need to achieve if we are to get the investment that we need in our low-carbon electricity capacity. Three impact assessments have now been published.

**Tom Blenkinsop:** Will the Minister give way?

**Justine Greening:** No, I will not, actually. The first one was published with the carbon price floor consultation back in December, and that was actually 28 pages long. I said that it was 29 pages. The final impact assessment, which is now called the tax impact and information note, was also published at the Budget and alongside a third assessment, which appeared in the Government's response to the consultation. The amendment is really not necessary, because the Government have already published detailed assessments of the impact of the policy.

The tax impact and information note sets out clearly the economic and fiscal impacts, including a cost-benefit analysis, and it also sets out that the policy would incentivise an estimated additional £30 billion to £40 billion of investment. We also set out the short and long-term impact on household electricity bills and the impact on business and the third sector, including those electricity and trade intensive sectors that may be most affected. We also did further analysis on the equalities impact and the operational impact for HMRC.

The Government were clear that, assuming full pass-through of the tax, average household electricity bills will increase by about 1% in 2013, by about 4% in 2016, and for businesses, by about 2% and 6% respectively. However, the additional investment that the policy will deliver will ultimately lead to lower bills. In the late 2020s, households and businesses will save between 2% and 5% more on their bills than would be the case without the policy.

We have a range of other policies to help mitigate the impact on households, including the green deal, which supports households to increase their energy efficiency. Extending the carbon emissions reduction target is expected to support energy efficiency measures in 3.5 million extra homes by 2012. To support businesses and growth, the Chancellor delivered a balanced Budget, which included an additional 1% reduction in the corporation tax rate and an increase in tax relief on electricity of 15% for energy intensive businesses. In addition, as part of the Government's commitment to tackling climate change through the fourth carbon budget, we will also announce a package of measures by the end of the year to help our energy intensive industry adjust to the low-carbon transformation. The Department for Business, Innovation and Skills and the Treasury are working on that issue collectively, across Government. We have already made a full assessment of the measure's impacts, so the amendment is not necessary. To coin a phrase, the policy does what it says on the tin.

Furthermore, I am advised by Revenue and Customs—*[Interruption.]* Members missed that joke, I am afraid. I am advised by Revenue and Customs that the amendment could undermine the anti-avoidance provisions that were included to prevent businesses from forestalling payment of the carbon price floor for several years. As

the price floor is designed to provide greater clarity for low-carbon investors, any amendment that undermines it would jeopardise the entire policy and objective of encouraging more low-carbon investment into the UK, when we need to replace our out-of-date energy infrastructure.

**Tom Blenkinsop:** Will the Minister give way?

**Justine Greening:** I will give way one last time.

**Tom Blenkinsop:** I thank the Minister for her generosity. Will she answer this simple question? How many gas central heating boiler systems in this country currently run off electricity that is generated by nuclear power?

**Justine Greening:** Anybody would find that question virtually impossible to answer, because they would need information about individual boilers, consumer consumption, and the mix of consumption that people are purchasing. Unless, for example—

**Stella Creasy:** So you do not know then?

**Justine Greening:** The hon. Lady may say that, but I challenge her to find that data, if she can. As a member of the Public Accounts Committee and perhaps with her superior intelligence, she may be able to do her own modelling and come back to the Committee. I await with interest the note that she will no doubt prepare, which will tell me how many boilers are powered by nuclear.

I can tell the hon. Lady that only one house on my street has its boiler powered by solar: it is, in fact, my house. I confirm that my personal transition to a low-carbon energy mix is saving me a lot of money. It is that kind of mix that we want to transform in the broader electricity generation capacity that we have in our country, so that we will all get the benefits of low-carbon electricity, which will ultimately have a lower cost than if we take no action.

I therefore urge the hon. Member for Scunthorpe to withdraw the amendment. The Government are clear; the price floor signals our move away from the more favourable treatment of high-carbon industry, which is clearly in line with our pledge to be the greenest Government ever. The price floor is designed to incentivise all types of low-carbon technologies, which include nuclear and renewables, as well as efficient, gas-fired electricity generation. The Government are clear in their commitment that a market-based approach to pricing carbon provides the most efficient and cost-effective policy framework to meet our environmental goals. That will minimise the cost to consumers, support growth, and ensure that we maintain a sound fiscal position, so I move that the clause should stand part of the Bill.

1.45 pm

**Nic Dakin:** I thank the Minister, who has done as able a job as ever in putting the Government's case but, as hon. Members have demonstrated, that does not alter the detrimental impact of the proposals: to the environment, as my hon. Friend the Member for Walthamstow pointed out; to manufacturing, as my hon. Friend the Member for Middlesbrough South and East Cleveland pointed

[Nic Dakin]

out; and to emissions and the consumer, as my hon. Friend the Member for Bristol East pointed out. A plethora of studies demonstrating the difficulties does not alter the fact that the difficulties are there.

Two central points have not been satisfactorily addressed by the Minister. First, what will happen to the windfall to the existing nuclear industry? Should the industry have a windfall through this process, or should the moneys be channelled to support manufacturing or to encourage growth in new technologies? What should be happening? The hon. Member for Bristol West is right that all such carbon taxes ought to be brought together into a simplified tax, but at the moment we are far from simplification as well as being in danger of not having a level playing field. Secondly therefore, will we have more severe carbon taxes in this country than in, in particular, the rest of Europe?

We do not know what is happening with the windfall, or with the level playing field. If there is not a level playing field, and we are not able to maximise the green advantage of the windfall, this is not the right thing to do. The amendment would give us the opportunity to look at the challenge of how we green the economy while growing it in a balanced way. I would like to press it to a vote.

*Question put, That the amendment be made.*

*The Committee divided: Ayes 14, Noes 18.*

#### Division No. 12]

#### AYES

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

#### NOES

Aldous, Peter	Lewis, Brandon
Barclay, Stephen	McCartney, Karl
Bradley, Karen	Parish, Neil
Crockart, Mike	Sharma, Alok
Gauke, Mr David	Shelbrooke, Alec
Goodwill, Mr Robert	Smith, Julian
Greening, Justine	Wharton, James
Harrington, Richard	Williams, Roger
Hoban, Mr Mark	Williams, Stephen

*Question accordingly negated.*

*Clause 77 ordered to stand part of the Bill.*

*Schedule 20 agreed to.*

*Clause 78 ordered to stand part of the Bill.*

**The Chair:** We now come to a situation that needs to be explained to the Committee. The Minister would have been welcome to do so if she had chosen to do it, but I shall do it for her. The Government have decided that clause 79 is otiose. I have to put the question to dispose of it, but understand that the Government would vote no if necessary. The Opposition, of course, would be entitled to vote as they wished.

*Clause 79 disagreed to.*

#### Clause 80

POWER TO SUSPEND EXEMPTION FOR SUPPLIES USED IN RECYCLING PROCESSES

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

**Kerry McCarthy:** I have a few questions about the process that led to clause 79—

**The Chair:** Order. We cannot go back to clause 79.

**Kerry McCarthy:** I do not want to talk about clause 79, Mr Gale. I promise that you will understand if I continue for a moment.

Clauses 79 and 80 are to do with the European Commission and state aid approval. The Government withdrew clause 79 because the Commission has granted permission for the exemption to continue, but that is not the case with clause 80, which is why the Government are not withdrawing it.

What difference is there between the processes for the two clauses, which resulted in delay but the eventual success of our request for state aid approval in respect of transport supplies under clause 79, and is the Minister continuing negotiations with the Commission on clause 80? If so, what stage have they reached?

**Justine Greening:** The shadow Minister has set out some of the background as to why clause 79 is redundant. As she said, in some respects it is linked to clause 80, and we are in a not dissimilar process with the EU. Our officials are engaged in a continuing dialogue with representative bodies of the sectors concerned, so that we can obtain and present data to support the case for approval. The stronger the economic data, the better. I shall briefly set out the sectors that will be affected by the clause, and why we need the power to suspend the exemption.

Clause 80 is similar to clause 79, but it applies to an exemption that benefits certain steel and aluminium recycling processes. State aid approval has not yet been received; as I said, officials are busy working with the sectors concerned to build a case that we can take the EU to get the exemption put back in place. In the meantime, the clause, supported by resolutions, will give the Treasury the power to suspend the metal recycling exemption and to reinstate it later through secondary legislation. The changes made by the clause will not have substantial economic impact, provided that the exemption is suspended for only a short time and reinstated with retrospective effect from 1 April, as we hope to be able to do.

The hon. Lady is clearly concerned about the impact of the provision, but we expect that fewer than 30 businesses will be affected. The industry appreciates the Government's legal position; we have been engaged with the Commission to secure re-approval since last summer. It has been a long and involved process, but we are working closely with the industry and the Commission to ensure that we secure state aid approval. We had hoped to achieve it prior to the expiry of the previous exemption, but that did not prove possible given the timelines to which the Commission is working. However, we remain hopeful that we will be able to give backdated approval soon.

To remain compliant with European law, we had to suspend the exemption on 1 April while we continued to seek state aid re-approval for the recycling exemption. The suspension will be revoked if and when the approval is received, which I hope will be soon. I hope that that answers the hon. Lady's question.

*Question put and agreed to.*

*Clause 80 accordingly ordered to stand part of the Bill.*

*Clauses 81 and 82 ordered to stand part of the Bill.*

*Schedule 21 agreed to.*

*Clause 83 ordered to stand part of the Bill.*

*Schedule 22 agreed to.*

#### Clause 84

##### INTERESTS IN COLLECTIVE INVESTMENT SCHEMES

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

**Kerry McCarthy:** I have a couple of quick comments to make. The Government's tax information and impact note and explanatory notes say that major reforms to the rules on stamp duty reserve tax for collective investment schemes were rejected after formal consultation in 2007, but the Government are now going ahead with minor changes after informal consultation since then.

The consultation embarked on in 2007 by the previous Government was very thorough. There were two separate consultations, one beginning in February and a follow-up in August. The conclusion was that there should be no major reforms of the legislation. Will the Minister provide more information about the informal consultation undertaken recently by the Treasury? Who was consulted and in what circumstances, and what was the scope of the consultation? As a result of responses received to that consultation, were any of the views set out in the original formal consultation of 2007 contradicted? What assessment has been made of the change in tax revenues resulting from the measure?

**The Financial Secretary to the Treasury (Mr Mark Hoban):** It is a pleasure to serve under your chairmanship, Mr Gale.

The hon. Member for Bristol East is right to point out that the previous Government undertook a consultation on whether schedule 19 should be abolished. We concluded, as did our predecessors, that there was a fiscal cost attached to abolition, which, in the circumstances we face, made it an unattractive option. We have been working with the investment management industry over the past year to identify measures with a relatively small fiscal cost, which will continue to make the UK a more attractive location for investment management activities.

The hon. Lady may be aware that there is a series of discussions taking place in Europe around the uses of directives, and there are industry changes going on, which, if we simply left schedule 19 as it was, would make the UK a less attractive place for investment management activities. Having gathered views from the investment management community—including the Investment Management Association, the major trade body in the area—and individual firms, we have sought to make the regime slightly more modern and responsive to those changes. In that context, the cost of the changes is relatively small. The changes will make it easier to

have fund-to-fund businesses here. We will lose 2% of the revenue raised under schedule 19, which is a relatively small amount, but they will ensure that London continues to be an attractive place for investment management firms to be based.

I hope that that reassures the hon. Lady on the cost of the measure. We have engaged in informal but thorough consultation with the investment management industry and its representatives.

