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Public Bill Committee

Pensions Bill

Tenth Sitting
Tuesday 9 July 2013
(Afternoon)

Contents

Clause 29 agreed to.
Schedule 16 agreed to.
Clauses 30 to 34 agreed to.
Adjourned till Thursday 11 July at half-past Eleven o’clock.
Written evidence reported to the House.

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Saturday 13 July 2013

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The Committee consisted of the following Members:

_Chairs: Martin Caton, †Mrs Anne Main_

† Blenkinsop, Tom (Middlesbrough South and East Cleveland) (Lab)
† Bradley, Karen (Staffordshire Moorlands) (Con)
† Colville, Oliver (Plymouth, Sutton and Devonport) (Con)
† Gilmore, Sheila (Edinburgh East) (Lab)
† Graham, Richard (Gloucester) (Con)
† Griffiths, Andrew (Burton) (Con)
† McCann, Mr Michael (East Kilbride, Strathaven and Lesmahagow) (Lab)
† McClymont, Gregg (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab)
† Nash, Pamela (Airdrie and Shotts) (Lab)
† Pincher, Christopher (Tamworth) (Con)
† Reckless, Mark (Rochester and Strood) (Con)
Reynolds, Jonathan (Stalybridge and Hyde) (Lab/Co-op)
† Selous, Andrew (South West Bedfordshire) (Con)
† Simpson, David (Upper Bann) (DUP)
† Webb, Steve (Minister of State, Department for Work and Pensions)
† Wheeler, Heather (South Derbyshire) (Con)

Neil Caulfield, John-Paul Flaherty, Stephen McGinness, Committee Clerks

† attended the Committee
Public Bill Committee

Tuesday 9 July 2013

(Afternoon)

[Mrs Anne Main in the Chair]

Pensions Bill

Clause 29

AUTOMATIC TRANSFER OF PENSION BENEFITS ETC

Amendment proposed (this day): 17, in clause 29, page 15, line 18, leave out ‘of which the person is an active member.’.—(Gregg McClymont.)

2 pm Question again proposed. That the amendment be made.

The Chair: I remind the Committee that with this we are discussing new clause 10—Review of section 29 provisions and regulations—

‘The Secretary of State must review the effect of section 29 and any regulations made under it within three years of Royal Assent.’.

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): On a point of order, Mrs Main. It is a pleasure to serve under your chairmanship this warm afternoon. I seek clarification from the Minister. We had a discussion this morning about active member discounts, and the Minister quoted a DWP report and said that only 16% of contract schemes practise AMDs. I want to get this on the record. I went away and looked at that report, which is entitled “Pension landscape and charging”—it is research report 804 from 2012. What the DWP survey actually records is that 141 employers of the 514 surveyed knew that their members were charged anything at all—we all know that pension schemes have charges. Of those, 16% knew they were charged anything—Scottish Life made a statement to the Select Committee. Based on that evidence, the Select Committee made a recommendation: Logistic Life thought that the Government should act on automatic transfers should kick in, and whether there should be only 2,000 as has been suggested, or a higher level. There is also the question of the type of transfer that would take place.

Scottish Life made a statement to the Select Committee. It took the view that if the Government were to allow active member discounts to continue, there was a risk that companies that were still determined to use them in some shape or form, would simply find other ways to recoup the potential loss, possibly by passing the costs on to those deferred people who did not get a transfer or were not part of the automatic transfer process. Scottish Life thought that the Government should act to remove that altogether rather than to rely on the automatic transfer to solve the problem for them. Based on that evidence, the Select Committee made a strong recommendation. Like all these recommendations it was unanimous, but it was unanimous on the basis of a strong body of evidence. We thought that the use of active member discounts had the potential to reduce significantly the amount of money available to people in retirement and that we had not had any convincing evidence for retaining the charges. The Select Committee recommended:

“Despite the Government’s assertion that its “pot follows member” approach for dealing with small pension pot transfers will take care of the problem of active member discounts, we believe that people who do not have their pots automatically...
transferred also need to be protected... We recommend that the Government bans the use of active member discounts without delay."

That is a fairly strong recommendation. The belief that everything will be dealt with by this clause and that automatic transfer will resolve the problem is not the case. I ask the Minister to address the matter again.

The Minister of State, Department for Work and Pensions (Steve Webb): Good afternoon, Mrs Main. I recalled earlier on that the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East, like me, used to be an academic. We academics think in 55-minute lectures. So we had a double lecture this morning. It was on amendment 17 which takes out the requirement that the automatic transfer goes to a scheme of which someone is an active member. That was the nub of the issue. The hon. Gentleman’s very full contribution enabled us to tease out a bit more the alternative proposition. The Government, quite properly, must set out what they plan to do. If the Opposition have an alternative model it is sometimes helpful to know what it is. For the first time this afternoon we started to understand what the Opposition proposition is. By the end of the hon. Gentleman’s contribution I was far less convinced of the merits of his case than I was at the start.

The Bill provides that as people change jobs their pot, by default, follows with them as long as it is less than £10,000. As far as I can understand it, its proposition was that the dormant pots of everyone should go to an aggregator with no pot size limit. The model he has in mind which his friends the NAPF supports is a small number of very large providers. The analogy I drew deliberately is with the energy market. We have essentially a very concentrated energy market. If we delete “pensions”, and insert “energy” we could make all the same arguments. What we need is a small number of big providers. They will compete vigorously. Costs will be driven down. We do not want it to be small scale. Generating electricity is not a cottage industry, one might say. Would not that be a really good outcome for consumers? I kind of think it would not. Having a market dominated by a small number of very big providers who get on with each other, shall we say, would not necessarily be the best outcome for consumers.

The problem I have with the hon. Gentleman’s model is that he does not just want aggregators, which could themselves unbalance the market, he wants vast swathes of historical pension saving all to be shovelled into these aggregators. His point is that that scale is great but what he does not seem to see is the other end of that which is all the pension schemes from which money is taken which then become sub-scale and bad value for money for the people who are left in them. He sees the scale where the money ends up but he does not see the loss of scale where the money has come from.

Gregg McClymont: There is a lot already in what the Minister says. It will try to be brief. The Minister makes a comparison with the energy market; however, to clarify, when I was talking about scale I meant the scheme side. It is very difficult to compare the energy market to the pensions market, as his hon. Friend the Member for Warrington South (David Mowat) has made clear on numerous occasions. In the energy market the individual buys the energy; with an occupational pension the employer buys the product, or the pension. What I am suggesting is that we have scale on the provider side: there are about a dozen big pension providers. What we do not have is scale on the member side, given that we have hundreds of thousands of pension schemes.

It is interesting that the Minister mentioned unbalancing. I would say that the market is unbalanced at the moment, because we have a smallish number of big pension providers and hundreds of thousands of schemes that are meant to protect the interest of the member. Does the Minister think that the analogy works, given that in occupational pensions it is not the consumer who buys the pension?

Steve Webb: In the hon. Gentleman’s world of a small number of aggregators, people will presumably choose where they put their historic pension pots. I assume that he is not suggesting that my entire lifetime legacy pension pots will just be randomly assigned to some provider, but that I will choose. In that market I am a consumer who has a very small number of places from which to choose; so it is analogous with the electricity market.

Mark Reckless (Rochester and Strood) (Con): Would the model proposed of forcing very large numbers of people to transfer their savings in current private providers into a small number of huge aggregators not have certain attractions, if one intended it as the prelude to nationalisation?

Steve Webb: It would certainly be ripe for a future Government that was interested in that approach. I have no idea which wing of the Labour party the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East comes from, but he does come from Glasgow; I do not know whether that tells us anything. However, I do not imagine that that is where he is coming from—let me put it like that.

We will come back to the £10,000 pot-size limit that we envisage. However, when the hon. Gentleman suggested that we should be interested in all dormant pots, not just smaller ones, he is suggesting that the whole of the dormant pots should end up in aggregators, unless someone opts out of that. We think that by the time we get to 2050, or whenever it is that this has been up and running for a generation, the amount of money in those dormant pension pots will be of the order of £0.75 trillion. That is £0.75 trillion in stranded pension pots in today’s money. Call me old-fashioned, but even though I have been in pensions for a little while now, I still think that £0.75 trillion is soon going to get to serious money. My worry is that, if we have a system whereby all of that ends up in the hands of a relatively small number of aggregators—to use the hon. Gentleman’s phrase—that will not serve the interest of all the other providers.

The hon. Gentleman envisages a situation in which, for instance, I leave a firm; I am in their workplace pension scheme; and by default, the money that I leave behind, no matter how much, goes to some third-party scheme. However, what about the people who remain in the scheme that I have just left? They are now in a smaller pension scheme, given that everybody who leaves takes their money with them. Therefore the firm, particularly if it is in a difficult industrial sector and perhaps is shrinking, is losing scale. Everybody who has left has the same fixed costs of a scheme, but those left behind

Pensions (Steve Webb): DELAYED ANSWER TO QUESTION 2876

Question 2876 was asked by the hon. Member for Stockport (Mr Sheerman) and it was referred to the Department for Work and Pensions. The following reply was given by the Under-Secretary of State for Work and Pensions (Steve Webb)

I refer the hon. Gentleman to the official report of the debate on the Pensions Bill on 31 March 2011, when I announced the Government’s intention to introduce a new automatic transfer into pensions at a pot size of at least £10,000.

Since then, the Government have completed consultations on the mandatory automatic transfer mechanism, and published a consultation response. Now that the consultation is closed, the Government will carefully consider the consultation responses before making further announcements on the automatic transfer and the pension freedoms.

It would certainly be ripe for a future Government that was interested in that approach. I have no idea which wing of the Labour party the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East comes from, but he does come from Glasgow; I do not know whether that tells us anything. However, I do not imagine that that is where he is coming from—let me put it like that.

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The hon. Gentleman envisages a situation in which, for instance, I leave a firm; I am in their workplace pension scheme; and by default, the money that I leave behind, no matter how much, goes to some third-party scheme. However, what about the people who remain in the scheme that I have just left? They are now in a smaller pension scheme, given that everybody who leaves takes their money with them. Therefore the firm, particularly if it is in a difficult industrial sector and perhaps is shrinking, is losing scale. Everybody who has left has the same fixed costs of a scheme, but those left behind
Steve Webb: I do, actually. However it is becoming significantly less so. I was not aware of the recent trends until I looked into this. Let me give him a feel of that. In the last three years, from 2009 to 2012, the number of small and medium-sized occupational DC schemes fell by a third. The number of micro-schemes fell by a fifth, from 45,000 to 36,000, whereas the number of large schemes remained relatively stable. So for obvious reasons, consolidation is happening. On the other side of the coin, over half of the active members of private sector occupational DC schemes a couple of years ago were in schemes of 10,000 or more.

This is a classic case of picking the figures depending on what argument you want to make. If you want to say the market is fragmented you say there are lots of schemes. If you want to say that it is concentrated, you say that most people are in big schemes. Of course, both are true.

Gregg McClymont: I take the Minister’s point. What then is now the average size of a pension scheme in the UK? What is the average membership?

Steve Webb: An hon. Friend quite rightly says: “Mean or median?” As I said, over half—the median person—is in a scheme of more than 10,000 members. There is a long tail on distribution, I do not dispute that for a second. Some of these are what you might call top-hat schemes, very small firms just set up for the director or something like that. I am not sure that these are what we are actually interested in.

Some consolidation is going on, but there is an awfully long way to go. My worry is that the hon. Gentleman actively wants to manage the pensions market down to a very high degree of concentration. That process can go too far.

Gregg McClymont: I will just reiterate this point for the Minister’s benefit. He says that there is a high degree of concentration. We have the provider side and the saver side. I suggest that we need to consolidate the saver side. I am not suggesting it for the provider side. That is already consolidated. We are down to about a dozen major providers. So as the Minister develops the argument and characterises our position, will he bear in mind that when we talk about consolidation, we talk in terms of savers? We need to rebalance in favour of the saver.

Steve Webb: It is the case that in the UK the average scheme has around 2,500 members. This is clearly smaller than in other countries, but those trends are changing over time, as I indicated. We are seeing fewer small and medium-sized schemes and fewer micro-schemes, whereas the number of larger schemes stays about the same. So there are trends towards consolidation going on.