*Question put and agreed to.*

*Clause 84 accordingly ordered to stand part of the Bill.*

2 pm

#### Clause 85

##### SECURITY FOR PAYMENT OF PAYE

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

**Mr David Hanson (Delyn) (Lab):** I have a few questions on the clause. The Minister has indicated that he intends to introduce regulations to bring the measure into effect on 6 April 2012. Will he indicate when he intends to do so? In terms of parliamentary procedure, will they be negative or positive? I think the Minister would also welcome the opportunity to comment on the concerns that have been expressed about the width of the provision once again. I would welcome clarification about who in HMRC has responsibility ultimately for issuing demands for security and how any right of appeal against that demand would be forthcoming. If the Minister can give some pointers on those issues it would be very helpful.

**The Exchequer Secretary to the Treasury (Mr David Gauke):** The clause provides HMRC with the power to require a security from employers where there is a serious risk that they will not meet their PAYE obligations. It also creates a criminal offence of not providing a security when one has been required. It might be worth setting out a little bit of background before responding to the questions raised by the right hon. Gentleman.

Obtaining a security from creditors is a normal feature of business. HMRC can already require businesses to provide such a security where it believes VAT or other indirect taxes are at risk. For example, a security is frequently sought in the case of phoenix traders who repeatedly disappear before settling their tax liabilities, only to reappear under a different name. As the same risk applies to PAYE and NICs, it is right to take this action and to protect the Exchequer.

The Government are clearly committed to making sure that everyone pays their fair share. This activity performed by a small minority of employers damages the ability of the tax system to deliver its objectives, imposes additional costs on all taxpayers and undermines the tax system. This power is restricted by regulations to the seriously non-compliant. These are employers who are determined not to pay, those involved in "phoenixism" or contrived liquidations, and those who build up significant PAYE and NICs debt with little or no response to contact by HMRC. The changes made by the clause will ensure that HMRC secures these PAYE and NIC debts. While it is estimated that £5 million additional yield

[Mr David Gauke]

would be gained from using PAYE security, simply having the power is expected to protect in the region of £150 million per year.

A consultation document, with draft regulations, was published in December last year. HMRC held six meetings with representative bodies who were generally supportive of this measure and the criminal sanction attached to this power. It felt that the sanction was needed to target the seriously non-compliant segment of taxpayers who would not pay their PAYE. The Chartered Institute of Taxation said:

“HMRC should come down hard on those employers who deliberately refuse to pay over PAYE and NICs that is properly due and in breach of their obligations as an employer.”

The draft regulations exclude employers who employ personal employees, and those who are care and support employers. These safeguards were welcomed. To ensure that the power remained strictly focused on the seriously non-compliant, HMRC was asked to take all reasonable steps to ensure that taxpayers were aware of time-to-pay arrangements. The Government made it clear at the Budget that time-to-pay arrangements would continue to be available to help taxpayers who genuinely and temporarily could not pay their tax bills, and further changes have been made to the regulations to provide that protection.

There was some concern that HMRC might automate the security process and thereby go beyond the seriously non-compliant. This does not occur for VAT securities, which are given case-by-case consideration, and this will continue for PAYE. I hope that this reassures Members that the vast majority of employers will be unaffected by this measure and addresses the concern expressed by the right hon. Member for Delyn about the width of the measures. Only a small number of employers who have been passing their tax liabilities on to the taxpaying population will be negatively affected. HMRC will also expose draft guidance for consultation in good time before the power comes in.

The right hon. Gentleman asked about the regulations. They will be introduced in early 2012, and will be subject to the negative procedure. He asked which authorised officers or commissioners would be responsible for issuing securities. Implementation of PAYE and NIC security will follow the current VAT process, which ensures that authorisations to request the security are made at least at higher officer level. He also asked about the right of appeal. A wide right of appeal against the requirement is included in the regulations.

The measure will meet the Government’s objective to come down hard on those who do not meet their tax obligations at the expense of those who do.

*Question put and agreed to.*

*Clause 85 accordingly ordered to stand part of the Bill.*

*Clause 86 ordered to stand part of the Bill.*

### Schedule 23

#### DATA-GATHERING POWERS

*Question proposed.* That the schedule be the Twenty-third schedule to the Bill.

**Mr Hanson:** I have a brief question on the schedule. The Minister will know that in paragraph 4(3)(a) on page 355 of the Bill, the word “reasonably” is used in relation to the specified notice for such time. I am sure that the Minister is across the detail of that. What does he define as reasonable? A 90-day time limit is currently in place, but it is being removed and replaced with a time

“reasonably specified in the notice”.

Does he expect the limit to be maintained at 90 days, or will “reasonably specified” mean fewer or more than 90 days? If so, “reasonably” seems to give a lot of discretion to HMRC, and I would welcome clarification of what the Minister defines as reasonable.

**Mr Gauke:** I have sat on a few Finance Bill Committees, and the definition of “reasonable” comes up from time to time. Before I respond specifically to the right hon. Gentleman’s question, may I briefly set out—

**Mr Hoban:** Only reasonably briefly.

**Mr Gauke:** Absolutely. I will reasonably briefly set out what schedule 23 is about: modernising existing powers covering data gathering. There are five specific changes, but to save time I will not go into all the details. The minimum time to comply has not been specified but, as the right hon. Member for Delyn says, the schedule allows a period that is

“reasonably specified in the notice”.

Few of the existing powers contain time limits, and HMRC already acts responsibly in allowing an appropriate period in each case. Typically, that is 90 days, and there is no intention to change standard practices. Many notices are issued routinely every year, so data holders assemble the data knowing that the information will be required at the appropriate time, but in exceptional circumstances in which information is urgently required, it is considered reasonable to allow a shorter period, and the legislation allows for that. It mirrors the approach in schedule 36 to the Finance Act 2008. Perhaps I should have checked to see whether I asked the same question during the proceedings on the 2008 Bill from where the right hon. Gentleman is sitting.

It is worth pointing out that if it is considered unduly onerous to comply within the full time limit, and unless the data form part of the person’s statutory records, there is a new right of appeal.

*Question put and agreed to.*

*Schedule 23 accordingly agreed to.*

*Schedule 24 agreed to.*

*Clause 87 ordered to stand part of the Bill.*

*Schedule 25 agreed to.*

*Clauses 88 to 91 ordered to stand part of the Bill.*

*Schedule 26 agreed to.*

### New Clause 4

#### FOREIGN PENSIONS OF UK RESIDENTS

(1) In Part 2 of TIOPA 2010 (double taxation relief), in Chapter 3 (miscellaneous provisions), after section 130 insert—

“130A Interpreting provision about UK taxation of pensions etc

(1) Subsection (3) applies if double taxation arrangements make the provision, however expressed, mentioned in subsection (2).

(2) The provision is that pensions and other similar remuneration which—

- (a) arise outside the United Kingdom, and
- (b) are paid to persons who are resident in the United Kingdom,

are not to be subject to United Kingdom tax.

(3) That provision does not prevent a pension or other similar remuneration of a person resident in the United Kingdom being chargeable to income tax if—

- (a) the pension or other similar remuneration is paid out of sums or assets that were the subject of a relevant transfer or related sums or assets, and
- (b) the relevant transfer or any transaction forming part of that transfer was, or formed part of, a tax avoidance scheme.

(4) But nothing in subsection (3) prevents credit being allowed under Chapter 2 of this Part (double taxation relief by way of credit) against any tax so charged.

(5) In determining whether a pension or other similar remuneration is paid out of sums or assets within subsection (3)(a), it is to be assumed that it is paid out of such sums or assets in priority to any other sums or assets.

(6) A “relevant transfer”, in respect of any sums or assets, is a transaction or series of transactions as a result of which—

- (a) the sums or assets are transferred out of a pension scheme, and
- (b) the sums or assets or related sums or assets (or both) are transferred into the pension scheme under which the pension or other similar remuneration is paid.

(7) A scheme is a “tax avoidance scheme” if the main purpose, or one of the main purposes, of any party to the scheme in entering into the scheme is to secure an income tax advantage for any person under this Part by virtue of provision mentioned in subsection (2) made by double taxation arrangements.

(8) For the purposes of subsection (7)—

- (a) “scheme” includes any scheme, arrangements or understanding of any kind whatever, whether or not legally enforceable, involving a single transaction or two or more transactions,
- (b) it does not matter whether or not the double taxation arrangements were in existence at the time the tax avoidance scheme was entered into or given effect to, and
- (c) “income tax advantage” is to be construed in accordance with section 572A(3) to (5) of ITA 2007.

(9) In this section—

“pension” and “other similar remuneration” have the same meaning as in the Model Tax Convention on Income and on Capital published (from time to time) by the Organisation for Economic Cooperation and Development;

“pension scheme” has the same meaning as in Part 4 of FA 2004 (see section 150 of that Act);

“related sums or assets”, in relation to other sums or assets (“the original sums or assets”), means sums or assets which arise, or (directly or indirectly) derive, from the original sums or assets or from sums or assets which so arise or derive.”

(2) The amendment made by this section has effect in relation to the tax year 2011-12 and subsequent tax years (and it does not matter whether the tax avoidance scheme was entered into or effected before, or on or after, 6 April 2011).—(*Mr Gauke.*)

*Brought up, and read the First time.*

**Mr Gauke:** I beg to move, That the clause be read a Second time.

New clause 4 prevents UK residents with foreign pensions from taking unfair advantage of the UK’s tax treaties, and follows an announcement I made on 6 April to take effect from that date. The new clause was published in draft on 24 May. Responses confirmed our view that the new clause achieved the desired outcome in preventing avoidance. The clause ensures that a UK resident cannot take advantage of the provisions of one of the UK’s tax treaties to avoid UK tax on a foreign pension or lump sum payment. It applies where pension savings are transferred to a pension scheme established in another country and that country has a tax treaty with the UK that provides for a pension or lump sum to be taxed exclusively where it arises.

Where a particular country would not tax a pension or lump sum paid to a UK resident, any UK resident with pension savings would have been able to make arrangements to receive their pension or lump sum entirely tax free from that country. The new clause prevents that sort of tax avoidance. However, we do not intend to tax the pensions of those who are not trying to avoid UK tax, so the clause is carefully targeted. It will apply only where pension savings have been transferred and one of the main purposes of making these arrangements is to secure an income tax advantage. If any tax is payable in the other country on the foreign pension or lump sum, the clause makes explicit provision for tax credit relief to be allowed in the UK in respect of any tax paid.

This is a straightforward anti-avoidance measure that will protect tens of millions of pounds. On the day that the statement was made, Paul Garwood of Smith & Williamson said that the measure was “unusual but clearly justified,” while Louise Somerset of RBC Wealth Management said it was “reasonable.” We are taking action to protect the Exchequer and the vast majority of taxpayers from those who undertake deliberate and artificial efforts to avoid tax.

**Mr Hanson:** I shall make a couple of small points about the new clause. In general, I support its objectives. The language is widely drawn and it will catch a lot of arrangements. It will catch what it is intended to catch—the international pension plans—and therefore it serves its purpose.

My only point to the Minister is that we spend a lot of time in Committee Rooms adjacent to this one dealing with double taxation agreements across various countries. I want to get an understanding from him about the relationship between individual double taxation agreements and this clause, which deals with international pension plans. In effect, we could be seen to be overriding treaties with this domestic legislation because the language in a treaty creates what is seen as a tax avoidance opportunity. If that is the case, how does the measure sit with our other responsibilities on double taxation agreements, because the UK is and should be a trusted party in tax agreements? I am unclear about where the measure fits in, given the detailed discussions we have had and will have next week on many other items, including on further double taxation agreements.