To rewind: clause 29 paves the way for our proposed “pot follows member” model. Amendment 17 says that the pot should not follow the member, it should go somewhere else. One word that the hon. Gentleman did not use at all this morning—and there were not many of those—was “engagement”. The paradox of automatic enrolment is that it is built around inertia. By doing nothing, you end up in a pension. Inertia is great, but it is also a problem, because if we do not just want people in pension saving but engaging with their pensions, building more and the rest of it, we want them to engage.

The problem with not doing “pot follows member” is that when you leave a firm, your pension pot goes somewhere else, to a provider with whom you have no relationship and who possibly you did not choose. You then have a pension with your current provider and probably have other legacy pots too, unless you are in the bizarre and extreme version that the hon. Gentleman describes, where every legacy pot is shoved into one place, which is extraordinary. You then end up with more fragmentation than if the money goes with you. You also end up with less engagement.

That is crucial, because if the money goes with you, your pension accumulates where you are, with the firm you are with, which puts money into your pension. You will be far more engaged with a single correspondence from a single pension provider linked to your current employer, which perhaps in some large work forces comes into the workplace. That is engaged pension saving. Shunting things off to some super trust that people have never heard of and never chosen is a different business.

Gregg McClymont: The Minister is beginning to set out the advantages, as he sees them, of pot follows member. Will he comment on the DWP evidence that shows that, under the Government’s proposals, by 2050 86% of people will still have more than one pension pot? He said that he wanted to reduce fragmentation, but is that the case?

Steve Webb: It is absolutely the case that our proposals will radically reduce fragmentation, but if there is a pot-size limit of any sort, there will be times when people work for a firm for a long period and build up a pot in excess of that amount. Let me address that issue on two fronts.
First, the hon. Gentleman said that we compared unfairly the £2,000 pot-size limit for the single aggregator with a limit of £10,000 for pot follows member. He seems to be the sort of man who would read impact assessments, so he will have read that we looked at different thresholds: £2,000, £5,000, £10,000 and £20,000 for the pot follows member model. Comparing like with like, with £2,000 on pot follows member and £2,000 on the aggregator, there is still substantially more consolidation with pot follows member.

We compared £2,000 for the single aggregator with £10,000 for pot follows member because we simply do not believe that we could have a single aggregator with a high pot-size limit and I do not think that that is the hon. Gentleman’s policy, either. That is because, to give the Committee a new number—it always likes a new number—owing to the size of transfers, we think that, if there was a single aggregator, once the system is up and running, it would take between £7.5 billion and £10 billion of small pots each year, over and above any other regular business that it had. Imagine that over a decade: there is one provider in the market that, if we had a £10,000 pot-size limit, will suddenly have got £100 billion from everybody else’s pension schemes.

Gregg McClymont: I am listening carefully to the Minister. Am I right in saying that DWP undertook to model an aggregator system on the basis of a single aggregator with a £2,000 limit, rather than a system of several aggregators, and that that was done as opposed to pot follows member with a £10,000 limit? Is that fair?

Steve Webb: That is right, except for the last part. We looked at four different thresholds for pot follows member, including £2,000, so we did compare like with like. It is stating the blindingly obvious: if a person goes from their first employer to their second employer, in scenario one, their pot goes with them and they have one pension pot. In the hon. Gentleman’s model, the first pension pot is shunted off to somebody else and they have a pension with their second employer, so they have two pots. Therefore, by definition, pot follows member will reduce the number of pots that people have.

Gregg McClymont: I take it as a compliment that the Minister says that he thinks that I am the kind of man who would read the impact assessments. When he modelled pot follows member at £2,000 versus a single aggregator at £2,000, what was the number of stranded pots for pot follows member? We know the figure for £10,000, but how many pots were there if we fairly apply the £2,000 limit in the modelling?

Steve Webb: Obviously, the hon. Gentleman already knows the answer to that question. Pot follows member with a £2,000 pot limit would reduce the number of dormant pots by 19%, whereas the aggregator with the same limit reduces that by only 13%. When comparing like with like, it must be true that we would end up with fewer dormant small pots under pot follows member, because there is a chance that people would end up with only one pension pot, whereas in his model, they would always have at least two.

Gregg McClymont: Will the Minister give way?
Thirdly, in essence, the shadow Minister’s position could be seen by some people, although clearly not by any of us in this room, as aiming to ensure that, if the Bill is a great success, he has played a considerable role in that. However, if, on the other hand, it runs into difficulties, he has positioned himself in such a way as to be able to say that he flagged up the concerns, without making any concrete counter proposals worth their weight.

Steve Webb: My hon. Friend is right that new clause 10, which we are also considering, is about yet another review. Just to make sure that I do not fail to deal with that point, the review for which new clause 10 calls is within three years of Royal Assent. Assuming, all being well, that we get Royal Assent in early 2014, he wants a review in 2017. Given that we legislate in 2014, and we then produce and consult on regulations, we would complete that process in 2015. We would then set up some sort of infrastructure to do this, so we could easily be talking 2016 before we even start doing it. The suggestion in new clause 10 that we then have a review within about a year of starting seems extraordinary. He will be aware that the NEST review, envisaged in the Pensions Act 2008, was nine years after that legislation went through. I think that calling for a review before something has even started is going some, even by his standards.

Gregg McClymont: I am a little surprised that the Minister says that, but I will not pick up on that point. I want to go back to his statement that he was told that he was going too fast. Could the Minister elaborate a little on where that point of view comes from? Who is saying that he is going too fast on automatic transfers? He left that hanging enigmatically in the air.

Steve Webb: I am quite sure that the hon. Gentleman has told us twice that he is an avid reader of the Financial Times. He reads it on a Monday to see the pensions bit, and he reads it on a Saturday, presumably to read “How To Spend It”. I do not know whether he turns straight to that section. He will know from the pensions press that almost whatever we do, there is always someone saying, “Whoa! Hold on. Do not go so far or so fast. Slow down.” He pointed out that there are always voices saying, “Please don’t change anything; we are quite comfortable with the status quo.” He is accusing us of not wanting to shake things up enough, and he said that the DWP had used the disruptive impact of something as a reason not to do it. He urged us to be disruptive, but with this measure, the principal thing that people are saying to us is that we are doing so much stuff, and we should concentrate on auto-enrolment and single tier and park this measure. Either we are going too fast or too slow; I suspect it is not both.

2.30 pm

Gregg McClymont: The Minister tries to ascribe both those views to me, but the argument that he is going too fast is not my view. He has mentioned people in the pensions press, but it is a bit unfair to ascribe two views to me when I have been consistent in putting forward only one. Surely it is up to the Minister—I guess this is his position—to assess the submissions and evidence he gets. His view is to find some sort of middle way, and my view is that he should get cracking. It is unfair to ascribe to me a view about going too slowly, which I have not at any stage articulated.

Steve Webb: The point I am trying to make is that the hon. Gentleman said in his contribution that he would urge the Department not to hold back from doing something because of its disruptive impact on the pensions market. I was simply trying to make the point that those who do not necessarily support what we are doing think we are being too disruptive. I do not think there is any evidence for the suggestion that we are ultra conservative and cautious and do not want to shake things up.

Gregg McClymont: Will the Minister give way?

Steve Webb: Perhaps I should make progress. I am happy to give way to the hon. Gentleman in due course.

Earlier, we were trading some points about, “Who have you got on your side and who have we got on our side in this argument?” As ever, I want to bring in the great British people on my side. The hon. Gentleman rather dissed—along with the hon. Member for Edinburgh East, in a surprisingly unpatriotic moment—the views of the great British public. I think that I am paraphrasing only ever so slightly when I say that the hon. Lady said, “Pensions are complicated stuff. If you ask them whether they want their money to go with them, they will probably say yes.” She did not quite say this, but I thought I heard her imply, “But what do they know.”

Sheila Gilmore rose—

The Chair: Order. Before I call Ms Gilmore, would the Committee like to clarify “dissed”?

Steve Webb: I understand, Mrs Main, that it is a colloquial term used on the street to mean disrespect.

Sheila Gilmore: The point I was trying to make—I am sure that the Minister would agree that it shows no disrespect to anybody—was that a straightforward survey or opinion poll question may not encompass the issues. I quoted some of the evidence we received, and my point was that, without knowing the risks and benefits, it is difficult to make a judgment.

Steve Webb: For the record, I should clarify that “diss” originates from Jamaican vernacular English; the Committee should be aware of that.

On the hon. Lady’s point, if we are interested in engaging members of the public who do not “get” pensions, their views on what they want to happen when they change job are pretty important. To dismiss them—if I might use that phrase—on the basis that it is difficult and they might not have thought it through understates the importance of what the public has to say.

For the avoidance of doubt, the public were asked in a consumer survey which of four options they wanted when they changed job: that the pot automatically follows the new job, which is “pot follows
member”; that the pot moves to a central scheme and a
new pot starts with the new employer, which is the
position of hon. Member for Cumbernauld, Kilsyth
and Kirkintilloch East; that the pot stays where it is,
and it is up to the person to move the pot, which is the
status quo; or that the pot is visible with all other
pension pots at a central place online, which is known,
slightly surreally, as a virtual aggregator. I have to say
that the Great British public put in fourth place the
Opposition’s position: move to a new central scheme
and start a new pot with a new employer. In third place
was the status quo. In second place—I feel the tension
mounting in the room—with 17%, is the option to have
all other pension pots visible at a central place online,
which is the virtual aggregator. However, with more
votes than all the other options put together was the
colition’s position. Given that 58% of the public chose
this position, I reassure my hon. Friends that this is a
solution is a “hit with the public”. I do kind of think
the public wanted this policy, so it asked some
questions to get the answer that it wanted. The
majority of people who will be buying these
products struggle to understand exactly what they
are purchasing and where their hard-earned savings are
going. This is not my observation, nor the observation
of the Labour party, but the observation of the hon.
Member for Warrington South.

The Chair: Order. Are you asking the Minister a
question in the intervention?

Gregg McClymont: I am.

Steve Webb: Of course, those issues apply equally to
the hon. Gentleman’s preferred model as to mine. People
are being given the option of where they want to move
their money to, and they have expressed a strong preference
for moving their money out to the new scheme that they
have joined, rather than some third-party scheme. The
terms and conditions of the scheme that they are leaving
behind, with deferred member charges perhaps applying,
would be equally relevant to both.

In a sense, if we say, “People are too stupid to
understand all this stuff, so what they say does not
matter,” is that not the problem with pensions? We have
made it so complicated and difficult that people need,
like my hon. Friend for Warrington South, multiple
maths degrees or whatever he has, but they should not
need all that.

Gregg McClymont: I respect the Minister’s argument.
Of course he has a point, but it is utopian to say that a
thing should be something when the facts are as they
are. We know that, as things stand, people find it
difficult to understand the complexity of a pension
statement, and there are reasons for that—that is the
world we live in. We might all wish that it was different,
but that is the world the Minister is living in. Does he
not agree, like the hon. Member for Warrington South,
that we have to accept that pensions, as things stand, are
complicated, and that we have to legislate on that basis,
even if we hope in the future that it will be otherwise?

Steve Webb: I think the hon. Gentleman is saying that
things are complicated and we have to legislate for a
complex world, but I am saying that the views of the
people who actually end up with these pensions matter a great deal. They may not know the fine print of how pensions work, but they know what they want.

Gregg McClymont: The Minister uses the terminology “fine print”, but when people are facing active member discounts, exit fees and hidden charges, it is not fine print—it is a rip off. Does he not agree?

Steve Webb: Mrs Main, you would not have heard the hon. Gentleman describing this morning the scenario of his friend producing a pensions document in which the active member discount was in the fine print, although I will not quibble with him about terminology.

We are trying to get to a situation in which people are automatically enrolled into good-quality pension schemes; in which, when they change jobs, they move from a good-quality pension scheme to another good-quality pension scheme; in which, by default, the money goes with them; in which they accumulate what I have called a big fat pot; in which that big fat pot provides good value for money when they turn it into an annuity; and in which we end the position whereby people have fragmented pots, are not able to buy good-value annuities and lose pensions. The number of people who lose pensions completely is incredible. I often say to members of the public, “Last time you moved house, did you tell all your pension providers your new address?” A lot of people scurry for their handbags and wallets at that point and start writing down, “Note to self—I must do that.” Ideally we need people’s pensions to be in one place, or in as few places as possible.