**Mr Gauke:** The right hon. Gentleman asks a perfectly fair question about whether we are seeking to override tax treaties that have been agreed with other parties. It is generally accepted by treaty partners that domestic legislation may be used to counter abuse of the provisions

[Mr Gauke]

of a tax treaty. The new clause clearly addresses an abuse. I do not think we will be fairly criticised for undermining in any way the treaty obligations that we have entered into. He was right to raise the question, but as I say, because the measure tackles an abuse, it will be widely accepted, just as we would accept it if one of our treaty counterparties had to deal with a similar issue to prevent tax avoidance in their jurisdiction. The measure will not undermine the UK's reputation as a country with which many jurisdictions want to enter into double taxation treaties.

*Question put and agreed to.*

*New clause 4 accordingly read a Second time, and added to the Bill.*

2.15 pm

### New Clause 2

#### VAT AND CHARITABLE HEALTHCARE PROVIDERS

“The Treasury shall, within one year of the passing of this Act, lay a report before Parliament on the treatment for Value Added Tax of supplies by charities to bodies exercising functions on behalf of a Minister of the Crown of healthcare or welfare services or associated goods’.—(Nic Dakin.)

*Brought up, and read the First time.*

**Nic Dakin:** I beg to move, That the clause be read a Second time.

I am sure that the Exchequer Secretary will be pleased that I have tabled new clause 2, because it gives him the opportunity to update us on his adumbrations on this and other issues. He will also be pleased that I do not intend to press the new clause, but it is an opportunity for me to raise the issue again.

This week began with *The Guardian* reporting research that shows the number of registered charities in the UK falling by 1,600 in the past year, and shows that 25% of charities report a fall in income. That is before the impact of any local authority cuts to their funding for the coming year.

At the same time, the Government are keen to encourage and support the voluntary and community sector in taking over services traditionally delivered by the public sector. The Prime Minister has only recently re-engaged with his big society concept. It is in that context that I move that new clause 2 be read a Second time.

We have already heard that clause 75 will adjust VAT arrangements to allow academies to enjoy the same VAT regime enjoyed by mainstream schools. Interventions by the hon. Members for Brecon and Radnorshire and for North East Cambridgeshire gave the Committee an opportunity to explore the issue in greater detail. Similar adjustments ought to be possible in a health context.

If, for example, a charity such as Sue Ryder or Lindsey Lodge hospice, which serves my constituency, takes over the delivery of end-of-life care previously delivered by the NHS, it cannot reclaim VAT on non-business supplies, as the NHS could under the former delivery model. Such a transfer essentially creates a VAT gap that has to be filled by charitable funds. It also provides a premium to the Treasury, which is an unintended consequence of the change in policy.

Sue Ryder has provided some information about its experience:

“It is our belief that the government's public service reform, NHS reform and Big Society agendas are likely to result in charities delivering a greater volume of public services. Hospices are keen to take on these new responsibilities. A recent transfer of an NHS hospice to Sue Ryder under the Transforming Community Services initiative has sparked interest in the viability of charities taking on other NHS hospices and services. We believe there should be a level playing field in VAT between charities and the NHS so that all possible funds can go towards the delivery of the care. Our rough estimate suggests that for every £10m spent by PCTs/NHS on outsourcing hospices to the third sector, the additional cost burden to the sector will be in the region of £400,000.

With this money, Sue Ryder could provide 40,000 hours of care, or 25,000 bereavement sessions for family members who have lost a loved one.”

I do not think that the Government intend to take away those 40,000 hours of care or those 25,000 bereavement sessions from people in a locality at a time of transfer. I think it is an unintended consequence of the way in which current policy affects the transfer process and delivery model.

As its name suggests, Help the Hospices is trying to be helpful. Not only does it help hospices, it has considered the issue overall and how the Government and the Treasury might look to level the playing field. It has said:

“It is, of course, unrealistic to ask the Treasury to write a blank cheque, but it is realistic to look at these issues with some urgency, recognising hospices' role in public service delivery and the recent rise in VAT, and to address these discrepancies to level the playing field for these important providers of care.

A legislative solution to the problem is the only fair and sustainable way of making a change. We recommend the Treasury should look at their policy around charitable VAT recovery and consider allowing all hospices the right to the same VAT recovery as the NHS. Understandably it may be necessary to factor in the VAT reliefs received by charities on medical equipment and supplies to ensure that we create a truly level playing field and not one where hospices are at an advantage to the NHS. This would enable hospices to best use public funds to deliver more high quality, innovative and cost-effective public services.”

I, too, recognise that the Treasury does not have blank cheques to write, but in cases of future transfer, there ought to be a way of ensuring that the approach applied to VAT for non-business supplies under an NHS delivery model also applies under a charitable delivery model.

Let me say publicly how much I appreciate the way in which the Exchequer Secretary has engaged with this subject in a thoughtful and careful way whenever it has been raised by hon. Members and members of the public. He listened attentively to my ten-minute rule Bill in the House, in which I was supported by Conservative, Liberal Democrat, Labour and Ulster Unionist MPs. Together with myself and the hon. Member for Leeds North West (Greg Mulholland), the Exchequer Secretary also received representations from Sue Ryder, and he committed his officials to do more work on the matter. He has always appeared sympathetic to the issues raised, and understanding of the complexities surrounding the technical points. I hope that his strength of purpose wins the day over the technical issues. He responded in a generally positive way to the Adjournment debate that was secured by the hon. Member for Colchester (Bob Russell), and stated:

“We all recognise and respect the value of the hospice movement, and we all recognise the opportunities and benefits of a greater diversity of supply of services. We agree that it would be most

unfortunate if the workings of the VAT system were to get in the way of sensible progress.”—[*Official Report*, 10 May 2011; Vol. 527, c. 1144.]

My reason for raising the issue today, and my purpose in speaking to the new clause, is to see whether we are managing to make progress on this sensible provision. I hope that we are.

**Kerry McCarthy:** I commend my hon. Friend on his contribution to the Committee today and on his previous work. I know that he has had discussions with the Minister and secured a ten-minute rule Bill, and he does valuable work to ensure that this issue registers on people’s radar. I, too, have met with representatives from Sue Ryder. They outlined to me the worrying impact of the additional £140 million that the charitable sector would pay as a result of the Government’s decision to increase the standard rate of VAT. They also raised the issue of items that are not VAT-recoverable for charities although they are for public sector organisations such as the NHS.

With the Government’s big society agenda, and the reorganisation of the NHS with the emphasis on competition and alternative service providers, is a much greater role envisaged for charities in health care? Sue Ryder has reported that the transfer of NHS hospices to charitable status under the transforming community services initiative, has sparked interest in more charities taking over NHS services. However, as we discussed under clause 41, charities have made it clear that the transition fund was not sufficient to help them adapt to the Government’s public spending cuts while simultaneously responding to the increased demand for their services. Given a combination of such factors—the NHS struggling with significant budget cuts and being more dependent on the charitable sector—it seems sensible to keep under review their impact, in particular that of the higher VAT rate on charities, and the burden placed on limited finances.

In Bristol, St Peter’s hospice has made immeasurable difference to many of my constituents, but its staff, volunteers and supporters have had to make difficult decisions about their services and ever-increasing fund-raising efforts. Last year, it cared for more than 2,000 patients and supported more than 6,000 family members, costing it an estimated £6 million, with only 25% covered by the NHS. That is slightly lower than the national average, which is 34% of hospice funding from government sources. More than other hospices therefore, St Peter’s depends on what is raised through donations and its charity shop—the generosity of people in Bristol.

As my hon. Friend the Member for Scunthorpe mentioned, the hospice movement—in particular, through Help for Hospices—has argued for a level playing field in VAT between charities and the NHS, to ensure that donors know that all their funds go towards care services. Clearly, moving more towards charitable providers and away from the NHS will save the state money, at the expense of the big society and because charities are having to pick up the tab. As my hon. Friend mentioned, Sue Ryder estimates that, for every £10 million spent by primary care trusts and the NHS in outsourcing hospices to the third sector, the additional cost burden to the sector will be approximately £400,000 which, as he said, is the equivalent of the cost of 40,000 hours of care.

Can the Minister tell us whether the Treasury has had any discussions with the Department of Health about the VAT implications for different service providers and preferred contracts? Obviously, there is a balance to be struck between protecting the Treasury’s revenue and a charity’s limited budget, but surely the Exchequer Secretary agrees that expecting charities to pick up the tab when stepping into the shoes of NHS providers would be unfair. In May, the Exchequer Secretary told the House that, having met with my hon. Friend the Member for Scunthorpe and people working in the hospice sector, his officials were exploring possible options to resolve this. I understand that Sue Ryder has offered a number of cost-neutral solutions to the Treasury. Can he update the Committee on the Treasury’s dialogue with the hospices and tell us what options are under active consideration?

**Mr Gauke:** First, I congratulate the hon. Member for Scunthorpe on securing this debate—it feels somewhat like an Adjournment debate—or, rather, on raising the issue under new clause 2, as well as in a ten-minute rule Bill and by participating in Adjournment debates. As he said, we met, along with my hon. Friend the Member for Leeds North West (Greg Mulholland) and representatives of Sue Ryder, to discuss the matter.

I also thank the hon. Member for Scunthorpe for his kind words on my role. I want to start by reiterating that the Government appreciate the value and contribution of charities to a wide spectrum of society. We are well aware of the concerns in the charity sector and among a large number of hon. Members in all parts of the House about the potential for the VAT system to act as a barrier to public sector reform. We take such concerns seriously, and have committed to maintaining the dialogue with the charity sector, so that we can explore any viable options.

It might be helpful to remind hon. Members of the current position with regard to VAT and the constraints under which we act. VAT is a broad-based tax levied on final consumption; it is charged by registered businesses on their supplies and can be recovered if the purchase is destined for use in the making of supplies that carry VAT. In that respect, if in business, charities are no different from others. They can and do reclaim VAT when it relates to purchases used to make taxable business supplies, but they are unable to recover VAT on purchases used to make exempt supplies.

Charities already benefit from a number of VAT zero rates and exemptions. The Government recognise how valuable those reliefs are to the charity sector, and we are committed to retaining them. The existing VAT zero rates for charities provide them with a benefit of about £200 million each year, while our total reliefs for charities—including gift aid—are worth more than £3 billion a year. Budget 2011 announced the most radical and generous reforms to charitable giving for 20 years, including changes to inheritance tax and gift aid, and 100,000 charities will benefit from those to the tune of £600 million.

2.30 pm

We need to look at the system to ensure that VAT does not act as a barrier to the reform of public services, as I have said. Concerns have been expressed about the impact of irrecoverable VAT on charities when they take over certain services, for example from the NHS,

and how that can be mitigated. One idea is a refund system, or arrangements similar to those that apply to the NHS. The NHS is able to recover the portion of its VAT costs that relate directly to outsourced services that are used in the provision of free health care, such as cleaning, laundry, catering and estate management. That ability to reclaim some VAT costs is taken into account as part of the overall funding arrangements for the NHS. Refunds do not extend to VAT paid on goods and services that are purchased to support VAT-exempt business activities, such as private health care. The scheme is not part of the VAT system itself, but it is a public spending measure. The VAT refunds that are paid are funding equivalent to the VAT that is incurred, and they are a matter of Government expenditure rather than taxation.

In principle, it would be possible to introduce a measure to deliver refunds of VAT to charities in respect of their non-business activities, but any refund scheme would need to be fair, targeted and affordable within agreed funding agreements. Any solution would be constrained by the obligations that are placed on the Government to ensure that the VAT system is fiscally neutral and does not distort competition. We would need to continue to apply the mandatory exemptions, such as those that relate to health care, with the associated restriction on input tax recovery. A further difficulty means that it would not be possible to refund VAT that is incurred on activities where charities are in direct competition with private sector organisations, such as in the supply of care and welfare services, because that would represent an unfair distortion of competition.

I trust that hon. Members will understand that the position is complex. The Government recognise and understand all the issues that have been raised by the charity sector, and we have already given a commitment to review the problems that are faced by certain charities when they undertake to deliver public services that were previously provided by a public body. That was also recognised in the spending review when we announced a transition fund that makes £100 million available to charities, voluntary organisations and social enterprises that are delivering front-line services and that are affected by reductions in public spending.

On the question of VAT, my officials are already working with representatives from the charity sector to explore the matter, taking into account the legal limitations and the potential complexity of any possible solutions. Since my meeting with the hon. Member for Scunthorpe and Sue Ryder, officials have met representatives from Sue Ryder and its advisers. They have presented some proposals, which have been discussed. At the moment, officials are waiting for further representations from Sue Ryder and its advisers to take the options further. At this point, I do not think that it would be appropriate for me to try to set out all the details in this rather complex area, but I assure the hon. Member for Scunthorpe, and the Committee, that we are looking at a number of detailed proposals.

**Kerry McCarthy:** Does the Minister think that he will be in a position to bring forward something on Report? I accept that that is only a couple of weeks away, but might it be possible to amend the Bill at that stage to reflect the discussions that have taken place with Sue Ryder?

**Mr Gauke:** To be honest, I do not think that that timetable is realistic. Any change in this area would need to be properly consulted on and explored to avoid any unintended consequences, because this is a complex area. Let me assure the Committee that the Government remain sympathetic to some of the concerns that have been raised. We want to ensure that VAT does not become a barrier to the type of public sector reform that we all want. We do not want VAT to get in the way of the work of charities. We heard in particular about hospices and we all recognise the valuable role that they can play. I appreciate that the hon. Member for Scunthorpe tabled the new clause to probe the Government. He said that he would not press it, but the Committee is grateful to him for giving us an opportunity to explore this issue once again. I hope that he will take some comfort from my assurances that officials are continuing to engage in this matter. I hope that this is something that will be ultimately productive.

**Nic Dakin:** In the week before carers' week it is worth quoting Emily Holzhausen, the policy director of Carers UK who said:

"The big society doesn't come for free."

To be fair to the Minister, he fully recognised that in the response to the debate. I welcome his continued commitment to an ongoing dialogue between officials and the charitable organisations on this issue. I welcome his clear statement that VAT should not be a barrier to development in this area. I was pleased to hear his update on the ongoing discussions between his officials and the representatives from Sue Ryder and the charitable sector of hospices. I accept his greater understanding of these issues; it appears that it is very complex, but there appears to be, to use a pun from earlier this afternoon, some steel in his intention in this respect. I welcome that. I beg to ask leave to withdraw the motion.

*Clause, by leave, withdrawn.*

### New Clause 3

#### REVIEW OF THE BANK LEVY

'(1) The Government shall lay before Parliament a review of the bank levy which will consider whether the levy should be applied to groups judged by the Financial Services Authority (or its successor body) to have engaged in high cost credit lending which is detrimental to consumers. This review shall consider the following matters—

- (a) the impact such an application could have on the provision of high cost credit to consumers;
- (b) the timetable for imposition of the banking levy to prevent further consumer detriment in the provision of high cost credit;
- (c) the consequences of a failure by Government to intervene in the high cost credit market for UK consumers; and
- (d) at what level the levy should be set at for such bodies so as to discourage lending in a manner which is detrimental to consumers.'—(*Stella Creasy.*)

*Brought up, and read the First time.*

**Stella Creasy:** I beg to move, That the clause be read a Second time.

It is a pleasure to serve under your chairmanship this afternoon, Mr Gale. The new clause opens a debate that I hope we will have with the Treasury throughout the passage of the Bill. It offers an opportunity to look at a

number of issues that are of concern to many people in Parliament. I tabled the new clause because, as we discussed earlier, the Bill opens up a range of policy concerns around the use of taxation to tackle social and economic problems. I am particularly concerned about problem lending and the way in which it encourages debt in the UK.

First, I want to set out what that problem is and to describe an aspect of a particular type of lending that is very problematic, the behaviours that are of concern and how this new clause offers the opportunity to have a first debate about it before looking at a more formal proposal on Report. Many people will be well aware of my long-standing concern about personal debt in the UK and my particular worry that one of the strategies that the Government are using to deal with the deficit is to take national debt and put it on to individual households.

We in the UK have always had a different attitude to debt from that of our European neighbours. We are culturally much more comfortable with borrowing and holding debt. However, increasing numbers of people are finding that using debt to run their family finances is unmanageable. We have one of the highest levels of personal debt in the world. In the last year, people in Britain owed more than £1.4 trillion in private debt alone. That is not necessarily a problem if it is debt that can be managed, but I am worried about the concept of unmanageable debt.

The number of people who are finding their debts unmanageable is increasing. There is a division between those who may be getting into debt in response to the current economic conditions but will be able to manage their debt in the next couple of years and those whose response to their debt creates long-term problems for them and future generations. That is particularly what I want to discuss. One reason why people are facing problems with the options that they have to manage debts is that mainstream banks are not lending not only to small businesses but also to households and individuals. Mainstream credit is essentially drying up for thousands of people across the country. That means that they are more and more dependent on other forms of unsecured lending and, in particular, what I call the high-cost credit market.

That industry has certainly benefited greatly in the past year from the economic conditions that we face and some of the choices that the Government have made. In Business, Innovation and Skills questions today, we saw that it is the one topic that the Government do not want to discuss at all. The Ministers in the Department for Business, Innovation and Skills feel comfortable about misleading the House about their willingness to discuss the issue. I am hoping that the Ministers in the Treasury will take a different view, but I note that they are yet to respond to my letter of 28 April. I hope that that is simply because there has been so much correspondence and that the response is on its way to me.

**Mr Hoban:** Will the Minister give way?

**Stella Creasy:** Absolutely.

**Mr Hoban:** I am sorry, I meant, “Will the hon. Lady give way?” She may be good, but she is not that good.

My first point is that the hon. Lady, in a reference to Business, Innovation and Skills questions earlier, suggested that hon. Members were misleading the House. I will not do the Chair’s job for him.

My second point is that my office has been in contact with hers to invite her for a meeting, and she is yet to reply.

**Stella Creasy rose—**

**The Chair:** Order. Just to clarify the situation, hon. Members do not mislead the House. There is a fine line between identifying a person and making an accusation of misleading about a group of people, which is a slightly greyer area. That is why I did not intervene, but the point did not go unnoticed.

**Stella Creasy:** Perhaps it would help if I clarified what I meant. There was a discussion in the House earlier about whether evidence had been requested from my office. That is not a request that my office has received. I am pleased to hear that the Treasury Ministers will now meet me in the way that their colleagues in the Department for Business, Innovation and Skills have said that they will not, because I really want to take the debate forward. To date, my office has not made me aware of the Minister’s request—we were talking about it just before I came in—but I am pleased to hear it, and let me put it on record that I am pleased to see that one part of the Government is taking the issue seriously, even if another does not.

I want to talk to the Minister about the high-cost credit industry, the way that it is growing and the consequences for the way in which debt is held in our society, which is unmanageable for communities. We know from a freedom of information request that the Government were aware in November last year of the rapid growth in the high-cost credit industry over the past 18 months. It has grown by nearly a third to become a £2 billion industry in the UK. When I speak of high-cost credit, I am referring to several types of credit. First, and perhaps most famously, there are the pay-day lenders and the cheque-cashing industry, which offer to lend money for short periods of time at high rates of interest. Those are the Wongas, the QuickQuids and The Money Shops of this world.

Secondly, there are hire-purchase agreements, which have interest rates and mark-up rates are put into them. Companies such as BrightHouse, for example, will put a mark-up on white goods such as computers or washing machines—other companies will sell cars with a mark-up—and then they will charge interest on the amounts that are paid back each week, so that the cost far exceeds the initial price of an item.

Thirdly, there is doorstep lending, where lenders go to people’s homes offering money. Many people have such companies in their constituencies now and know the rates that they will charge for that service.

Fourthly, there are pawnbrokers, which have been with us in this country for centuries, but it is the same principle. A company will offer to lend money at exceptionally high rates of interest in exchange for property deposited as security.

I contend that the way that the market is growing and affecting people in the UK is not least because of a lack of regulation and of attempts to try to understand

[Stella Creasy]

the impact of how such companies operate, which is entirely legal in the UK, and what that means for consumers.

**Ian Murray:** I am delighted that my hon. Friend has given way, because one reason why pay-day loan companies are acting aggressively in this country is that they are curtailed elsewhere. I believe that 14 countries in Europe, as well as 35 states in America, curtail the interest payable on such loans. Those regulations elsewhere have caused their market share to be driven up in the UK, because it is a prime market for them to be in.

2.45 pm

**Stella Creasy:** My hon. Friend is right, and those companies have said that that is precisely why they are targeting the UK. Dollar Financial is an American company—it will be better known to people in the UK as The Money Shop—that has said that the lack of regulation is what brings it here. In 1992, it had just one store in the UK, but by 2009 there were 273, and it has announced plans for a further 800 this year in the UK alone. I am sure that many Members have that company on their high streets now. In Walthamstow, there is not only The Money Shop; I have Oakam, BrightHouse and a range of companies. They have grown very quickly in my area alone, and I am sure that that is true in others.

**Ian Mearns (Gateshead) (Lab):** Certainly, these companies are targeting places such as Gateshead for the expansion of their services. Areas that have low family income but high personal debt are ones in which such companies make their return. They also advertise on television, during daytime TV, or into the evening. Frankly, the small print on their adverts is eye-popping—interest rates of 1,700%, 2,500% or even 4,000% are being charged by pay-day lenders. Doing nothing on this matter would be a massive abdication of responsibility.

**Stella Creasy:** I thank my hon. Friend for his intervention, and for revealing himself to be a viewer of “The Jeremy Kyle Show”. He also shares a common concern that many people have raised with me about this matter, which is that when they see the interest rates—

**Ian Mearns:** I admire my hon. Friend greatly, but will she please withdraw that assertion?

**Stella Creasy:** I withdraw my remarks entirely. I believe that it was “Cash in the Attic”. When people see the adverts for these companies and their products, they often express surprise and disbelief, thinking that they have misread where the decimal point might be, which is an issue that my hon. Friend and I agree on.

We are seeing an explosion in the number of people using such companies, and 5% of the population in the UK have taken out a pay-day loan in the past year, which means 2 million people have used such products. The number of people who say that they are struggling to make it to pay day has increased to 46% of the British population. They say that they cannot make the money that they get each month meet their expenditure. Of that 46%, 10% say that the reason they are struggling is that they have taken out a high-cost credit product. I

want to address that problem with the new clause and in the debate by pushing the Government to take action on this market. In and of themselves, such products are creating debt problems for people who are already struggling at the margins of their financial future.