On the pot size limit, £10,000 gets us going, but £10,000 need not be the end of the story. We have the power to review that limit, and I would have no problem with it being raised in due course. Clearly, however, we want to get things going.

The hon. Gentleman suggested that we cannot do anything about pots created before Royal Assent, but that is not true. Paragraph 1(4)(e) of schedule 16 allows us to prescribe a date from which rights accrue, and that means that we can bring in older pots. Again, we are trying to walk before we run—we are trying to get a system going. Even at £10,000, the steady state might be about a million transfers a year—if we did them all instantaneously—so we should have a sense of scale.

The hon. Gentleman mentioned the IT infrastructure. He seemed to imply that our proposal needs a big, clunky IT system, and that we do not know what the price of it is, whereas his proposal does not. However, how does somebody’s money get from their old scheme to an aggregator? One model would be a sort of carousel system, meaning that whenever a person leaves a job, whichever aggregator’s turn it is gets the pot. That would avoid one aggregator hogging all the money. That system might be fair, but once someone has been allocated to an aggregator, by definition all their aggregation must happen in the same place, so we would need a database to link each person with the aggregator with which they ended up.

That system would be complicated and messy enough—I suspect that it would involve just as much IT infrastructure as our proposals—but the hon. Gentleman’s system goes far beyond that if he does not have a £10,000 limit, and that would be unadvisable. We envisage automatic transfers involving relatively modest amounts ending up, by default, in one big place. However, if he were to take the whole of people’s legacy pension rights without limit, people will need advice, because this is difficult stuff. We envisage a streamlined and automated process consolidating small amounts of money in a worthwhile place without the need for financial advisers and all that kind of stuff.

The hon. Gentleman, however, has an alternative model, and this morning’s sitting was really interesting because the hour and three quarters that he spent describing it enabled us to hear for the first time what that proposal was. It is astonishingly different from what the Bill proposes, and it does not appear to have been thoroughly thought through. Presumably the hon. Gentleman is suggesting that people take all their previous small pots and big pots, and then somehow consolidate them—I am not quite sure how that mechanism would work—in a single place. I was not clear about whether they would be advised to do that.

Gregg McClymont: The Minister builds his argument on an assessment of what people want. Will he confirm that when the DWP’s consultation on improving transfers and dealing with small pots was undertaken in 2012, there was a significant majority in favour of aggregators? Only 21% of those consulted favoured “pot follows member”, while 61% favoured some sort of aggregator. Is that accurate? Is that not what the people want?

Steve Webb: No, unless the hon. Gentleman thinks that members of the public generally respond to DWP consultation documents. The percentages he cites overwhelmingly represent pensions organisations, pension providers and people in the industry. A very modest number of members of the public respond to such surveys. Experts certainly responded to the consultation, and of those who expressed a specific preference—for “pot follows member”, a single aggregator or a multiple aggregator—fewer people explicitly backed a multiple aggregator than backed “pot follows member”.

Gregg McClymont: Is the Minister saying that he prefers a survey by the Association of British Insurers to a survey carried out by his own Department?

Steve Webb: I think that intervention is rather beneath the hon. Gentleman. We undertake complex, sophisticated, technical consultations to which people who understand the fine print of pensions respond. If he looks at the list of respondents, it would be his friends and mine: pension providers, employers organisations, trade unions and so on. I genuinely do not know how many members of the public responded—I might be just about to remember—but only a handful of members of the public respond to DWP consultations, rip-roaring reads though they are. We therefore complement that technical, sophisticated consultation with finding out what the public think, which is entirely appropriate. The reason why the hon. Gentleman is so defensive is that the public have voted clearly for what they want, but he is trying to suggest that their views do not matter.
Steve Webb: That is an absurd comparison. Mysteriously, I now have the list of respondents, so the Committee may note how many names of members of the public are on the list: Aegon, Age UK, Alexander Forbes financial services, Altus, Aon Hewitt, the ABI, the Association of Consulting Actuaries, the Association of Pension Lawyers, Aviva—that is just the As. I did not notice any members of the public. The idea that the consultation is our opinion poll saying one thing, while the ABI survey says something else, is nonsense. When the public were asked for a simple response to a simple question, their views were quite clear.

The hon. Gentleman is right to say that, in response to our consultation, there was a wide range of views. The choice is not “pot follows member” or aggregator. The aggregator is not one proposition, but many propositions, and I imagine that the hon. Gentleman’s proposition would get 0% support, given that the version he described this morning involved unlimited pot sizes and everyone consolidating into a handful of providers. He and I spend our time talking to a range of what are loosely called stakeholders, and I have never heard anyone advocating his proposal.

Steve Webb: The hon. Gentleman uses the word “survey” to describe two totally different things. When the Government produce a complex technical document, with lots of analysis, charts, facts and figures, we are not asking the general public to reply to it—although some ideas were put forward.

New clause 10—a bit like a fund of funds, it is a review of reviews—calls for a review of the entirety of clause 29, and presumably of the other reviews proposed. Does my hon. Friend agree that there are other ways than endless reviews to respond to the imperfections that will inevitably emerge from any Bill, including this one? A good example of one way to tackle those imperfections is precisely my hon. Friend’s response to the call for evidence on the annual contribution limit and transfer restrictions in NEST. That is an excellent example of how Government can respond at short notice, and I hope my hon. Friend will take that point up.

Steve Webb: My hon. Friend is quite right: he has given a classic example of preparing a consultation document, listening carefully—not asking solely the public for advice on technical matters—and coming up with a recommendation that has been widely welcomed.

The shadow Minister is asking for a lot more detail in the Bill on “pot follows member” when in fact everyone involved in this process has welcomed the Bill’s flexibility. They do not want us to box ourselves into a specific and narrow model. To be fair, the hon. Gentleman at one point said that it was good that the Bill gives flexibility. However, it does not give the flexibility he thinks it does: it does not provide for an aggregator as an option, and schedule 16 is quite clear on that. His amendment would not do the job: it would be out of kilter with the schedule, which is entirely premised on a “pot follows member” model. The schedule refers to the scheme that passes the money out, the scheme that takes the money in and the sort of transfers that have to happen. The amendment would change only clause 29, which would not deliver his aim. If we accepted it, we would end up with an internally inconsistent Bill. If the hon. Gentleman returns to this issue at a later stage, he will have to do a lot more work.

Gregg McClymont: I will look again at the matter. What the Minister has said is not my understanding, which is that deleting “of which the person is an active member” from the clause enables a system of automatic transfer into aggregators to proceed. However, to clarify something for the Minister so that we are not talking at cross purposes, the deletion I am proposing would be required to allow the current or a future Secretary of State to use this legislation to move from “pot follows member”—my assumption being that is what the Minister will legislate for—to an aggregator without a new Bill.

Steve Webb: To which my answer is, “But it wouldn’t.” It opens up the scope of clause 29 alone; provisions in schedule 16 relating to the definition of a qualifying
member and an automatic transfer scheme would have to be broadened in a similar manner, as they refer to the member being an active member of the scheme. The hon. Gentleman would have to set about schedule 16 as well. For the avoidance of doubt, the Bill does not provide for an aggregator and, as it stands, does not provide the legal framework to allow us to morph one thing into the other.

The regulations that follow from “pot follows member” will be subject to considerable parliamentary scrutiny next year, because we accept that the full details are not in the Bill. By way of analogy, one thing we have found with automatic enrolment is that if too much detail is put in a Bill, when something changes, the system no longer fits, which leads to a lot more trouble. With automatic enrolment, far too much detail was probably put in the Bill at the time. With this Bill, we are trying to give the legal framework; we will then consult on regulations and have Parliament debate them, and then move with some flexibility. That approach has been welcomed.

The hon. Gentleman mentioned Australia. He is a great fan of the Australian pensions system, as, indeed, are many of us: they have done a good job in Australia. The Australians would accept, however, that they got one thing wrong: not dealing with the issue of stranded pots. The Australians would accept, however, that they got one thing wrong: not dealing with the issue of stranded pots and consolidation. The hon. Gentleman and I met the former senator, Nick Sherry, who is widely respected for his role in the Australian scheme. The Australians are now doing “pot follows member”. They have taken the view that the best way to deal with the problem is to have the money going with people. When it suits the Opposition, they quote the Australians, but when the Australians agree with us, they go quiet.

On 7 November last year, Nick Sherry said of pot follows member: “It’s the only practical way. It’s better off that it’s in”—the worker’s—“last account, which is why I think it’s the only practical solution.”

**Gregg McClymont:** Does the Minister not agree that Australia is in a very different situation? The argument against “pot follows member” is that as things stand, we do not have any clarity on the quality criteria we would need to meet to ensure that someone could not be defaulted into an inferior scheme. The Australians have already undertaken the reforms necessary to ensure that someone cannot be defaulted into an inferior scheme. Is that accurate?

**Steve Webb:** To be clear, the hon. Gentleman mentioned in his speech the consultation document that we published this month: “Quality standards in workplace defined contribution pension schemes”. We will be publishing a similar document once the Office of Fair Trading has concluded its work. It will include measures on charges, including consulting on a charge account. It is absolutely clear to me that we will not do what the previous Government did, which was to put in place auto-enrolment without quality standards.

I would summarise amendments 17 and 9, and various amendments we have yet to come to, as a long list of things that the hon. Gentleman thinks the previous Government should have done but did not, and that we now ought to do. I agree. We need quality standards and action on charging, on scale and on stranded pots. He is absolutely right repeatedly to point out all the gaps the previous Government left on automatic enrolment, and I am proud that this Bill is progressively dealing with them. Quality, which we will come on to substantively in the next group of amendments, is absolutely something that we will deal with.

Amendment 17 proposes that people’s money does not go with them but goes off somewhere else, possibly with very large amounts going to a small number of aggregators, but that is not a model I have heard anybody advocate. We take the view that most people want their money to go with them, which means they get more consolidation. We do not need to review this in 2017, when it has perhaps been up and running for only a year or so, so new clause 10 is a more otiose review than many of the other reviews proposed by the hon. Gentleman. Amendment 17 does not in fact work, because we would need to change schedule 16 as well. On that basis, I urge him to withdraw his amendment.

**Gregg McClymont:** I listened very carefully to what the Minister said. He began, interestingly, with his criticisms of the aggregator model and why he favours “pot follows member”. His most striking point was on surveys, of which we have three: the ABI’s, the NAPF’s and his own Department’s. Of those three, only one—the ABI’s—supports the Minister’s position, and that is the one he focuses on. That in itself is striking. He makes references to my “friends” in the NAPF. I am pleased to say that I do consider the people at the NAPF to be friends of mine. I consider the ABI to be a friend—it is a statistician’s job to listen to all stakeholders. I am surprised that the Minister comes down on the side of the ABI survey, rather than his own or the NAPF’s.

It is important to make two points. First, the Minister tried to characterise the NAPF survey as having leading criticisms of the aggregator model and why he favours “pot follows member”. His most striking point was on surveys, of which we have three: the ABI’s, the NAPF’s and his own Department’s. Of those three, only one—the ABI’s—supports the Minister’s position, and that is the one he focuses on. That in itself is striking. He makes references to my “friends” in the NAPF. I am pleased to say that I do consider the people at the NAPF to be friends of mine. I consider the ABI to be a friend—it is a statistician’s job to listen to all stakeholders. I am surprised that the Minister comes down on the side of the ABI survey, rather than his own or the NAPF’s.

It is important to make two points. First, the Minister tried to characterise the NAPF survey as having leading questions. It actually explained to people what “pot follows member” and “aggregators” mean. The ABI survey did not do that at all. Secondly, I asked about the modelling on the £2,000 limit for a single aggregator, versus a £10,000 limit for “pot follows member”. The Department has done that modelling, but why did it not model multiple aggregators? Its own survey showed significant support for that within the pensions landscape; yet we have only two sets of figures. One does not need to be a statistician to have a nose for the fact that that will probably lead to an unrepresentative set of numbers. The Minister said that the previous Government should have done x, y and z. That may be so, but he has been in post for three years now and it is in his gift to go down what the Opposition believe is the appropriate route.