**Neil Parish (Tiverton and Honiton) (Con):** I want to tell the hon. Lady that I am inclined to agree with her. The previous Government failed to do anything about the issue, but it is right for this Government to look at it. If someone is charging several thousand per cent. interest because the security risk is so great, such people should not be given the money, because it puts them in a worse situation. These loan sharks are going around estates where people have huge problems—in my constituency, too. It is something that we must look at seriously, because the interest rates that are being charged are enormous, which is totally unfair.

**Stella Creasy:** I thank the hon. Gentleman for his intervention, and I agree with him on a lot of things. One point that I want to make is that this is a relatively recent explosion in the market. The previous Government should be commended for work that they did on illegal loan sharking. Let us be clear: we all agree that illegal loan sharking also needs perpetual action. When people struggle financially, illegal loan sharks act. One challenge, however, is that such companies are working entirely within the law, which is why it is right for us, as parliamentarians, to ask what we can do through the law to challenge their behaviour. That is what this new clause is about.

**Bridget Phillipson (Houghton and Sunderland South) (Lab):** Does my hon. Friend agree that it is important that consumers are aware of the terms of the products that they are taking out with such companies? Sometimes these companies are far from clear, particularly about the interest rates they intend to charge. My predecessor, Fraser Kemp, raised the issue of advertising standards with regard to Quickquid, one of the worst offenders, which would bring cash directly to someone’s home, but not advertise the fact that the interest rate was over 2,000%.

**Stella Creasy:** That is right, and I echo the point made by my hon. Friend and by the hon. Member for Tiverton and Honiton. One of the contentions of the new clause and my work on the Finance Bill is that the models used by those companies cause the problems. Yes, consumers need more information, but the way the market works and the pressures on consumers are such that intervention and regulation form the best course of action.

I want to talk about the margin people are on, before looking at what might push them over, and why the behaviour of those companies is such a problem. I hope I will give the Minister plenty of food for thought for when we talk about this. We are seeing a growing number of households at that margin. They face problems in how they borrow and the products through which they borrow. The growth of the industry would not be a problem in itself if it were regulated. However, the fact that it is not regulated means that it is contributing to the pressure on people who are already struggling, and causing them to tip over into that problem area.

**Alec Shelbrooke:** I am listening carefully to the hon. Lady, who is making some good points. Will she expand her point and say whether she believes it would be better if the credit company said how much in pounds that credit would cost, rather than saying 2,000%? For example, companies could say that borrowing £100 would mean paying back £400 over a period, rather than just giving an interest rate.

**Stella Creasy:** The hon. Gentleman makes a fair point. My proposal for regulation includes a cap on the cost of credit. That is for a number of different reasons, trying to learn from where caps on interest rates have not worked and what could work. It would certainly take account of that point.

With the new clause, I am considering how the market works and whether taxation could be used to address some of the inequalities it creates. My proposal, the Consumer Credit (Regulation and Advice) Bill, suggested a cap on the cost of credit because that is the most effective way to deal with the matter. The unwillingness of the Department for Business, Innovation and Skills to consider or act on those issues means that we must look for other ways to try to address the problems caused for consumers. That is what the debate is about.

We know that most households have debt-to-income ratios of 10% or less, which is relatively manageable, but almost one in five has debts worth more than 100% of their annual income, so they owe more than they could ever hope to repay. One in 10 is spending more than 30% of their income on their repayments on unsecured debts, while 7% are spending more than 40%. It is no surprise that the proportion of households in three-month arrears on their debts is about one in 10, and it remains persistently at that level.

Furthermore, 6% of households have some kind of formal arrangement to repay their debts, so they have had to enter into a debt management programme; 1% have been declared bankrupt; 1% have had an individual voluntary arrangement; and about 5% are in a debt management plan. That means that 12% of households are in some kind of formal financial difficulty; they have reached the stage where they have had to make a formal arrangement with their creditors to try to deal with their problems.

We see households using a range of unsecured types of credit to deal with their financial difficulties; they are using not just credit cards. I welcome the Government action proposed on tackling the interest rates charged on credit cards, but they are also using pay-day loans and personal loans. My concern is that, by not squaring the circle and regulating the rates of interest charged on all forms of unsecured credit in the interests of the consumer, we are leaving a big hole into which an increasing number of people will fall. The mainstream forms of credit are being cut off to them. It is noticeable that those using unsecured credit are not necessarily who we would think, and the Consumer Credit Counselling Service reports that home owners owe double what renters owe, partly because they can access secured loans, although they are also getting into unsecured loans. A range of people are at risk not only of getting into debt, but of losing the roof over their head. Furthermore, some of the people at the poorest margins of our communities, including 11% of lone parents, use only such forms of unsecured credit.

Considering the pressure on people, no wonder personal insolvency has reached a record high in the UK, and it is only going to get worse. The number of people saying that they are likely to use an unauthorised overdraft has doubled in the past year to nearly 1.6 million. Interest rates are low at the moment, but the number of people who have savings and flexibility available should they incur an additional cost in their life—if their washing machine breaks down, or if they need to pay for repairs on their car—is very low. The people turning to those products do not have money in their bank account to manage any additional spending.

**Mrs Mary Glendon** (North Tyneside) (Lab): If people living on a wage with not much disposable income fall into such debt and have to get to the end of the month without enough money, they will no longer have money to spend in the local economy. Surely that will affect the economy across the country, because such people do not have any spending power whatever. That makes this a Treasury issue.

**Stella Creasy:** I agree. Credit is important to an economic recovery. I am not advocating wearing a hair shirt, but the way people access credit is so damaging to them and to the economy that it is causing a problem that could threaten our economic recovery. It is not hard to see that families taking on high levels of debt are not going to want to keep spending, which is what our economy needs.

Having set out some of the challenges that people are already facing, I want to address some of the pressures that are likely to make those concerns worse. We are seeing a perfect storm of wage freezes, higher cost of living and shrinking access to mainstream credit.

**Nic Dakin:** I was speaking to somebody from the debt management industry the other day, and he described what is about to happen from his point of view. He was cautious in using this language, because it is not very nice, but he said that there is about to be a tsunami of debt. In many ways, that is exactly what my hon. Friend is describing. If that is the case, are not the measures in the new clause essential?

**Stella Creasy:** That is precisely what I am concerned about. We are already seeing a rapid increase in the number of people with such unmanageable debts, and we are about to see further pressure that will make the number of people likely to get into such debt even worse. I am concerned that, although there may be people who can manage the debts they are getting into in response to current economic conditions, lots of people will not be able to manage such debts. Those debts will create further problems for such people, their families, their local community and, ultimately, us as a society in trying to address them.

We are already seeing the pressures caused by a high cost of living; I am sure that everyone in this room has had constituents talking to them about the cost of living right now. As a London MP, I get that every single day. People are worried about making ends meet. Prices are going up twice as fast as incomes. With high inflation and a small increase in earnings, it is not difficult to see how the maths does not add up for

[Stella Creasy]

people who cannot make ends meet. It is no surprise that nearly half of households cannot make their pay cheque last until the end of the month.

Asda has done some interesting work on tracking the pressures on family incomes, and it has found that petrol costs alone account for 12% of budgets. On average, families now have £13 a week less than they did last year. To some, £13 a week may not sound a lot, but for many families it makes a big difference. That gap is widening, too.

Yesterday, we heard about the likely increase in energy costs and what that will do to family incomes. As the Resolution Foundation points out in its low earners' audit, those on low to middle incomes spend a higher proportion of their income on goods and services that are harder to cut back on. They spend 40% of their income on housing, fuel, transport and food. In comparison, the proportion for higher earners is 26%. Low to middle earners are most sensitive to increases in the cost of petrol, energy and food. The rate of repossessions has been lower than was predicted last year, but I am concerned that it will not remain so. If and when interest rates rise, that will also affect such people. Remember that home owners are getting into higher levels of debt than people who are renting.

3 pm

**The Chair:** Order. I have been listening carefully and with great interest to everything that the hon. Lady has said. I understand that she is seeking to set out the background, but I have to draw her attention to the fact that she is moving a new clause. She really must now address her remarks to the thrust of the new clause rather than to the whole background of the economic situation.

**Stella Creasy:** I was just about to come on to that. My point is that these pressures are coming through, and there is a lack of action from the Government in introducing a cap on the total cost of credit, so we have to look at what else we can do. The Bill opens the Pandora's box of using taxation to affect problems that we have identified in society. The concept of problem drinking has been very clearly identified, and I argue that we should be looking at problem lending. My understanding is that the Government have been influenced by the work of Richard Thaler and "Nudge". I know that the Minister is not keen on people being too clever and referencing academic work, so let us be simple about this: nudging talks about Government being choice architects, helping people to make good choices by ensuring that their default option is a positive one. That is what the new clause is about, and the review would offer the opportunity to do that.

I want to test whether the Government think that the bank levy would be an appropriate nudge option for those companies, to make the default option for how they lend beneficial rather than detrimental to consumers. I also want to ask whether we might look at other forms of taxation during consideration on Report.

**Ian Murray:** My hon. Friend talks about nudge theory, which is the theme of the new clause. She may be aware that Margo MacDonald, an independent Member of

the Scottish Parliament, is introducing a private Member's Bill in Scotland to make it a criminal offence under Scots law to charge unusually high interest rates. She will be advancing that legislation to encompass a limitation and a cap on interest rates. Although my hon. Friend is sensibly going down the nudge route, Margo MacDonald was so disappointed by the Government's previously kicking this into the long grass that she is looking at using Scots law to make it a criminal offence.

**Stella Creasy:** That is another fascinating example. I have heard today that Islington council is considering a byelaw to try to deal with the pay-day lenders in its locality. It worries me that, at a regional and local level, people are trying to take action while the Government seem hesitant to recognise the challenges. I appreciate that the Chair recognises that there is a problem that we need to address and wants us to move on to discussing particular behaviours. I hope that the Government response to the new clause will at least recognise that the high-cost credit market and what it does are problems that deserve attention.

Such a review might look at these five types of behaviour that the high-cost market engages in and consider whether there is a better default scenario. First, the high-cost credit market makes use of the fact that its customers lack access to other forms of mainstream credit. Were I to put solar panels on the roof of my property, I might be able to take out a personal loan from my local bank, but a quarter of the customers of high-cost credit companies cannot access any other form of credit. As consumers, therefore, they do not have the power that we might have to shop around for other forms of credit that are more acceptable to them and more manageable to pay back.

Secondly, high-cost credit companies' models encourage repeat lending. There is the concept of roll-over, for example. Many people will remember painful Thursday afternoons of double maths at school studying compound interest, which is what makes profits for those companies. Because the companies have fixed costs, they make more money by repeatedly lending to people. Their business models are geared towards repeat lending so that they can roll over loans and charge interest on interest, making use of the compound interest that we all so much enjoyed learning about at school.

Thirdly, people who get involved in borrowing through such companies have no credit record, so they cannot transfer to the mainstream credit industry. People can be very good customers of Quickquid and they can be regular payers, but they cannot transfer that information to their mainstream banks and use the fact that they have built up a history to borrow from Barclays, Halifax or wherever. In Walthamstow, Oakam targets newly arrived communities who do not have a relationship with mainstream banking in the UK and uses that to trap them into borrowing from such companies, because they cannot show that they can maintain their payment records.

Fourthly, as has been mentioned, the rates charged do not reflect any economic rate. One of my frustrations in running this campaign has been that none of those companies will explain to me the rates of interest that they charge, yet they all vary markedly. For example, pay-day loans can go from 4,500% with Wonga to 2,500% with Uncle Buck, or 1,200% with Payday UK,

or 1,700% with Kwik Cash. One might argue that they are just making the numbers up because they can. Above and beyond their fixed costs, they can charge what they like. That lack of any pressure to address the way they are lending is very negative.