3 pm

The Minister seems to get a little testy during interventions. I am just trying to clarify these points with him. I welcome the fact that he wants to move down the automatic route, and he is right to do so, but it seems that he wants to characterise our position as moving too quickly towards a balanced market. I am happy to say that the pensions market needs significant reform, and I am not alone in saying that. I stand with the Centre for Policy Studies and some of the Minister’s colleagues, particularly the hon. Member for Warrington South. It is not just me and the rest of the Labour party who are saying this.
The Minister wondered in passing what wing of the Labour party I come from, pointing out, however, that I do come from Glasgow: I am not quite sure what wing that places someone on. I repeatedly mentioned the Centre for Policy Studies and the Minister’s colleagues because if he believes in a functioning market and wants people to have a good deal, it is not an issue of left or right; it is an issue of right and wrong. All we are seeking to do is to coax the Minister faster down what we believe is the right route. I therefore intend to press the amendment to a Division.

Question put, That the amendment be made.

The Committee divided: Ayes 4, Noes 9.

Division No. 3]

AYES

Blenkinsop, Tom
Gilmore, Sheila

McClymont, Gregg
Nash, Pamela

NOES

Bradley, Karen
Colville, Oliver
Graham, Richard
Griffiths, Andrew
Pincher, Christopher

Reckless, Mark
Selous, Andrew
Simpson, David
Webb, Steve

Question accordingly negatuated.

Gregg McClymont: I beg to move amendment 9, in clause 29, page 15, line 18, at end insert
‘and which meets the quality requirements set out by the Secretary of State in regulations’.

The Chair: With this it will be convenient to discuss the following:
Amendment 10, in clause 29, page 15, line 21, at end insert
‘and to set out quality requirements in relation to such accounts’.

Amendment 11, in schedule 16, page 88, line 34, leave out ‘may’ and insert ‘shall’.

Amendment 12, in schedule 16, page 88, line 38, at end insert—
‘(c) other aspects relating to the quality and good standing of the scheme’.

Amendment 13, in schedule 16, page 90, line 20, at end insert—
‘(3A) The regulations must provide for quality requirements in relation to governance, administration and other relevant matters relating to the quality and good standing of the merged account’.

Gregg McClymont: In discussing these amendments, I will try to get over my disappointment at having moved off my favourite clause, 29.

Steve Webb: We are still on clause 29.

Gregg McClymont: Well, my favourite part of clause 29. We are getting even more granular.

Our justification for amendment 9 is that clause 29 splits the Secretary of State’s power to require automatic transfer, so that it applies first to cash and then to assets, an issue raised by the hon. Member for Gloucester.

The amendment simply requires that the quality requirements apply when cash is transferred. Our amendment would clarify that when the cash equivalent of benefits is transferred, automatic transfer schemes “must” rather than “may” have quality requirements. We are pressing the Government a bit further—it is no more complicated than that.

The justification for the change proposed in amendment 10 is that it would add a quality requirement where assets are automatically transferred. That would tidy things up and make matters straightforward to understand. It would be clear that a quality requirement would apply in those situations.

Amendment 11 would leave out “may” and insert “shall”. We know that people’s savings will be automatically transferred into these schemes. There should be a duty, not an option, on the Secretary of State to establish quality requirements.

Amendment 12 would insert
“(c) other aspects relating to the quality and good standing of the scheme.”

The amendment would allow the Secretary of State to impose higher standards on schemes into which people’s savings automatically default, on issues in addition to governance and administration.

In terms of quality standards, governance and administration are key, but there are other issues relating to quality. For example, the Minister is consulting on a price cap for auto-enrolment schemes. The amendment would give the Secretary of State the power to set a lower more demanding price cap for automatic transfer aggregator schemes than he might do for all qualifying schemes for automatic enrolment.

We think that is possible. As the Minister will be aware, we argue that aggregators will operate with economies of scale and be able to operate at low cost. If the Minister were minded to set a more demanding price cap for automatic transfer aggregator schemes, that would mean that only schemes operating at economies of scale such that they could meet that more demanding price cap could get into that place. That would ensure that default automatic schemes became scale operators with low costs for savers. I would describe amendment 12 as trying to increase the Secretary of State’s and the Minister’s room for manoeuvre regarding quality in automatic transfer schemes.

Amendment 13 would insert
“(3A) The regulations must provide for quality requirements in relation to governance, administration and other relevant matters relating to the quality and good standing of the merged account.”

That would oblige rather than give an option to the Secretary of State to require automatic transfer companies to respect quality requirements when accounts are merged, rather than simply when a money transfer takes place. It would clarify that automatic transfers involving assets other than cash must be in accounts that meet quality requirements.

I will give the Minister a flavour of our general view of the amendments and why we believe they are necessary. As things stand, the Bill would permit the Secretary of State to add quality requirements to schemes into which people’s pension savings will be automatically defaulted when they change jobs. That goes back to our discussion
about what the quality requirements will be. The Minister mentioned that he is consulting on the matter and that there will be further consultation after the OFT reports.

We think the Bill should oblige the Secretary of State to require schemes receiving those pension savings to meet high quality requirements in the various ways in which automatic transfers will take place. We are trying to encourage the Government to ensure that every form of automatic transfer possible has to meet these quality requirements.

I think it was just last week that the DWP published its call for evidence on quality standards and workplace defined-contribution pension schemes. I am pleased that the Government are beginning to move in that direction, as it is important. That reflects a debate that has moved quite significantly in the past year. We would be further encouraged if the Government moved faster—a familiar plea—and were less tentative in their ambitions and less inclined to temper measures that are in our view clearly in the interests of savers and saving.

The Minister understandably remained somewhat enigmatic about those who are telling him not to go so fast. The amendments are about giving the Minister and the Secretary of State the power to face down those interests and to ensure that everyone is getting quality.

Steve Webb: There is a danger of violent agreement breaking out. We entirely agree that we need quality in workplace pension provision. We entirely agree that people should automatically be enrolled into workplace pension schemes of sufficient quality. We entirely agree that automatic transfers should be between schemes of requisite quality. Governments do many things because they are the right thing to do—not because an Act of Parliament that will have Royal Assent next Easter will make them do them. We are doing such things.

The hon. Gentleman referred to the call for evidence on quality that we published last week. We have already indicated that we will publish a further document in the autumn that will cover the vexed issue of charges, but we want to do that in the light of the OFT’s work. I know that the hon. Gentleman is keen, as am I, to have the OFT look at such matters, but we have to give it time to do its work before pre-empting it with our conclusions. Changing the law to make us do something so that by next April we have a legal duty to do some thing that we have already begun to do this summer seems rather unnecessary.

I think the hon. Gentleman has slightly misunderstood one or two things, so I will provide some clarification. He is a bit hung up—I do not mean that at all pejoratively—on “cash”. Just to make it clear, standards will apply to all automatic transfer schemes regardless of the type of assets that may be transferred. Cash is the unit of currency that may be used to transfer value, but standards apply to schemes. There is no distinction between cash and other assets.

We already have powers in the Bill to set standards not just on governance administration, on which we have already consulted, but on charging. We want all schemes to meet the requisite standards, not just aggregators. If we do impose a charge cap, for example, we would want the flexibility to be able to reduce it over time as schemes became more efficient. I said earlier that we need flexibility. Putting everything in detail in the Bill is not the place to do it, but that is the direction of travel in which we are clearly going. I accept the hon. Gentleman’s point about quality.

The hon. Gentleman suggested that we had been “tentative”. I point out to him that we have recently banned consultancy charges. We did not choose the quiet life by restricting them and allowing people to justify them; we just said that if the money is not benefiting scheme members, let us get it out of the system. If firms want to pay for advice, that is fine—let them pay for advice. That was clear, decisive action and it has been widely welcomed in the interests of consumers. Where it is necessary to act quickly and firmly, that is what we have done.

The hon. Gentleman referred to my three years or so in this role, and I hope he will observe the sequencing of what we have done, because it could almost have been planned. The first piece of legislation that I signed my name to was the restoration of the earnings link on the state pension. People campaigned for it for 30 years and the coalition delivered it.

Oliver Colville (Plymouth, Sutton and Devonport) (Con): Does the Minister recognise that both the Conservatives and Liberal Democrats campaigned for that during the last general election?

Steve Webb: Indeed. I am sure that the record will show that I used the word “coalition” in my remark.

Getting the state pension foundation right for those who have already retired was absolutely the first thing that we had to do. The second was to bed in the automatic enrolment process in time for the 2012 start, so we had a review, “Making automatic enrolment work”, in summer 2010 and we acted on its recommendations in the Pensions Act 2011. Auto-enrolment has duly started, and successfully. The third thing we had to do to underpin automatic enrolment was to get the state pension infrastructure right for the next generation of pensioners, hence this Bill, single tier and all that.

Those are clearly first-order issues, as well as making the system more sustainable through state pension age, but we need to move on to small pots, consolidation, quality standards and so on. There is a logical sequence to the whole thing.

3.15 pm

I reassure my hon. Friends that, far from being tentative about these matters, we have been remorselessly and brutally systematic in, first, prioritising those who have already retired; secondly, making sure that auto-enrolment got off to a stunning start, which it has; thirdly, having a state pension system that we can be proud of and that works; and, finally, moving on to the next phases of our agenda.

Unlike in many of our discussions, we are not dealing with a complex matter. The hon. Gentleman wants quality, and we want quality. We plan to regulate and legislate for quality. We do not need a law to make us do so, because we have already started.

Gregg McClymont: I thank the Minister for his response to the amendments. It is absolutely right to ban consultancy charging. The Minister will encounter no disagreement.
on that from the Opposition, because we welcome the fact that the Government have done it. The Minister said that he was working to a plan that is remorselessly, brutally systematic—that is quite a phrase—and suggested that there was a sequence regarding state pension, auto-enrolment and flat rate.

There is another pertinent story here. The amendments are designed to change “may” to “must” to oblige the Government to do certain things, because in the sphere of private pension reform the Government have been a bit slow off the mark, to put it politely. When Labour first began to look at the matter about a year ago, the Minister’s initial response was to say that we were scaremongering. But he presented those very high charges as though they were typical is not what we need.

The Opposirion, who I do not think discovered high pension charges only a year ago, referred to people charging 4% and cited a scheme that was doing so. It turned out that charges only a year ago, referred to people charging 4% but he presented those very high charges as though they were somehow typical or illustrative. We are saying that if we want people to accept auto-enrolment into workplace pensions, scaremongering by citing extreme examples as though they were typical is not what we need.

Steve Webb: The hon. Gentleman has said that twice now, so I would like to clarify this. The Leader of the Opposition, who I do not think discovered high pension charges only a year ago, referred to people charging 4% and cited a scheme that was doing so. It turned out that that scheme was providing superb returns to its members, but he presented those very high charges as though they were somehow typical or illustrative. We are saying that if we want people to accept auto-enrolment into workplace pensions, scaremongering by citing extreme examples as though they were typical is not what we need.

Gigg McClymont: That was an important intervention, because it illustrated some of the differences between our approaches. There is no point quibbling over dates, but I think that the incident we are discussing took place about a year ago. The Minister again used the word “scaremongering” to describe our talking about a 4% charge, but over the past year it has become clear that we often do not know the total cost of a pension. I referred to that earlier when the Minister quoted the 2012 survey of employers. Most employers in that survey have no idea whether they are being charged or not.

As things stand, we simply do not know what people are being charged. I assume that is why the ABI—friends of the Minister’s and mine—are creating a voluntary code of conduct, and why the Investment Management Association, which represents fund managers, is bringing in a voluntary code of conduct on costs and charges. The NAPF—the Minister designates it as my friend, but I am perfectly happy to include him in its affections—is doing the same thing.

Richard Graham: The hon. Gentleman is quite right to highlight the difficulty of analysing the exact costs of pension provision, the obscurity within which the language is sometimes wrapped, and the fact that many pensioners as well as many employers will not be able to specify with great clarity the exact costs. Is he in danger of missing the value of what is involved, however? There are two sides to the equation: the cost and the value. I am interested in the fact that, earlier, he was recommending consolidation into a small handful of aggregators where costs would probably be lower, but there would be no clarity or confirmation of the value of the performance generated by those aggregators. Is he in danger of repeating the same mistake on the issue under discussion?

Gigg McClymont: I do not accept that I am making a mistake. The hon. Gentleman accepted that there was an issue in respect of the disclosure of costs. It has been said to me before that we focus too much on cost and not enough on value, unless we know the cost to begin with. We simply do not know the cost.

Richard Graham: When people know whether their pension has gone up or down and by how much, in a sense the cost of that is less relevant than the value generated. Will the hon. Gentleman accept that there are two different ways in which to look at a financial consequence?

Gigg McClymont: My view is that, before we can work out the value, we have to know the total cost. The hon. Gentleman made a broader point, when he said that value matters, and I do not disagree. For example, the Australian market is now moving into the debate about value. Do we need a more complicated asset allocation and more higher cost actively managed funds, as we move towards a mature book, when people come into retirement under the new system? I do not disagree with that but, until we can actually clarify the total cost and charges of a pension scheme in the pensions market in the United Kingdom, we cannot take part in a value debate.

Richard Graham: If the hon. Gentleman had his pension fund invested in units that rose 10% in value last year, he would know the value of the investments of his future pension. Whether he would know the costs beneath that is not necessarily relevant to his understanding of its value. Does he accept that?

Gigg McClymont: If the hon. Gentleman is saying that everyone should not know the total cost and charges on their pension, I disagree. I have no problem with that. It is perfectly legitimate to disagree. We believe that everything has to be disclosed.

Richard Graham: When F. E. Smith was giving evidence at a case some time ago, he was asked by the judge to explain his point. At the end of doing so, the judge said, “Mr Smith, I regret that I am none the wiser,” to which Mr Smith replied, “No, m’lud, but you are much better informed.” Can I leave it at that?

The Chair: Order. Mr McClymont has to treat that as an intervention, not a question.

Gigg McClymont: I guess so.

Where was I? [Interuption.] Fortunately, that was a rhetorical question. Before the hon. Gentleman intervened, I was saying that we can sum up the Minister’s position on the amendments. The Minister told us to trust him, and said that he had a plan. He used the terms “the direction of travel”, as well as “remorselessly and brutally systemic”. I love that phrase. We are working to a plan, and we are now discussing the next part of the plan. That is a fair assessment of the Government’s position. If the hon. Gentleman is absolutely adamant that they are going down that route, why not accept the amendments?

Christopher Pincher (Tamworth) (Con): We are certainly all enjoying the hon. Gentleman’s contribution, as long as it may be. However, we get the feeling that the
amendments tabled by the Opposition are somewhat superfluous. I put it to him that amendment 11, which will change schedule 16(12)(1) from

“The regulations may impose requirements”
to the regulations “shall” impose requirements. That does not follow through because he does not want to change the words in paragraph 12 (2), which say:

“The requirements may in particular relate to—
(a) the governance of the scheme;
(b) the administration of the scheme.”

That paragraph gives the Government some flexibility. Why, therefore, does he need to impose on the Bill amendment 12, which says:

“other aspects relating to the quality and good standing of the scheme.”?

In not wanting to amend paragraph12(2), he appears to be admitting that the schedule has sufficient flexibility to cover off those other quality aspects. He seems to want to impose some amendments, but not others, and it does not seem to follow through.

Gregg McClymont: That is not my understanding of the amendments. Listening to the hon. Gentleman, I appreciate that he has given the matter some thought. The general thrust of the amendments is to try to get the Government to put into law something that they say they want to do. I do not think that that is an unfair thing to propose. As the Minister says, this is step 4 of his plan. I take him at his word. The consulting charges are an example of it, as are the consultations. We have a difference of view over how important this is and how quickly it has to proceed. Generally speaking, our view is that the amendments put into law something that the Minister is remorselessly, brutally and systematically raring to do. As things stand, we intend to push the amendment to a vote. Let me say finally that the Minister refers to violent agreement on this. I am pleased to hear that if that be the case. We all want to see a pensions market that delivers for savers; that is the goal we are all trying to get to. We think that toughening up the Bill will help the Minister to achieve that, so we will push the amendment to a vote.

Question put. That the amendment be made.

The Committee divided: Ayes 4, Noes 9.

Division No. 41

AYES

Blenkinsop, Tom
Gilmore, Sheila
McClymont, Gregg
Nash, Pamela

NOES

Bradley, Karen
Colvile, Oliver
Graham, Richard
Griffiths, Andrew
Pincher, Christopher
Selous, Andrew
Simpson, David
Webb, Steve
Wheeler, Heather

Question accordingly negatived.

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

Steve Webb: I will not detain the Committee unduly on this, because most of the meat of the automatic transfer powers is in schedule 16 to which the clause refers. However, it is worth putting on the record a couple of important observations about how we envisage “pot follows member” working. One is that, if we are not careful, we could have 1 million small pots flying all over the place, following people—stalking them. Clearly, there is a cost associated with that. The hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East referred to some of the big providers—NEST, NOW: Pensions, B&CE, the People’s Pension and so on—and the cost that any transfer mechanism would impose on them. We understand that point and do not wish to cause any more difficulties than are necessary for the proposition.

To be clear, one of the models we are looking at would be that pots would not have to be instantaneously follow the member. For example, one option would be that perhaps once every year or two, schemes would look for stranded pots of their current members and pool them all in one go. If someone started with NEST, moved to NOW and came back to NEST, in that scenario, if the pooling together happened a couple of years later, they would never have had to put the money from NEST out to NOW and back to NEST. They would have stayed as a NEST member, their NEST entitlement would stay where it was, and all they would have to do is consolidate the one pension that was with another provider.

In some of the oral evidence it was suggested that there would be vast numbers of transfers going on all the time, every day, with huge costs. The Bill contains practical, sensible provisions that would enable us to ensure that pensions got consolidated soon enough, but without creating nugatory work for schemes. It is worth putting that on the record.

Schedule 16 goes into some detail about the parameters of the “pot follows member” system, which we will come to in a moment. However, I wanted briefly to come back to the issue of quality. The hon. Gentleman essentially said of the auto-transfer stuff that on quality we ought to get a move on. It is worth saying that we are less than 12 months into automatic enrolment. The evidence is that that the schemes into which people are currently being automatically enrolled are of high quality, as far as we can tell. People are being auto-enrolled into the employer’s current scheme or into new schemes at charging levels that we have not seen before and, as the hon. Gentleman says, new entrants are coming in. We do not, therefore, think that we currently have a quality problem with auto-enrolment.

But we could have. Clause 29 provides for an auto-transfer mechanism that will have quality standards for the point at which auto-transfers might happen, which is the point at which we might have a problem with quality. In a sense, my remorseless, brutal, systematic approach is in place precisely because we have prioritised the things that we had to do first: state pension reform and getting automatic enrolment up and running. In a sense, in the early phases, quality is looking after itself in automatic enrolment for big employers. They are shopping around and doing due diligence for their employees, so workers are being enrolled into good quality schemes, but we cannot assume that that will happen.
We absolutely want quality, but rushing it would also be a mistake. For example, if we put in a charge cap too low, there is a danger that we would drive some providers out of the market and have excessive consolidation. If we go too high, we might find people drifting up towards a charge cap and it becomes the new normal. Those are delicate balancing acts. The hon. Gentleman mentioned stakeholder pensions this morning. They came in with a cap at 1%, and eventually 1.5% was regarded as an acceptable cap. We would not dream of that being acceptable now.

As the market evolves, what becomes appropriate evolves, which is another reason for taking a bit of time to get things right rather than going hell for leather. The default position of any Opposition is, “Do more, quicker.” However, Governments that have done more quicker have sometimes lived to regret it. We are looking carefully at the market. The hon. Gentleman mentioned the industry-led initiatives on which we have worked with the industry. Our friends the NAPF, our friends the ABI, our friends the IMA and others have been bringing forward their own initiatives, which we very much welcome, but if such initiatives do not take us to where we need to be, legislation may well be necessary.

Clause 29 paves the way for schedule 16, to which we will return. It is essential to ensure that we have the automatic transfer potential, which is an integral part of our solution to the problem of dormant pension pots. I therefore commend the clause to the Committee.

Gregg McClymont: I am interested, again, in what the Minister said. I would like to pick up on two of his points. First, he said, as he has said on the record a number of times, that he does not think there is a quality problem with auto-enrolment, as things stand. I take that to mean that in the early stages, the big employers are getting good deals from providers. That certainly appears to be the case. However, I do not think the Minister will disagree—he will intervene if I am misrepresenting his position—that that does not tell us much about what will happen with the smaller employers.

In his response I think he was anticipating that when he said that it is a delicate balancing act and we have time to get it right before it gets to smaller employers. It is worth putting on the record that there is a big difference between the big blue-chip companies that are enrolling their employees in the new workplace pensions as we speak and the small employers, who will be staging between now and 2017. I believe—the Government have moved back the auto-enrolment staging dates. Therefore, it does not tell us very much.

We know from the survey the Minister quoted, which I dug into a bit more to see what was being said, that smaller employers in particular do not have the pensions resources to get the best possible deal from a provider. That goes back to the broader argument about how to rebalance the pensions system so that those representing the saver—the employers in particular—are at the bargaining table with the providers so they are able to get the best possible deal. Our concern is that the Government have had to be encouraged down that road.

The Minister takes a different view, but in the past year the pressure has built up for action on the private pensions market. This morning I mentioned the report of the Royal Society of Arts on what constitutes a charge, and the report of the pensions institute of the Cass business school, “Caveat venditor”, on the hidden charges that can accrue on a pension. There have been various developments in this debate since then. The most significant in recent months has been the recent OFT announcement. The OFT is currently undertaking an investigation into the private defined contribution pensions market, and the Financial Conduct Authority is looking into the annuities market—the Minister mentioned annuities.

I do not think it is unfair for the Minister to set out his direction of travel and to introduce what he describes as building blocks, as he has done. However, the issue goes back to the assessment of how urgent the need to reform the private pensions market is. If it were just me saying that, that would be one thing, but it is a cross-party issue, and a range of organisations have said that the market does not deliver effectively for the consumer. That is a very important point. I appreciate that the Minister is trying hard to move things along, but, in our opinion, he must go faster.

It is that “trust me” thing. For the Minister, I can entirely understand that. He knows what he wants to do and he is keen to do it. Why can people not see that he is doing all the right things? Things are going to happen, and people should not be so impatient. I absolutely understand that psychology. However, he has to deal with significant vested interests in this space. That is just a fact. It is a big industry. We have sought to ensure that the Minister has more tools at his disposal so he can get his way with parts of the industry that want him to go more slowly than he would otherwise proceed.

The clause sets up the power for an automatic transfer mechanism. That is very important. However, we have significant concerns about the Minister’s preferred route of pot follows member—I know hon. Members would like me to elaborate on what I said this morning about that, but I am afraid I will disappoint them. We do not oppose setting up the power for an automatic transfer mechanism, so on that basis we will not oppose the clause standing part of the Bill.

Question put and agreed to.

Clause 29 accordingly ordered to stand part of the Bill.

Schedule 16

AUTOMATIC TRANSFER OF PENSION BENEFITS ETC

Gregg McClymont: I beg to move amendment 20, in schedule 16, page 85, line 17, leave out paragraph 1(4)(e).

Schedule 16 sets out some of the detail of the provision. The justification for the deletion is that, on our reading, the schedule is intended to give the Secretary of State the ability to exempt all existing pots from the automatic transfer mechanism. The Minister painted what is thought to be an alarming picture of enormous amounts of money—£0.75 trillion, I think—being brought into the stranded pot system, but that shows how big the problems are with the current pension system. It tells us, first, how many stranded pots there are, and, secondly, how little engagement there is with the current pension system, the Minister made great play with the word “engagement”. Surely an aggregate stranded pension pot of such size illuminates the significant problems with the current pensions market.
The amendment would remove the ability from the Secretary of State to exempt all existing pots from the automatic transfer system. If the Minister intends to proceed on that basis, it explains why the DWP thinks that by 2050 or 2060, 87% of people will still have multiple pots—a situation we would all deplore. This is a significant point of disagreement between the Minister and me. If his £0.75 trillion figure is correct, it is still not clear to me why that amount of money is better off stranded than being brought back into the system. On that basis, I commend the amendment to the Committee.

Steve Webb: This comes back to the issue of walking before one can run. We envisage a massive potential problem of millions—and eventually tens of millions—of small pension pots. We want to get to a situation in which people’s pension savings are consolidated in many fewer places. But getting from here to there, given the scale of the problem described by the hon. Gentleman—£0.75 trillion of dormant pots by 2050 even under our plans, or without auto-transfers anyway—is a huge challenge. He should bear in mind that dormant pots can be DB as well as DC, so there are issues around DB automatic transfers, but there is no difference between us on fragmentation being a problem.