Fifthly, the market itself encourages those bad behaviours. That is exactly the point that the hon. Member for Tiverton and Honiton made. Because the market is uncompetitive, there is little to drive interest rates down. For example, in the home credit market, Provident, a company that many people may know well, owns 60% of the market, so there is no competition to offer consumers the alternative to shop around. Wonga is a company that I have had a long and extensive communication with and it will often lend people more than they earn because it wants to keep people borrowing. A 20-year-old man, who came to me, earns just £200 a month but was given a £400 loan to be paid back within a month. It is obvious that he will not be able to make the repayments, so he will need to keep borrowing to try to maintain what he owes. Of course, interest will be accrued.

Looking at whether the bank levy could be used to affect such behaviours might lead us to that positive, choice-architect moment—the default choice that those companies make being better for consumers. Let me be very clear: I am not seeking to put those companies out of business, although I want to ensure that the way they operate is better for British consumers. Our British consumers deserve that, because we are one of the few countries in the world not to have taken action to ensure that this high-cost credit market is good for consumers as well as effective.

We have seen in other countries, particularly across Europe, some really effective capping mechanisms that have made a difference to the rates of debt that people get into. One of the big myths is that if the interest rates that those companies charge were capped they would not lend to people, who would turn to illegal loan sharks. I urge the Minister to look at the European Commission research published this February, which comprehensively rebuts that. It shows very clearly that countries with caps on interest rates have lower levels of illegal lending, so it is good for consumers and good for public law.

We also must recognise that some of the alternatives that we all would like to see grow cannot keep pace with our rate of demand in the UK. Not only are we a country that is more comfortable with borrowing a lot of money, but because of the pressures and the cost of living, many people need to borrow more now.

I am a passionate defender of credit unions. We have a fantastic credit union in Walthamstow, which has 4,000 members, but the way people are using credit unions and social finance in the UK is not an option right now to address the concerns about the kinds of debt that people are getting into as a result of those companies. In contrast, 50% of the population in Ireland are members of credit union. The figure is 40% in America and Canada, but in the UK it is around 2%. Now, 86% of people are technically covered by credit unions, but they are not a good alternative, so, in the true spirit of nudge, there is not a good default option out there for people. We need to address in particular the way the high-cost credit market works.

A Department for Business, Innovation and Skills and Treasury review of consumer credit is under way, and there have been many evidence submissions involved, highlighting that market. I am looking for a commitment from the Government to act on the impact of those companies on people's debts and to look at how the costs of credit can be capped. I would be happy to talk to the Minister about that proposal to cap the total cost of credit—I appreciate that that is not part of the new clause, which is why I have not set it out in detail—and the technicalities of how it could work.

I want to look at what could be done through taxation to try to effect change—to encourage those companies to behave in ways that are positive, not detrimental, to consumers. Once the Pandora's box of using taxation to address such things as problem drinking has been opened, we can rightly ask for it to be used to address problem lending. We want to do that because we know the people at the heart of the matter. We know the families who are struggling; we know the people worried about losing their jobs, keeping a roof over their heads and how to feed their families. We know that 50% of people in debt have a common mental health problem, and that people facing debt are three times more likely to develop severe depression.

We have seen the figures and we know the families, who are arguing about their finances in the current economic condition and for whom those companies are becoming not a short-term option, but a long-term debt. Most worryingly, a lot of those companies are targeting our younger residents. I know of a 16-year-old given a loan of £300 by Provident. He was not in work and had no chance of paying it back on the terms he was given, and is now stuck, at 16, building up debt. We all know of students being targeted by companies such as Wonga, using the online focuses to get them into borrowing and all the negative behaviour I have set out.

I recognise that the Treasury might not feel that that is its primary concern, because high-cost credit markets are regulated by BIS. However, I hope that, because it has opened the Pandora's box of using taxation to affect behaviour, the Treasury will look positively on the proposals and see what it could do. If we get lending and credit right, that will help the recovery and those families who are struggling now, whom we are keen to see supported.

**Kerry McCarthy:** I will keep my remarks brief. My hon. Friend has addressed the issue in detail and I congratulate her on the work she has done on her campaign on high-cost lenders. She is particularly to be congratulated on the ingenuity with which she has found different ways to raise the issue on the Floor of the House, in Committee and in other forums. As she said, we have perhaps been more comfortable with debt than other countries, but we have reached the stage where people are using credit just to make ends meet: 2 million people have recently used a credit card to pay their mortgage or rent, and the OBR figures show that under this Government, household debt is set to rise from 160% of household income in 2010 to 175% in 2015. That is after household debt fell between 2007 and 2010.

**Karl McCartney (Lincoln) (Con):** The hon. Lady has slipped in some interesting statistics. Does she have the figures from 1997 to 2010 on the increase in household debt?

**Kerry McCarthy:** I do not have the figures in front of me. The point I am making is that the trajectory was in the right direction.

**Mr Hoban:** Let me help the hon. Lady. In 1997, one family in 10 had no savings. At the start of the financial crisis, that had increased to one family in four with no savings.

**Kerry McCarthy:** Those are interesting figures but nothing to do with the statistics I quoted, which are about household debt. There might be some correlation between the number of households with savings and those with debt, but there could be a rise in the number of households with savings and a rise in the number of households in debt. Under the Labour Government, household debt was falling, up to 2010. It has now increased to a worrying level and is predicted to rise to 175% by 2015.

As we have discussed at length, the Government have taken a range of measures that will reduce family disposable incomes even further: tax rises and cuts—to benefits, tax credits and services. While the Government are trumpeting their plan to reduce the public sector budget deficit, they have not focused on the increasing indebtedness of ordinary people. Some commentators have even claimed that the Government's deficit reduction plan essentially involves shifting debt from the public sector on to households. Either way, it is clearly unsustainable.

3.15 pm

I have pointed out the problems faced by people for whom high-cost credit is the only option, because of the rise in their indebtedness, as my hon. Friend the Member for Walthamstow has highlighted. The previous Government made some progress in improving access to financial education and advice. In my constituency, there are financial capability lessons and qualifications for sixth form students. That is important, because we can teach people about citizenship and so on, but it is also important to teach them to manage finances, and to understand the basic elements of managing budgets and what products are in the market. Before the election, there was cross-party agreement about the creation of the Consumer Financial Education Body, which now operates the Money Advice Service, which was obviously a good move.

The Minister has recognised, however, that we must also look at the financial products that are available to consumers. His consultation on new simple financial products aimed to

“help everyone to make better choices”

by ensuring that the right products were available to them, which is important. As somebody mentioned during the debate, if, instead of being couched in terms of the interest rate payable, products were couched in terms of how much they cost, that would be a massive step forward in ensuring that people do not go down the seemingly attractive route of getting a quick loan. People do not appreciate how much additional debt they can incur by going down that path.

My hon. Friend's new clause aims to draw attention to the high-cost credit industry and the effect that it has on people who are typically already facing financial difficulties. I applaud her for bringing the clause forward

and allowing us to have this debate. The Government can do more to ensure that those people have better choices and to help them get out of their debt problems, rather than make them worse.

**Pamela Nash (Airdrie and Shotts) (Lab):** Mr Gale, it has been a pleasure to serve under your chairmanship over the past few weeks.

At a time when there are ever-increasing pressures on family finances, I am worried about my constituents turning to high-interest lenders. I want to take the opportunity to congratulate my hon. Friend the Member for Walthamstow on tirelessly campaigning on this important issue and keeping it at the forefront of all our minds in Parliament over the past few months.

I can understand that the lure of short-term loans to plug a gap in home finances is extremely tempting. However, such loans lead to serious long-term problems for those who actually need help with their domestic finances rather than a short-term fix. People cannot pay back the loan and quickly start to suffer from mounting, enormous interest payments. When speaking to my local citizens advice bureau recently, I was told of rising numbers of people who are finding themselves in dire straits. The worrying thing is that those people who fall into the trap of high-interest loans are not the usual suspects. They are from a variety of different backgrounds and incomes. Luckily, some of them are finding help from local credit unions, but it is still too easy to go up most high streets and be sold a product that will cost much more than it first appears. Those products are being sold to those who simply cannot afford them. In the past few weeks of examining the Bill, the rapid rise in living costs has come up repeatedly. Coupled with high unemployment, frozen salaries and banks unwilling to lend, that rise is just a recipe of delight for companies who offer unsecured and high-cost loans to some of the most vulnerable in our society. People are finding themselves in a spiral of debt.

One of the most frightening statistics that we have in front of us is from the Association of Business Recovery Professionals, which my hon. Friend referred to earlier. From July 2010—less than a year ago—the number of people per month in the UK expected to use an unauthorised overdraft has risen from 900,000 to 1.6 million people. That highlights just how quickly the number of households that are struggling to make ends meet each month is increasing, and the temptation to take out high-cost, unsecured loans seems like a quick fix. I only need to walk into Airdrie town centre to find a store such as BrightHouse, which offers extremely high interest rates, or a number of outlets offering high-interest pay-day loans and pawnbroking facilities. I am sure that it is not just me and my hon. Friend the Member for Walthamstow who can find such stores in their constituency.

These companies are not only multiplying but ambitiously advertising their wares. As my hon. Friend the Member for Gateshead pointed out earlier, they have bright, friendly neon signs, which give little indication about the dangers that lie within. Interest rates of 1,000% certainly do not appear in any window displays in Airdrie. I fear that the problems caused by the situation are set to mushroom, and if the Government do not address the problem and take action against high-cost lenders, they will be doing all our constituents a great disservice.

**Mr Hoban:** Thank you, Mr Gale. It is a pleasure to serve under your chairmanship this afternoon.

I congratulate the hon. Member for Walthamstow on finding a hook on which to peg her campaign. I have to say that at the end of her speech, I am still none the wiser about how her new clause would work in practice, but let me try to explain what I think the challenges are, in relation to her remarks and the proposals in the new clause. The hon. Lady has been assiduous in raising the profile of this issue. She tweeted before she got up to speak that she would return to this matter on Report, and we look forward to that. I do not know, Mr Gale, whether you are a follower of the hon. Lady on Twitter, but I gather her other campaign is to rebrand Walthamstow as “Awesomestow”. I wish her good luck in that task.

There is no disagreement between the two sides of the House about the issues raised by the hon. Lady. I, too, am concerned about high-cost credit. Although I represent a relatively affluent constituency, the main street in Fareham has similar shops that offer payday loans. Companies such as Provident are active there, and I do not think any part of the country is untouched by some of these issues. We recognise the impact that very high levels of debt can have on people’s day-to-day lives, especially for the lowest paid and most vulnerable. It is not only a concern for this Government; the previous Government expressed similar concerns, too, and they asked the Office of Fair Trading to review the high-cost credit market. The review indicated that on the whole, the market was working reasonably well for consumers, but there were some areas of concern. To address those, the OFT made a number of recommendations that are included in the ongoing review of consumer credit and personal insolvency, which is the joint consultation that the Treasury and the Department for Business, Innovation and Skills are carrying out.

The challenge for us is to agree not so much about the analysis as about the appropriate solution. We need to pause and think carefully about some consequences that could flow from taking the wrong actions. We do not want to end up harming those who are trying to help. I am concerned that measures that may deny credit to those who need it can push the most vulnerable customers into the arms of illegal loan sharks. It is not scaremongering to say that the alternative to regulated lenders is much more dangerous for vulnerable consumers, as anyone who has listened to the stories that have come out from the illegal money-lending teams will know. There is no need for me to elaborate on that today.