All we propose to do is initially set a date beyond which automatic transfers will apply. One option would be to say that all automatic enrolment pots would be auto-transferred, while another would be to say that all pots that become dormant after Royal Assent would be auto-transferred—in fact, the two options would cover many of the same pots.

Over time, once the infrastructure is in place and we are confident that we have dealt with things such as pension liberation fraud, transfers and identity—once the infrastructure is in place to deal with those sorts of things quickly, cleanly and cheaply—there might be huge potential for expanding the scope of all that. We might do so through raising the pot size limit or by bringing the date back in time; indeed there might in effect not be a date. The basic idea is that we start with something manageable. Even with our pot size limit and date proposed, we could be talking about 1 million dormant pots a year if we are not careful.

3.45 pm

All we are trying to do through paragraph (1)(4)(e) of the schedule is to allow us to implement the policy gradually. The amendment would stop us from doing that; it is the “big bang” amendment. Having, for 13 years, not thought that there was a problem with small pots or that it was necessary to legislate for dormant pots at all, the hon. Gentleman now wants to amend the Bill so that every dormant pot in the entire British pension universe is within the scope of the policy. I hope that he will, on reflection, think that the amendment is absurd.

Clearly, we need to get the scheme up and running and to do so at a manageable scale. Just to provide the Committee with one example of some of the problems with the process, pension scheme record keeping is not universally brilliant. A year or two ago, I responded to an Adjournment debate about a pension scheme for Grimsby’s fishermen. I seem to recall that one of the problems with some of the pension records was that they said, “Captain Jones”, and that was about as much as it had. There was no national insurance number or date of birth; it just said, “Captain Jones’s pension”. I hope that we have come a long way since then.

If we use the date powers that the schedule will provide us to say, for example, that new auto-enrolment schemes are within scope, I think we can then have more confidence—although not total confidence—about data quality. If we simply said, as the amendment suggests, that every scheme ever would be within scope, there would be carnage, because many pension schemes out there have lousy record keeping.

The Pensions Regulator is working on the issue and trying to drive up standards, but to try to graft new legal duties on a system where the data are, shall we say, of variable quality would be a nightmare. Even in the context of auto-enrolment, someone told me the other day that a pension scheme had had trouble because certain provisions with auto-enrolment referred to the state pension age of the scheme member—one has to know whether a member is a man or a woman. Apparently that pension scheme did not know whether its members were men or women and was going down the first names to find out whether it was a Julie or a Jack and then which pension age applied. It is incredible to think that that is a modern pension scheme.

We have an awful journey to go on to ensure that pension schemes have high-quality data. The idea that we should not, in some way, restrict the universal pension schemes in the first instance to which automatic transfers apply, or should apply a legal duty to practically every scheme, all with variable standards of record keeping, and expect schemes to be able to ask other schemes for data that they might not have or to send pension schemes to the right place is, to put it gently, running before we can walk.

The ability to constrain what we are doing to the newest schemes—those set up under auto-enrolment and those that we are clearest about—seems to be entirely measured. Oppositions always want us to go fast, but we believe in getting the policy right, which is why we need the powers in the Bill.

Gregg McClymont: May I pick up on a couple of points? The first is about our earlier discussion—the Minister mentioned it this afternoon—regarding the lack of a level playing field between new entrants and current players in the marketplace, if we have a situation where only pots stranded after Royal Assent are included in the automatic transfer mechanism. We need to think about that a little.

As things stand, the book of an insurance company that is a current player in the market equals existing contracts plus future contracts. Existing contracts will be exempt from the new system, while future contracts over £10,000 will be exempt. We are talking about the biggest players in the UK pensions market. If the Minister has his way, the bulk of existing providers’ business will be exempt from the new system.

New providers such as B&CE, NOW and NEST have few existing contracts—they have only just started—and most future ones will not have accumulated £10,000 by the time Royal Assent is granted. The new entrants into
the marketplace, who, as the Minister would agree, are driving down charges and increasing quality, will therefore face a situation where the bulk of their business rightly has to meet the challenges of the automatic transfer mechanism. However, the bulk of the existing providers—the big players in the marketplace—will be exempted.

That is a significant competition issue and we need to probe that a little further. At the moment of automatic transfer in the pot follows member mechanism that the Minister proposes, the company with the current contract with the saver can try to persuade that customer to opt out of the automatic transfer and stay with the existing provider. In that case, the competition would be between the company with the current contract and the company to which the contract would automatically transfer under pot follows member.

On that basis, looking at it from a fair perspective of working out how matters will proceed, that will affect virtually all business of the new providers and little of the business of the insurance companies; they will have much more margin to play with and there will be a big cost difference.

More widely, if there are excess profits on the contracts written before pot follows member—those that will not be brought into that system that might exist at the moment, rather than after Royal Assent—there is a danger of cross-subsidy. Admittedly, that would be within a company, but it would still be cross-subsidy because if the Minister takes the view, rightly, that a transfer mechanism, whatever it be, is a way of driving forward quality and delivering more value for the saver, that probably involves reducing excess profits where those exist. However, the current providers will be able to retain those profits in that situation and use them to fund a retention offer for the saver.

The lack of a level playing field under the Minister’s preferred system is a big issue. He mentioned that he is aware of that, but that is significant for anybody who cares about competition and I am sure that he will consider that further. He suggested the possibility of a system that does not require transfers every year to deal with that problem, but then we would be again into the situation where things might need to take place to make his chosen mechanism work properly that are not laid out before us. We simply do not know. He indicated that he is interested in that, but, for us as a Bill Committee, there is nothing for us to look at. We do know, however, that under his system there will not be a level playing field between new entrants to the market and existing players.

We all believe that new entrants can be really effective and I think that the Minister would agree that bringing down charges in the early stages of auto-enrolment is important. NEST, B&CE and NOW have played a big role; they came into the marketplace and said, “We will charge this”, which was significantly lower than what had been the case and the other providers responded to that on price and hopefully on quality, too. That is a significant issue and something that further supports the Opposition’s view that giving the Secretary of State the ability to exempt all existing pots from the automatic transfer mechanism is not something that we can support.

Question put. That the amendment be made.

The Committee divided: Ayes 5, Noes 9.

Division No. 5]

AYES

Blenkinsop, Tom
Gilmore, Sheila
McCann, Mr Michael

McClymont, Gregg
Nash, Pamela

NOES

Bradley, Karen
Colville, Oliver
Graham, Richard
Griffiths, Andrew
Pincher, Christopher

Selous, Andrew
Simpson, David
Webb, Steve
Wheeler, Heather

Question accordingly negatived.

Question proposed. That the schedule be the Sixteenth schedule to the Bill.

Steve Webb: There is obviously a lot of detail in schedule 16. It goes on for many pages, but it might be helpful if I explain how “pot follows member” might work and set out a couple of models. We produced what we call inside the Department the policy certainty document—I slightly overstate it there—in April 2013. I want to give the Committee a bit more clarity about how this might work in practice. The basic idea is that a person works for firm A and is auto-enrolled by firm A into pension scheme A. He moves to firm B and leaves behind a pot below the pot-size limit. Firm B auto-enrols him into pension scheme B, which then establishes that he has a dormant pension pot in scheme A and, unless he objects, pulls the old pension pot into the new scheme.

We are essentially looking at two ways of doing that. One is what might be called a central database model. Under the powers in schedule 16, the scheme in which money has been left behind would have a duty to notify the central database that there was a dormant pot. So there would be a dormant pot alert. That is then stored on the central database. Then the new scheme that has auto-enrolled the employee checks the central database to see whether the new scheme member has any dormant pots. It finds one, contacts scheme A and pulls the money across. Clearly, that is an IT project. I keep telling my colleagues in the Department that as Excel spreadsheets can have a million lines on them these days, surely all we need is a big Excel spread sheet. I am advised that we need more than that. However, the basic principle is obvious. The dormant pot is registered as what is called the ceding scheme and then the automatic transfer scheme pulls it across.

One can see the attractions of that kind of model. It could be a nucleus for a broader pensions database where perhaps information about all an employee’s pension schemes were held even if they did not end up physically consolidated. As was mentioned earlier, portability is important. This database could be used as a facilitator for pension transfers more generally. We certainly envisage that pension transfers have to be a lot cheaper and simpler than they are at the moment. That is absolutely clear. That would be one model. We envisage—we have powers in schedule 16 to do this—that ultimately the industry will pay for this. The Government will not in the long run pay for this.

Clearly, if there are set-up costs, there might be issues about whether the Government make it happen. We have indicated that there is a levy, for example, on
pension schemes, so one option would be to use the levy to recoup the costs. However, the basic idea is that, as our impact assessment shows, the net present value of savings to the pensions industry of getting rid of millions upon millions of stranded pots runs to £6.4 billion. We think that asking the industry ultimately to pay the cost of the infrastructure to save them £6.4 billion is a pretty good bargain.

Gregg McClymont: I thank the Minister for his elaboration on the cost of an automatic transfer mechanism. Would it be fair to say that the Government have not come to an agreement with the industry on the industry funding this? Is that a fair assessment of the position? Do we know precisely how much it will cost?

4 pm

Steve Webb: We certainly do not know precisely how much it would cost. It depends how it is done. For example, just to cite one of the things that we have to be careful about, we are increasingly aware of a growing phenomenon called pensions liberation fraud. It sounds rather too glamorous for something that is actually rather seedy and rips people off. There is a tendency for people with pensions to be approached and encouraged to transfer them into decidedly shady pension schemes. They then find that they have breached Inland Revenue rules by early access and have a hefty tax penalty, that the new schemes have very high charges, and they can end up losing all their money.

Clearly, we do not want to facilitate that sort of thing through automatic transfers, so we will need an infrastructure just to make sure that money goes from proper pension scheme to proper pension scheme. That kind of thing needs doing. I should add that it would need doing in the hon. Gentleman’s automatic aggregator notion. Gentleman’s automatic aggregator model as well. One would have to be quite clear where the money was going and about the bona fides of the people the money was being sent to. That is one model, an IT-based central database and so on, which is from where I instinctively came to this.

There is another way of doing it, which would, in a sense, be more paper based. We refer to it as a pension information transfer document, or a pensions P45. The basic idea would be that, when someone leaves a firm, the reference number of the scheme that they have come from is on the P45 or similar. When they are auto-enrolled on a new scheme and it asks to see their pensions P45, it would have the reference number of the scheme they came from. The new scheme could then simply directly contact the old scheme and ask if there was a dormant pot. The old scheme would say yes and send the money across.

At one level, that is attractive, because it avoids the need for a big database and all the rest. The downside is that we all lose bits of paper. How many times have people started a new job and been asked for their P45 from their previous employer? Then it is: “What did I do with it? I have lost it.” We know there would be a significant drop-out if we went down that route. So we might get 70% of dormant pots going across and the other 30% never supplying the information.

We are trying to strike a balance. There is a relatively cheap and simple paper-based way of doing it—it need not be paper based, but a direct way of doing it. We also want to think about the burden on employers. Would that put a burden on firms so that every time somebody left them, they had to put on the P45 the reference number of the scheme of which the individual was a member? If the firm had only one pension scheme, that would be blindingly obvious. However, many firms have multiple schemes, multiple sections and so on. We therefore want to be a bit careful about the burden on firms.

We are still talking to IT people, the pensions industry, consultants, employers and many others about how best to deliver this. That is why the Bill gives us flexibility. Schedule 16 sets out a set of general rules, such as the duty of a scheme someone is leaving to report dormant pots, and the duty of the scheme someone joins to obtain that pot. There are rules about the right to opt out, because this is an automated process, and the powers for us to raise money to pay for all that. There is obviously a lot more detail in schedule 16, but I hope that this gives the Committee a flavour of how we plan to use the powers in it, and I commend it.

Gregg McClymont: I thank the Minister for that run through schedule 16. He is right. There is more detail in schedule 16, but it is fair to say that the Government’s desire automatically to transfer pots via “pot follows member” is a long way from fruition.

The Minister mentioned a couple of options: a centralised IT database or perhaps a paper-based system, but he pointed out the downside of bits of paper. He mentioned enthusiastically something Aviva had said about small pots and the pot follows member system. Is he aware of the proposal from, I believe, John Lawson, of Aviva and the ubiquitous Tom McPhail at Hargreaves Lansdowne? According to the pensions press and things that I have seen, they have come up with a proposal for perhaps making this work. I would be interested in the Minister’s view.

The Minister mentioned that, in the end, the industry will have to pay for this. That does not surprise one. He also mentioned a levy. For other members of the Committee who might not be aware of it, will he say more about how that might work and what levy he refers to?

Steve Webb: I am grateful to the hon. Gentleman. He asked about the alternative proposition that John Lawson and Tom McPhail had put forward, which, to Labour party ears might be pronounced “OMOP”. That is, one member, one pot. Their basic proposition is that, when people change jobs, they leave the pot behind and the new employer has to put money into the pot that they started with.

Their interesting argument for that is that it avoids moving money around. Money would probably stay in the first scheme someone joined. Someone would be free to say to a new employer, “No, put money into my new pot,” but inertia being such a dynamic force, the chances are that large numbers of people would end up with their pension with the employer they started with. That potentially introduces an element of lottery: the pension scheme of where someone first worked will accumulate all that person’s pension. That is an interesting notion.
I have met John Lawson and Tom McPhail to talk about that, as I am always hungry for new ideas in a remorseless way. One of my worries is that an employer could end up having to send pension contributions for each employee to each of the pots they first started with. If the employer were a supermarket or similar with tens or even hundreds of thousands of workers, it would have to log and register each preferred pension pot. It would not, on the whole, be putting money into the supermarket pension scheme, with perhaps having workplace presentations about the merits of that scheme and advisers coming in. Instead there would be great fragmentation.

I can see the attraction of not moving the money around. However, on the other hand, employers would be less engaged in workplace pensions because they would not be putting money into their own pension scheme, but perhaps into that of a rival supermarket. While it is not an absurd idea and I have looked at and thought about it, it raises a raft of different issues. It also does not gel with automatic enrolment. If someone works for supermarket A and goes to supermarket B, does the latter automatically enrol that person into its scheme, and then by default all the money goes into the first scheme? It does not conceptually fit well with auto-enrolment. While it is an interesting idea, we have a number of reservations about it and do not think it deals with the issue.

The hon. Gentleman asked about the levy. There is a levy on pension schemes separate from the pension protection fund levy, which is a DB thing. All pension schemes pay a levy related to their size, to fund things such as the Pensions Regulator. If I remember rightly, the ombudsman is funded through the levy. It is not a levy on pension schemes separate from the pension protection fund levy, which is a DB thing. All pension schemes pay a levy related to their size, to fund things such as the Pensions Regulator. If I remember rightly, the ombudsman is funded through the levy. It is not a huge sum of money, but it enables us to run the infrastructure of pensions regulation. That is the power that we could use there.

Question put and agreed to.

Schedule 16 accordingly agreed to.

Clause 30

POWER TO PROHIBIT OFFER OF INCENTIVES TO TRANSFER PENSION RIGHTS

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

Steve Webb: Let me spend a moment or two running through the clause. We are on a totally different topic. The Committee will be relieved that we have done automatic transfers and can now move on to some of the other important issues in the Bill.

Clause 30 would give a backstop legal power that we hope not to use. So keen are we not to use it or leave it lying around on the statute book, that its sunset is in clause 31. Clause 31 says that if we do not use clause 30 within seven years, it falls away. What is the power in clause 30? One of the first pension scandals that I came across as a Minister was enhanced transfer value exercises, or ETVs. A variant on ETVs is known in the jargon as PIEs, or pension increase exchanges. There is nothing inherently evil in an enhanced transfer value, in other words, swapping rights in one scheme for rights in another. There is nothing inherently evil in a pension increase exchange, that is, giving up inflation protection that is not statutory in return for perhaps a higher starting pension. There is nothing wrong with any of that, but how it was being done was very wrong.

The hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East referred earlier today to pensions mis-selling. Many enhanced transfer value exercises were of a similar nature. A defined benefit pension scheme trying to reduce its costs and volatility would bring in consultants who would write to scheme members saying, “Would you like to transfer out some of your rights under this scheme in return for a big bung?” I do not think that “bung” was technically the word that they used, but a cash bung is what it was.

The scheme would say, “You’ve got these really rather valuable defined benefit pension rights. Give them up, and we’ll put some money into a defined contribution scheme for you.” The rules on valuation often meant that the cash value that people got was not as good as the value of the rights that they were giving up. They could not access their pension money early, but they could take a cash incentive in an incentivised transfer exercise. People were doing that, and firms were saying things like, “We’ll pay for independent financial advice, but it’s only free if you accept our offer.” If, after taking independent financial advice, people decided not to take the offer, they had to pay for the advice.

People were rung up late at night and told that, unless they replied by 9 o’clock the next morning, the offer would lapse, and so on. Vulnerable and elderly people were offered large amounts of cash to give up valuable pension rights. The question was always, “If it’s in the scheme member’s interest to take up the deal, why are they being offered it?” The answer was that in many cases, it was not remotely in their interest. I have seen examples regarded as good practice, astonishingly, in which the employer said, “Of the value of the rights you’re giving up, we’re taking 40% and you get 60%.” It’s the equivalent of writing a letter to somebody saying, “Dear Mr Smith, this morning you had £100 in your bank account. Would you like to sign this piece of paper, and we’ll give you £60 back?” That is the kind of thing that was going on.

We took the view that that was unacceptable. I tried to use my office and the power of moral persuasion to make that clear. I held up brochures for schemes at the annual conference of the hon. Gentleman’s favourite trade body, naming and shaming. The power of public opinion and good practice started to change behaviour in the market, and the frequency of such exercises started to drop, but they were still happening. When trying to estimate what seven years’ service in a final salary pension scheme 10 years ago was worth in cash, how were people expected to know what fair value was? They clearly were not getting fair value. We have taken the view and made it clear that that sort of thing—offering cash incentives to bribe people into giving up good-quality pension rights—is just not on. If people want to swap one sort of pension right for another and it is only pension-to-pension transfer, that is one thing, but cash incentives were off.

We decided to work with each of the people in the value chain, if that is the right phrase in the context. We worked with advisers, actuaries, accountants, employers, employer benefit consultants and so on. I am grateful to Margaret Snowdon, who chaired the group that brought together people who spent hours of their time working
on a code of good practice. I have it in my hand: “Incentive Exercises for Pensions: A Code of Good Practice”, published in June 2012. Essentially, it was the industry saying, “We accept that we need to clean this up, and that there are things that shouldn’t be going on. We will sort out our own house.”

I am pleased to say that that is happening. The volume of the exercises has dropped dramatically. We worked with the then Financial Services Authority, which changed the rules and guidance about how the calculations had to be done. As a result, few such exercises now take place. The code of practice indicates that where any exercise of that sort is taking place, certain things should be done. There is a lot of detail here, for anyone interested, in terms of information for members, independent financial advice and so on.

We do not object to transferring one sort of pension right to another; what we object to is the use of cash bribes to get people to give up complex pension rights that they may not even understand. Clause 30 gives us the power, if we think that our code of practice is not working and we spot bad practice re-emerging, to use the force of law to stop it. As I said earlier, we do not want to use clause 30, and I would be as delighted as anyone if, under clause 31, clause 30 were to be sunset and never used. However, we thought that it was important, partly to underpin the work of the industry group, for the industry to know that if that practice continued, we would stop it.

Richard Graham: In my many years working in the pension sector, that was one of the saddest things, and it was allowed to carry on for far too long. I welcome the measures, and I believe that many of my constituents who were unwise enough to accept cash incentives at a time when they appeared attractive will share my delight that the Minister has included the clause as an important part of the Pensions Bill.

Steve Webb: As we have heard, my hon. Friend is chair of the all-party group on pensions and is knowledgeable about these matters, so I am grateful to him for his support.

Sheila Gilmore: Perhaps I will pass over the Minister’s comment suggesting that people were subject to the schemes because they did not fully understand the complexities of pensions; we had that debate earlier. What would the criteria be for implementing the clause?

4.16 pm
Sitting suspended for Divisions in the House.

4.41 pm
On resuming—

The Chair: Sheila Gilmore had just finished an intervention on the Minister before the Divisions. Mrs Gilmore has not yet returned to the room, but Minister, would you like to respond?

Steve Webb: I would be delighted. I am sure that the hon. Lady will study the record carefully to see the answer to her perfectly reasonable question, which was, as I recall: “You have these powers under clause 30 to ban these things, but how bad will things have to get before you ban them?” I paraphrase again, but only slightly. Let me clarify the situation; it was a perfectly fair question. As well as the code of good practice, we have an incentive exercises monitoring board. This is not a quango; it is the Government working together with the industry and stakeholders—those people coming together to evaluate the effectiveness of the code. The board will report back to Ministers three years after the publication of the code, which was in June 2012. It will advise on the extent to which the code has been followed. We are not constraining the way in which it does that work. If it advises that the code is not being followed and that people are losing out in an inappropriate way, we will use the powers under clause 30. I hope that that answers the hon. Lady’s question. With that, I commend clause 30 to the Committee.

Gregg McClymont: Speaking for myself, I am delighted that the windows have been opened and sunlight is flooding into the room. With clause 30, the Minister is giving himself the powers to deal with, in law, a familiar refrain—the issue of pension liberation schemes, enhanced transfer values, PIEs and the like. He is right to do so, of course. I have just a couple of observations and perhaps one or two questions.

First, I do not want to misrepresent the Minister’s position, but he said that the Government try very hard to explain to savers that these schemes generally are not in their interest, yet the schemes keep proliferating, which takes us back to the issue of engagement and an informed consumer. It is worth reflecting on the fact that, generally, these kinds of scheme are not in the long-term interest of the saver, yet there is evidence that savers keep accepting these kinds of offer. That makes the point that Labour Members have been trying to make, to some degree, that often when it comes to pensions, it does not operate like a normal market and one cannot assume that the saver will always make a rational decision. That is worth putting on the record, because the continuing growth of pension liberation schemes and the like speaks to the issue of whether or not there is an informed consumer. That is point one; I think that it is a point worth making.

I read recently an argument from someone in the pensions space about the role of Her Majesty’s Revenue and Customs in all this. The Minister has picked up on that, but certainly the argument that I read—I am not clear on whether it is correct—is that HMRC has a role to play in all this, that HMRC enables these schemes to be registered—

Steve Webb: To clarify, we are not talking under clause 30 about pension liberation at all. That is something completely different. This is about mainstream, blue chip companies offering their scheme members cash equivalents, plus a bonus to give up their rights under the scheme, to move them into another legitimate scheme. We are not talking about pension liberation fraud here.
4.45 pm

**Gregg McClymont**: It sounds like I am jumping the gun and so keen to see reform of the pensions system that I am bringing it into clauses where it does not belong. I take the Minister’s point and thank him for his guidance. He has given a precise explanation of what the clause deals with. The general view is, as you, Mrs Main, and the Minister will be aware, that dealing with such schemes is important, but we do not intend to divide the Committee on it.

**Question put and agreed to.**

Clause 30 accordingly ordered to stand part of the Bill.

Clause 31 ordered to stand part of the Bill.

**Clause 32**

**Short service benefit for scheme member with money purchase benefit**

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

**Steve Webb**: Short service refunds are a feature of trust-based workplace pension provision, whereby people who are members of a scheme for less than two years, for example, can get a refund of their contributions. Although the employer does not get the cash back out, it is in a sense credited to them within the scheme, saving them money. In a way, this is almost the opposite of automatic transfers: if people do not stay with a firm for more than a couple of years, they get their cash back and the firm gets some benefit as well. Crucially, when moving on to their next job, they have not accrued any pension rights. That is the problem. People who have had a series of jobs, working for firms for relatively short periods, sequentially fail to build up pension rights.

In a world of automatic enrolment and automatic transfers, we felt that it went against the grain for some people to put up to two years’ worth of contributions into a workplace and scheme—and their employers—with all that money coming out again and not turning into pension. We really have a problem, because we need to ensure that every penny that goes into pension schemes turns in pension, as far as possible. Short service refunds go against that.

We propose that short service refunds should be ended. I was struck, in the oral evidence, by the overwhelming support for that proposition. A lot of witnesses were asked questions, from a list of questions we asked all witnesses, and I am pretty sure that I did not hear anybody say that we should not be doing this. Even the employers’ organisations, which were initially a little bit wary, recognised that this is not part of the future of pension provision.