**Bill Esterson** (Sefton Central) (Lab): I am grateful to the Minister for giving way, because it gives me an opportunity to congratulate my hon. Friend the Member for Walthamstow, as others also have, on the excellent work she is doing on this issue.

The Minister is identifying what he sees as the flaws in my hon. Friend’s proposals. However, given his apparent support for the principles behind them, I hope that during the course of his remarks he will say how the Government propose to deal with some of the issues and points raised by my hon. Friend. I hope that his response will not be an outright no.

**Mr Hoban:** The hon. Gentleman must be patient. As he knows, the Committee can go on until any time tonight, so there will be the opportunity to explain what

we would like to do in this area. I know that his friend, the right hon. Member for Delyn is booked on the 17.10 from Euston, but I am sure that his ticket is flexible.

We need to be careful that we do not end up introducing solutions that make the situation worse.

**Tom Blenkinsop:** Will the Minister give way?

**Mr Hoban:** I know the hon. Gentleman is eager, too, but may I continue? I do not know what train he is on from King’s Cross tonight.

Punitive action against the high-cost credit market could leave us in a situation in which only the middle classes and the rich can access credit, which would defeat the purpose of looking carefully at the market.

**Tom Blenkinsop:** It is interesting that the Minister remarked on the interesting stories coming out of the illegal moneylending teams, because the Government have cut funding to the teams, which are no longer based in the regions.

**Mr Hoban:** I was prepared for that. On a helpful note, I gather that the hon. Gentleman is on the 4.50 Grand Central train from King’s Cross, so we know what time scale he is working to.

We have announced further funding for the illegal moneylending programme through 2011-12. The project will receive £5.2 million of funding in this financial year, and we expect the figure to be similar in 2012-13. To deliver even better results and produce a more efficient service, we have sought to reorganise the structure of the teams by moving away from regional teams to a structure in which there is one team across England, alongside national teams in Scotland and Wales. Action to tackle illegal moneylending in England will be co-ordinated by the Birmingham-based team, which already covers five regions and has proved to be extremely successful. As well as providing its current service, the hon. Gentleman should note that the team will provide a service in the north-east. It will provide its service to the east midlands and the south-west as well as the existing five regions. That will bring efficiency savings and will ensure that the money is focused on tackling the problem, rather than tackling administration.

**Ian Mearns:** I am pleased to report that I have a ticket that I can use on any train.

It is a great regret to people in the north-east that the illegal moneylending teams have been centralised in Birmingham. Although that may have brought managerial savings and economies of scale, I honestly do not think that taking the unit out of the north-east, where there is a significant problem, is the answer. It is not good enough for the Minister to say that doing something real and tangible with legal moneylenders will further drive people into the arms of illegal moneylenders. Two wrongs do not make a right. The whole point about illegal moneylenders is that they are illegal and can be dealt with.

**Mr Hoban:** Yes, they are illegal, but dealing with them is not perfect. Let us be honest, some people’s decision to take out credit is not a voluntary choice—it

[Mr Hoban]

may be the washing machine that breaks down or the fact that their money has run out before payday, but they need credit to live. I am concerned that the wrong measures will lead to a reduction in the supply of credit to those who need it most. If someone needs credit and cannot get it because their usual legal credit provider has closed down and withdrawn its service from their area, who do they go to? That is the challenge that we face, which is why we have to be careful about the consequences of some of the measures in the new clause.

I cannot remember which hon. Member said that interest rate caps worked effectively in Europe, but let me report on some research by Policis, which has looked at interest rate caps quite carefully. The report was commissioned by the previous Government and concluded that interest rate caps in France and Germany had resulted in lower APRs. But the cost of credit for high-risk borrowers has not fallen because insurance charges and other charges routinely added to contracts add significantly to the real cost of credit. The survey also highlighted that credit exclusion is a significant problem and more people are excluded from mainstream credit in France and Germany than in the UK. The survey also found that illegal lending was significantly lower in the UK than in France or Germany. That study was welcomed and supported by leading consumer groups including Citizens Advice, the Association of British Credit Unions Ltd, the Institute for Public Policy Research, Which? and AdviceUK. The hon. Member for Walthamstow will say that that research was carried out in 2006—

**Stella Creasy:** 2004.

**Mr Hoban:** 2004. But the point that I am seeking to make is that it is easy to look at what is happening elsewhere and say, “That’s a great answer,” but it may well deliver the wrong solution for the people whom we are all trying to help.

3.30 pm

**Stella Creasy:** I have read in detail all the research on the topic, partly because I recognise that the challenge is getting right the intervention that is made in the market, and I am pleased to hear that the Minister is looking at what interventions he might make. I wonder whether he has also reflected on the 2011 European Commission research, which I briefly mentioned, which has looked at all the different rates. One of the issues is the lending culture in those countries, but the research also looked at the different floating caps. In France and Germany—I am sure that we will have a wonderful conversation about different technical responses to interest rates when we meet—there have been changes to the way in which these rates have been applied, partly in response to some of the things that have been raised. That is something we could learn from in the measures that we introduce in the UK.

**Mr Hoban:** We will look at all research, but I am making a very straightforward point: we need to think through the consequences. Just because we think that

something—such as the idea in the new clause—should be done, it does not mean that it should be done without thinking through the deleterious consequences for our constituents.

The hon. Lady mentioned in her speech that consumer credit is regulated by the OFT, not by the FSA. If she were to bring her clause back on Report, she would need to think about who was responsible for the regulation of consumer credit. I am not sure that it will help to tackle these issues, however. Yes, we know that companies in this market are there to make a profit—if they could not, they would not provide the service—but it is an open market, and we know that, where profits are excessive, new competitors come in. It is clear from the hon. Lady’s speech that this is an open market, which new competitors have entered because they have seen some advantage. One of her colleagues cited the different rates for different types of high-cost credit, so there is competition in the market, which is important.

We accept that companies charge a high interest rate, but we need to be careful about bandying these percentages around. I am sure that the hon. Lady will recognise some of the consequences of doing so. Those high percentages are a consequence partly of the fees on the interest rate they charge, and of the relatively short duration of some of the loans. Rates are high, but let us not forget that a loan of £100 might be repaid a week later at a cost of £110. Now, £10 does not sound like that much, but expressed as APR it could be many hundreds or thousands of per cent., depending on the duration of the loan. We need to be careful; an APR of 4000% has been mentioned, but that does not necessarily mean that someone would borrow £1 and pay £4,000 interest.

**Paul Blomfield** (Sheffield Central) (Lab): One of the problems with the way in which these loan companies operate is the pressure that they put on people once one loan is concluded, which is something that I have discovered from talking to my constituents. A home visit is followed up by a discussion about other potential family needs, to sell the next loan. A number of people get trapped into a series of rolling loans, in which the example that the Minister has just given about the low cost becomes irrelevant.

**Mr Hoban:** The hon. Gentleman makes an important point about the roll-over effect. One challenge, which the hon. Member for Bristol East has mentioned, is how we equip consumers to make better decisions about their financial future. The Money Advice Service—the rebranded Consumer Financial Education Body—yesterday launched a financial health check, which is a web-based service that will help people to make better choices and plan for the future. That is available to people of all income classes. We need to ensure that we equip people with the confidence and the capability to make those decisions. Part of that is about ensuring that they have the right information so that they can compare the cost of credit, which is something the OFT proposed in its review of high-cost credit. We need to think about those things quite carefully.

**Nic Dakin** *rose*—

**Mr Hoban:** The hon. Gentleman seems keen to intervene.

**Nic Dakin:** I thank the Minister for giving way. Does he agree with the hon. Member for Tiverton and Honiton, who said on improved information to make consumers better able to take decisions that it would be helpful if companies had to state the exact cash cost, not simply the interest rate?

**Mr Hoban:** A great challenge in these debates, which features in a series of financial services issues, is ensuring that people are given good-quality information that enables them to understand the consequences of their decisions, and the disclosure of the cash cost is an interesting idea. I have been keen to ensure that credit card companies provide much better information—for example, about how long it would take to repay a balance if only the minimum payment were made. Rather than saying that it would take longer, they should say how much longer. Good-quality information is key. If we have the right information and give people the capacity and confidence to take decisions, we will get to a much better place.

The new clause requires a report on the application of the bank levy to high-cost lenders. The levy is a new tax designed to ensure that banks make a fair contribution in respect of the risks they pose to the financial system and wider economy. It targets risky short-term funding, which led to the serious liquidity problems that played a key role in the financial crisis. Attempting to target the levy on providers of high-cost credit would be a marked change of direction in its objectives and would consequently require an extensive redesign, which would inevitably add complexity. We have no evidence that companies in this market create the risk for which the bank levy would be the solution.

The hon. Member for Walthamstow is keen to talk about tax as a tool for changing behaviour, but it is quite a blunt tool. I do not think that tax is necessarily what the authors of “Nudge” would say was a nudge, and I am a keen supporter of nudge. The tax would not necessarily result in a default to the right choice. *[Interruption.]* If the hon. Lady stops tweeting for a moment, I might be able to explain.

Applying the bank levy to those lenders would not have any obvious positive impact on how consumers were treated; it would not create the lower-cost default behaviour that the hon. Lady seeks. Rather, the additional costs would be likely to be passed on in higher fees or interest rates. In fact, it would probably increase, not reduce, the cost of credit. Her proposal is counter-productive and she needs to see that. I am pleased to see that she has already tweeted that I made reference to “Awesomestow”.

To reiterate, we need to be careful that we do not get the wrong outcomes from the solutions imposed. Frankly, adding more costs to high-cost lenders, which will be passed on to consumers, would be wrong and not what we want to do. I do not think that it is what the hon. Lady would mean to achieve as a consequence of the new clause. A lot of people who pay high-cost creditors are relatively insensitive to the price. That is why they are prepared to borrow such small sums at such large rates of interest. There is that insensitivity to price and the cost would be passed on to consumers. Frankly, the benefit would be to the Exchequer, not to the taxpayer, and in this case I do not think that that is the right action.

To keep the hon. Member for Sefton Central interested, I shall respond to his intervention. *[Interruption.]* He says from a sedentary position that he is tweeting, too, which perhaps explains the Opposition’s lack of success—they spend too much time tweeting and not enough time thinking about politics. The Government are seeking to take action in this area. In October last year, we issued a call for evidence in support of the consumer credit and personal insolvency review, which is the right step to take before we introduce new rules, or else risk unintended consequences. The review included recommendations from the OFT review on high-cost credit and had a number of recommendations, such as providing information on the cost of high-cost credit to consumers through price comparison websites, introducing a wealth warning on high-cost credit products, collecting essential information on the high-cost credit sector so that the OFT can track developments in that sector, and the Government and the industry developing a code of practice. To address the point made by the hon. Member for Walthamstow, as it is temporarily named, it recommends working with credit reference agencies to explore ways in which pay-day lenders could provide suitable information about the payment performance of their customers. That is absolutely right. It is important to ensure that people can build a credit history to get access to mainstream credit.

**Bill Esterson:** I want to be clear that I heard correctly. I believe that the Minister used the term “code of practice”. Will he clarify whether that will be voluntary or compulsory? Members here would appreciate the distinction and the importance of the difference, as voluntary codes often have every intention of doing good but lack the teeth to be effective.

**Mr Hoban:** The hon. Gentleman makes an important point. We have to be careful, if we go down the voluntary route, that we feel there are more gains to be made than by going down the statutory one. That is a wise warning to make.

I wish to make a couple of further points. The hon. Member for Walthamstow referred to the lack of access to alternative sources of credit. The Government have taken steps to strengthen the credit union movement, with additional funding. Like her, I feel credit unions have an opportunity to meet some of the demand for alternative sources of credit. She mentioned doorstep lenders. She will know that a study was done relatively recently looking at the possibility of a not-for-profit doorstep lender. Even on that model, the APR was about 120%.

**Stella Creasy:** It was 40% or 50%.

**Mr Hoban:** The hon. Lady can intervene or tweet, whichever is more effective. It is interesting that in the light of the evidence of that study, which I think was funded by the Joseph Rowntree Foundation, the not-for-profit sector has been reluctant to bring forward a home-credit model. That is partly due to concern about the reputational risk of charging higher rates of interest. Banks could fill the market, but I know that for many of them the prospect of charging relatively high rates of interest—50% or 60%—would be a concern in respect of reputational damage. It would not take long before

[Mr Hoban]

we all wrote to the banks complaining about rates of interest. There are issues about bringing alternative sources to the market. I think credit unions are a good way to do that. I have already referred to the work of the Money Advice Service that will help to equip consumers to tackle those issues with more confidence and better-quality information.

People across the country need short-term credit. That is clear from everything that has been said. There are circumstances where families need access. It is the role of Government to ensure that there are no abuses or behaviour that is detrimental to consumers, and we are taking steps to address that. I agree that we must take action. However, I say to the hon. Lady that a differential tax rate will not solve any of the problems; in fact, it could exacerbate them by either increasing the cost of credit to those who need it or reducing the availability of legal sources of credit, and I do not think that is her intention.

As I said earlier—I think the hon. Lady has taken up my offer—I am happy to meet her to discuss this area. It is important and I am keen to get it right. That requires deliberation rather than knee-jerk reactions.

**Stella Creasy:** I am little concerned that the Minister has jumped the gun. I know he is clearly an avid reader of Twitter, but perhaps he should read the new clause closely. It calls for a review and for work to be done to look at whether the bank levy would be an appropriate way to address the behaviour I talked about. I am sorry that I have not been able to convince him that the way the market operates is in itself a problem for consumers, above and beyond their ability to influence it through the choices they make. I also encourage him to read “Nudge” again, a little more closely, where he will find the example of Minnesota, which looked at using tax and tax policy to affect behaviour.

The new clause also looks at the consequences for consumers and the British economy of doing nothing. If we all recognise there is a problem, there is not just a solution; there is also the option of doing nothing. I hope I have convinced the Minister that that is an important piece of work for the Treasury to undertake. There is also the importance of having better information on the nature of the market and the ability of consumers to act.

The Minister talks about an open market operating to bring downward pressure on the rates that companies are charging. That is clearly not the case. The point is that the lack of regulation has allowed a market in which rates are going up or down and across. They are not affecting what consumers are paying because the rates at which they start are so deleterious.

3.45 pm

A review is so important because I do not think that as consumers or even as parliamentarians we should set a specific, singular interest rate. As I briefly mentioned in my comments to the hon. Member for Elmet and Rothwell, I am not calling for a cap on interest rates. I am calling for something different, reflecting on the evidence we have from other countries about what has and has not worked and where lenders have tried to get

around it by applying other forms of charges. We must also recognise that there are different types of products to take account of whether people are borrowing over a shorter period or a longer period for perhaps a hire purchase agreement or a car. All those issues could be dealt with in a review.

I am pleased that the Minister has obviously thought very carefully about whether taxation could be used in this process, but thinks that the bank levy may not be the right thing to do. That has given me much food for thought in considering where else taxation could be used in this process. I am not necessarily convinced that, having dismissed the new clause, the Minister’s response to the problem that we all agree needs to be tackled is appropriate. Even armed with the best information in the world about the different choices available, consumers cannot make good choices because of the nature of the market and the way in which lending is applied to them. We all accept that there will be certain categories of consumers who will be lent to at higher rates of interest.

I note that the Government are looking at capping the rate of interest on credit cards. Credit cards have interest rates of 20% to 30%. Most credit unions will start at interest rates of 30% to 40%. So clearly the way we do this needs to respond to the market and the needs of the people who are borrowing. However, something should be done. It is good to hear that the Treasury is interested in looking at the matter. I will reflect on what the Minister has said about whether this is the right tax to use, but the problem will clearly not go away, so something must be done and the right intervention has to be crafted.

We will return to the matter on Report. I will therefore seek to withdraw the new clause and bring back further proposals because the people of Awesomestow and Walthamstow need me to do that. Every day we see the consequences of not doing anything. Even though we have an active credit union and active social finance organisations, many more of these companies are targeting my local community and people are getting into debt with them. Doing nothing is not an option. Doing the right thing very much is. It has to be about more than consumer information because of the nature of the market itself.

**Richard Harrington (Watford) (Con):** I just wondered whether the hon. Lady had thought of Walth Vegas as an alternative.

**Stella Creasy:** Perhaps when we get the Walthamstow dog track back that might be an option.

Awesomestow reflects our pride in our community. I have a responsibility to those people to fight for these cases. As I was simply concluding, doing nothing is not an option. Relying on consumers themselves to make good choices in a market that is not fair to them does not seem an option to the Opposition. Further reflection is needed on whether taxation can be used to address the behaviours of those companies that I described. I accept that the bank levy may not be the right measure. I will reflect further on this and come up with a proposal on Report. I hope it will receive support from across the House because if everybody accepts that there is a problem and yet nobody does anything we are all culpable

for the debts that people are getting into. We will continue to press the issue, if perhaps not with this new clause. I beg to ask leave to withdraw the motion.

*Clause, by leave, withdrawn.*

*Clauses 92 and 93 ordered to stand part of the Bill.*

**Mr Hanson:** On a point of order, Mr Gale. I am pleased to see that in the spirit of the policies of the Lord Chancellor and Secretary of State for Justice, we have had some early remission on this Committee. I thank you, Mr Gale, for your chairmanship of the Committee. I ask you to pass on the thanks of the official Opposition to Mr Hood for his chairmanship, and I would also like to put on the record my thanks to Mr Patrick for clerking the Committee.

I would particularly like to thank my hon. Friend the Member for Bristol East, my hon. Friend the Member for Cumbernauld, Kilsyth and Kirkintilloch East, who is the shadow Whip, and my hon. Friends on the Back Benches for their contributions. I place on the record my thanks to the three Ministers who have served on the Committee for their courtesy and their responses to the points we raised. Through them, I would also like to thank their officials, who will have prepared many hours of briefing that we have not used and who have, on occasions, waited around for us to reach a particular point in the debate. I hope that they will appreciate the fact that we have undertaken some scrutiny.

I put on the record my thanks to the Government Back Benchers, even those whose only contribution has been to say the word, “No.” They have played their role effectively. On behalf of the official Opposition, I would also like to thank the very hard work that has been done by the Doorkeepers, the police and our colleagues from *Hansard*, who regularly turn gibberish into sensible reading the following day—gibberish obviously from the Ministers, not from the Opposition.

Our deliberations have involved 12 Divisions and 14 sittings, and they are best summed up by the following motto I discovered this morning: “was, is and will be.” “Was” because we had done some of this before we came here; “is” because we are still doing it now; and “will be” because we will return to it shortly on Report. For hon. Members’ interest, that is also the motto of *The Daily Telegraph*.

**Mr Gauke:** Further to that point of order, Mr Gale. I put on the record my thanks to those who have contributed to and assisted with our scrutiny of the Bill. As the Committee knows, we received more than 200 responses to the draft legislation and I thank representative bodies and the other interested parties who came forward with suggestions for improving the measure. The Bill is the better for it and I hope that we will receive a similarly enthusiastic response when we publish draft legislation next year.

This is the first full Finance Bill that the Government have introduced and it contains some significant changes. We have learned some unexpected things during the course of our proceedings. We have learned of the delights of the Blue Anchor pub near Sefton and of Wurzels concerts; we have learned that perhaps Opposition Members do not delight in “The Jeremy Kyle Show”, whatever that is; we have touched on the European extra large telescope and the love of the hon. Member

for Edinburgh South for Led Zeppelin; and we have learned that what goes on during an American exchange tour stays on tour.

Of course, our focus has been on the important issues covered by the Bill. We have discussed the need for growth in the economy, how we should help struggling families, the risk posed by tax avoidance and the importance of support for a greener society. Whether partisan or not, the approach of all hon. Members has been to ensure that the Bill is the best it can be. Hon. Members have brought their expertise to these matters. For example, on the debate on alcohol duty, we had contributions from the hon. Member representing the town of Shotts and from the hon. Member for Walthamstow, who is herself named after a high-strength lager.

The shadow Ministers—the right hon. Member for Delyn and the hon. Member for Bristol East—have provided vigorous and considered opposition. I thank them for that. I thank them and other Opposition Members for their constructive approach, although I apologise to the Committee for not having broken down these responses on a regional basis. I would also like to thank the Whips. First, the Opposition Whip, the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East, who we have learned is the parliamentary pool champion. If I may move the analogy to snooker, with which I am slightly more familiar, at times the pace in Committee has been reminiscent of Alex Higgins at his peak—in fact, more often it has been reminiscent of Cliff Thorburn, but there we go. I also want to thank my hon. Friend the Member for Scarborough and Whitby, the Government Whip, for his excellent work in ensuring that we won all 12 Divisions, even though there were one or two close shaves, which is more than can be said for the hon. Member for Sefton Central during the first week or so of the Committee.

I thank all my hon. Friends: first, those on the Back Benches for their patience, presence and occasional contributions. To echo the right hon. Member for Delyn, I would like to thank those who said only, “No”—in fact, I would especially like to thank them. I also particularly thank my ministerial colleagues, my hon. Friends the Members for Fareham and for Putney for their support.

I would like to thank you, Mr Gale, and Mr Hood, for your help in ensuring that we got through the debate smoothly. In this context, it would be remiss of me not to thank Mr Murray for his brief period conducting the Committee. When he went to the Chair, I was reminded of Michael Foot’s comment about David Steel, who became leader of the Liberal party in 1976. He said that he had

“passed from rising hope to elder statesman without any intervening period whatsoever”.—[*Official Report*, 28 March 1979; Vol. 965, c. 577.]

I congratulate him on that fast—

**Ian Murray:** Jimmy Hood’s body double, I was told.

**Mr Gauke:** Well, it is something to aspire to.

I would like to thank the officials from HMRC, the Treasury and other Departments. Parliamentary counsel, of course, have been of great assistance, and I would particularly like to thank them for their speed in response

[Mr Gauke]

when some of us Ministers were struggling for the right words. The hon. Member for Wirral South described them as very wonderful, with which I entirely agree. As always, I would like to thank Mr Patrick, *Hansard* reporters, the police and the Doorkeepers, all of whom ensure the smooth running of the Committee.

I feel that I should now end my thanks, or I will face a “Whoa”, from the right hon. Member for Delyn. I look forward to Report, and to the Bill’s final stages.

**The Chair:** In keeping with the wonderful traditions of the House, absolutely none of that constitutes a

point of order for the Chair, but I am sure that Mr Hood will enjoy reading it as much as I have enjoyed listening to it.

I add my thanks to the Officers and staff of the House, without whom our work would not be possible. I also thank all Members, on both sides of the Committee, for the diligence, courtesy and good humour with which our proceedings have been conducted. It makes everybody’s life a lot easier, and it is greatly appreciated.

*Bill, as amended, to be reported.*

3.57 pm

*Committee rose.*