**Heather Wheeler** (South Derbyshire) (Con): I am glad to hear the Minister’s explanation. This is crucial. People move from a firm they have been with for up to two years to get promotion, perhaps, which they think is great, they have a history of working, but they can end up with no pension whatever. It is a superb move, Minister.

**Steve Webb**: I am grateful to my hon. Friend. We all know people who “took out their super”, as the phrase in the public sector used to be. They took the money out, which at the time was attractive, because as we were observed on clause 30, cash is attractive. But if we are in the business of long-term saving, such refunds have no place in the long term. There is not a date in the Bill, but we envisage ending short service refunds soon after Royal Assent, so 2014 would be the time scale, or shortly thereafter, for pension membership that had generated a refund by that date. Obviously, there would still be refunds after that date, for people who were already in schemes.

It is a gradual move in the right direction, which appears to be warmly welcomed. I commend the clause to the Committee.

**Gregg McClymont**: The Minister is right; he took the words out of my mouth. The support in the evidence sessions for the proposal was striking. The hon. Member for South Derbyshire made the point strongly as well. It is a sensible move, which we support. Its logic is straightforward. We know that we have a real pension savings problem in this country. I mentioned earlier that the majority of people who work in the private sector do not have any pension savings and the majority of those who do are not saving enough for a reasonable retirement. In those circumstances, the Government should pull any lever that they can to encourage pension saving. The clause contains one such lever, so we give it our full support.

**Question put and agreed to.**

Clause 32 accordingly ordered to stand part of the Bill.

**Clause 33**

**Automatic re-enrolment: exceptions where automatic enrolment deferred**

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

**Steve Webb**: This is a tidying-up clause that relates to something that we have not come across yet. We have talked about automatic enrolment, but we have not talked about re-enrolment. One of the features of automatic enrolment is that it keeps happening; enrolment happens only once, but re-enrolment follows three years later.

One of the interesting things about the early days of automatic enrolment is that firms that operate contract joining to a pension scheme—in other words, when an employee joins as part of the contract, they join the pension scheme unless they opt out, so it is a version of automatic enrolment—must, under our law, automatically enrol those who opted out of contract joining, and significant numbers of those people are saying yes to automatic enrolment. We see that as evidence that although people may opt out at one stage, giving them another prod every few years will significantly boost pension scheme membership even among those who previously opted out. Re-enrolment after three years is, therefore, an important part of the system.

We have, however, observed a potential anomaly, which clause 33 is designed to deal with. If an employer uses a waiting period, in which they do not have to
automatically enrol people, and the three-year re-enrolment falls in the middle of that period, they end up in the absurd situation of having to automatically enrol people in the middle of their waiting period because the three-year cycle has come around again. Clause 33 amends sections 5 and 30 of the Pensions Act 2008 by removing an employer’s three-yearly automatic re-enrolment duty if the worker’s re-enrolment falls in a period in which their enrolment has been legitimately postponed. An obvious legitimate postponement would be, for example, in the case of DB or hybrid schemes where postponement is allowed towards the end of the automatic enrolment period, or when the date of re-enrolment falls in the middle of a waiting period.

We are trying to deal with a situation in which there are conflicting duties and there is a question over which one takes priority. Waiting periods and transitional arrangements are designed to make automatic enrolment work, so we think that they, rather than the three-yearly date, should dominate to avoid arbitrary and odd results. Clause 33 gives us the power to suspend the three-yearly re-enrolment duty in the circumstances that I have described. I hope that the Committee will agree that the clause is a sensible piece of tidying up.

Question put and agreed to.
Clause 33 accordingly ordered to stand part of the Bill.

Clause 34

_Gregg McClymont:_ I beg to move amendment 14, in clause 34, page 18, line 16, at end insert—

‘(5) Regulations under this section shall be made only for the purposes of resolving inconsistencies or making technical adjustments or both, and may not be made to achieve substantive changes in policy. In particular, they shall not be made to exempt entire classes of business or businesses, such as small and medium-sized businesses, from automatic enrolment.

(6) Regulations under this section shall be laid before and approved by resolution of both Houses of Parliament.’.

The justification for the amendment emerges from my reading of the Bill and from questions that I asked some of those who gave evidence to the Committee. As I understand it, clause 34 is drafted very widely—so widely, in fact, that it would allow entire classes of employers to be exempted—and regulations made under clause 34 are not required by clause 45 to be approved by a resolution of each House of Parliament. As the Bill stands, that would allow a future Secretary of State abruptly to implement any such proposals regarding exemptions of categories of employer without Parliament having wished to make that possible or discussed it.

When I asked Neil Carberry of the CBI about clause 34 in the oral evidence session, he undertook to go away and look at it. I am delighted that he wrote to the Minister and to me and—I imagine—to the Committee. The crux of the CBI’s position is that in principle “the CBI supports the intention of the clause. It is, however, too broadly drafted. As written, the provisions for exemptions will be framed by categories or descriptions of workers, or”—

Steve Webb: Clause 34 is designed to ensure that we do not automatically enrol people whom it would be a bit daft to enrol. The danger of everything being in primary legislation is that people do what they think is right and then a situation that was not thought of arises or becomes more prevalent and flexibility is required. The Government published another consultation in March 2013 titled “Technical Changes to Automatic Enrolment”. I am happy to send the hon. Gentleman a copy if he has not seen it.

5 pm

On page 24, under “Automatic enrolment—other changes”, is “Excluding certain categories of worker from the automatic enrolment duty”. We have been explicit about the kind of categories that we have in
mind. One example might be active members of money purchase schemes who have given notice of retirement—people who have told their employer that they are about to retire, but, because the law says that they have to be auto-enrolled, have to be put in a pension scheme by their employer the week before they retire, leaving them having to opt out after leaving the firm.

Another example might be people who have handed in their notice during a deferral period—the firm is going to auto-enrol them, but has deferred doing so, but they hand in their notice and the notice period goes past the end of the deferral, so the employer has to enrol them even though they are going to leave. At a pensions conference, I came across one employer who had had to auto-enrol someone who had not started with the firm and not even actually worked for it, because of a change of mind. Such things need to be dealt with.

There is a briefing paper on clause 34, of which we have notified the Committee. It has been published, in case hon. Members want further details, and it includes those kind of examples. Another one that we are often asked about is wealthier individuals who have exceeded their lifetime income tax limits—enhanced or fixed tax protection cases. It is patently obvious that those folks should immediately opt out, so that they do not undermine their protection on tax relief, but we still require employers to put them in, assuming and hoping that they will opt out again. That is a bit of a waste of time for everyone.

In all such things, we are trying to think of things that have been brought to our attention as automatic enrolment has started, so that we can avoid bringing it into disrepute. In theory, one might imagine that we know what they all are. Truth tells us, however, that as time goes by, new things arise. For example, we set up payroll periods—we have weekly rates, fortnightly rates, four-weekly rates, monthly rates and all the rest of it—but then someone said, “Ah, yes, but if you teach in a private school, you might be paid three times a year, once each term. Have you thought of that?” So we need another bit of the rules to deal with three payments a year. Only when we are doing things—in real time, live running—do we come across new examples.

Clause 34 is therefore deliberately broadly drafted to enable us to cover situations as they arise, to avoid auto-enrolment being a waste of time. I understand that the CBI is worried about the clause because it does not want us to use it to exclude small firms. Had we been going to use it to exclude small firms, however, we would bl oomin’ well have done it by now, because we could have done. When we rescheduled the roll-out to small firms, we chose to do it by giving them extra time, but we did not exclude them. The Government took that decision, and I stand by it.

The hon. Gentleman says, “Yes, I trust you”—as he regularly says—“but what about your dastardly successors?” After the next election, a malign Government might step in and want to exclude small firms, but if a malign Government come along and want to exclude small firms, they will just pass a law and do it. We cannot stop a future Government excluding small firms. Even if we accepted his amendment—and he will not be surprised to learn there are issues about how it is worded—and put the provision into the Bill, a Government that wanted to exclude small firms would just remove it again. We cannot bind future Governments, and this Government do not need binding, because we have made our position perfectly clear: clause 34 is about odd exceptional cases and things that might arise.

On the amendment, a number of things are unclear. What is a “technical adjustment”? One might argue that the whole Bill is a technical adjustment on one level. When is a change a technical adjustment? When is it resolving inconsistencies or both, or neither? What is a “change in policy”? If, in another bit of the Bill, we changed the threshold for small pots from £10,000 to £50,000, is that a change in policy or a technical adjustment? Such things would end up being settled in the courts. The amendment, although I appreciate that it is probing, does not deliver the clarity that we need.

Finally, I know that the hon. Gentleman is an exhaustive seeker after truth, prober and scrutiniser of the Government, and I am disappointed that his FOI request did not yield a copy of the Beecroft report, but I am advised that it is on the internet.

**Gregg McClymont:** I am sure that that was a response to what the Minister described as me being an exhaustive seeker after truth, which makes me sound like someone out of a DC comic—[Interruption.]

**The Chair:** Order.

**Gregg McClymont:** I think I drew that interruption from the hon. Member for South Derbyshire, so I cannot complain.

The Minister referred to drafting issues with our amendment. I am interested in that. I have looked at the ones he has mentioned so far and, unsurprisingly, I do not take that view. I guess that it is always in the nature of such things that each side has its own draftsmen and never the twain shall meet unless, of course, going back to our first day in Committee, it is to discuss avant-garde drafting.

I have cautioned the Minister before about misrepresenting my position. This time he says that I said, “I trust you.” That is putting it a bit strongly; I would not want to go that far. Although he has many excellent attributes, he is subject to having to deal with conflicting interests in a balance of forces. I do not doubt his good intentions, but it is absolutely possible that after the next election he will be go on to greater things and someone else will be in the hot seat, although he might say that there is no greater thing than pensions, and I would expect nothing less from him.

The Minister mentioned that the CBI is concerned about the Government using such a widely drafted clause. My understanding is that he agrees that it is widely drafted, but that it is necessary for the reasons he set out. The CBI is concerned about exemptions for smaller employers and, to be fair, we can see why, given what we understood to be in Beecroft—and now we can find out; when I sit down I will be googling the report.

In all seriousness, there is a balance to be struck here. All Governments inevitably want as wide a freedom of manoeuvre as possible, but in this case we have the concerns expressed by the CBI and the TUC, and the background to the Beecroft proposals for termination, or rather my understanding of the desire to free small businesses from what Mr Beecroft sees as burdens—I have to be careful, because I have not yet read the
Gregg McClymont: I remember that, at the time, it was considered that the report was an evidence-free zone, that it was basically Mr Beecroft’s personal reflections on what he had perceived—

The Chair: Order. I am sure that we will not travel too far down the road of a report that Mr McClymont has not read.

Gregg McClymont: No, especially since it is on the internet now, and we can all get it ourselves. My point is that the CBI and the TUC are understandably concerned about the context of the proposals in the report. We must not forget that the proposals had an impact on auto-enrolment. The moving back of the staging dates was, I believe, a product of the influence of the report and the higher echelons of Government. The Minister is looking quizzically. If I am wrong I am happy for him to correct me, but that is certainly my suspicion—I shall put it no stronger than that.

The Minister says that the amendment is a probing one, but it is important because we need to understand the powers that the Bill gives and does not give to the Government. I do not want to put words into his mouth, but he says that the amendment does not do the job of making the clause as broad or as narrow as it needs to be, and we do not agree. We do not intend to press the amendment to a Division at this stage, but we encourage him to continue to consider the matter and to take representations from the CBI, the TUC and other interested parties. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

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

Steve Webb: I hope that, in my remarks on amendment 14, I set out the purpose of clause 34 and the sorts of situations in which we envisage it might be applied. It is very much a tidying-up measure, and I am grateful to the hon. Gentleman for his intention not to oppose it. I commend that the clause stand part of the Bill.

Question put and agreed to.

Clause 34 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—(Karen Bradley.)

5.10 pm

Adjourned till Thursday 11 July at half-past Eleven o’clock.
Written evidence reported to the Houses of Parliament

PB 43 Association of British Insurers
PB 44 Childhood Bereavement Network
PB 45 Anita Craggs

PB 46 EEF
PB 47 Pauline Walker
PB 48 Elaine Calvert
PB 49 Catherine M Kirby Supplementary
PB 50 NAPF Supplementary
PB 51 Jay Ginn