

[Home](#) | [Parliamentary business](#) | [MPs, Lords & offices](#) | [About Parliament](#) | [Get involved](#) | [Visiting](#) | [Education](#)
[House of Commons](#) | [House of Lords](#) | [What's on](#) | [Bills & legislation](#) | [Committees](#) | [Publications & records](#) | [Parliament TV](#) | [News](#) | [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Lords Publications](#) > [Lords Hansard](#) > [Lords Hansard by Date](#) > Daily Hansard

26 July 2010 : Column 1137

26 July 2010 : Column 1137

House of Lords

Monday, 26 July 2010.

2.15 pm

Prayers-read by the Lord Bishop of Blackburn.

Introduction: Baroness Hughes of Stretford

2.23 pm

The right honourable Beverley June Hughes, having been created Baroness Hughes of Stretford, of Ellesmere Port in the County of Cheshire, was introduced and took the oath, supported by Lord Laming and Baroness Corston, and signed an undertaking to abide by the Code of Conduct.

Introduction: Lord Blair of Boughton

2.28 pm

Sir Ian Warwick Blair, Knight, having been created Lord Blair of Boughton, of Boughton in the County of Cheshire, was introduced and took the oath, supported by Lord Hurd of Westwell and Baroness Harris of Richmond, and signed an undertaking to abide by the Code of Conduct.

Introduction: Lord Allan of Hallam

2.34 pm

Richard Beecroft Allan, Esquire, having been created Baron Allan of Hallam, of Ecclesall in the County of South Yorkshire, was introduced and made the solemn affirmation, supported by Baroness Barker and Lord Tyler, and signed an undertaking to abide by the Code of Conduct.

Agriculture: Dairy Industry

Question

2.40 pm

Asked By **Baroness O'Cathain**

To ask Her Majesty's Government what plans they have for the dairy industry.

Lord De Mauley: Our goal is a competitive, profitable dairy sector that produces for the market. It should meet consumer needs while protecting and enhancing the environment it depends on to safeguard future production. We are reinvigorating the Dairy Supply Chain Forum, which my honourable friend Jim Paice chairs, to identify and tackle the issues affecting the industry's health. We are developing the milk road map and involving ourselves closely in the EU High Level Group for dairy.

26 July 2010 : Column 1138

Baroness O'Cathain: My Lords, I thank my noble friend very much indeed for that positive reply to my Question. Does he agree that, despite the vicissitudes of the past 13 years, the dairy industry has shown remarkable resilience and been extremely innovative in its products? In view of the statement made by the Secretary of State in this week's issue of *Country Life* that:

"The growing world population means that food security is becoming a very serious issue",

and that she is,

"determined to help British agriculture to increase production",

does he further agree that it would be a very good idea if the department and the dairy industry got together to work out a long-term strategy for the industry so that, if we do have food shortages, it will be able to cope?

Lord De Mauley: My Lords, the industry is a significant part of British agriculture and is, as my noble friend said, resilient and innovative. Our main strategic thrusts, which cover several objectives, including food security, are active participation in the EU High Level Group for dairy and the Food 2030 strategy. In addition, we are introducing an ombudsman into the OFT to enforce the groceries and supply code of practice, to curb abuses of power and to establish a task force on regulation to identify ways of reducing regulatory burdens on farmers.

Baroness Quin: My Lords, given that the Minister mentioned the idea of the supermarket ombudsman—something to which all parties were committed at the time of the election—has the department for business asked for a second consultation on the establishment of the ombudsman? Is there not a risk that this will further delay the establishment of the ombudsman? What timetable do the Government now propose to set for the establishment of this important post?

Lord De Mauley: My Lords, I am grateful for that question because it allows me to explain that the coalition programme for government, published on 18 May, made a commitment to introduce an ombudsman into the Office of Fair Trading to enforce the GSCOP and to curb abuses of power that act against the long-term interests of consumers. As to the when, about which the noble Baroness asked, we are awaiting the results of the consultation exercise within BIS. This will guide our decision on how best to enforce the GSCOP, which, as I have said, the coalition Government have agreed should be done through an ombudsman.

Lord Williamson of Horton: My Lords, as a former head of the milk division in the Ministry of Agriculture and the owner of a milk churn presented to me by dairy farmers, may I invite the Minister to agree that we have excellent dairy farmers here and excellent natural conditions in the United Kingdom for the production of milk from grass? In order that we can all have the benefit of these advantages, can we make a special effort to ensure that milk is produced and marketed in fair conditions?

26 July 2010 : Column 1139

Lord De Mauley: I am grateful for that question, which brings us back to the issue of the ombudsman, whose duties will be precisely that. I agree very much with what the noble Lord says.

Lord Lea of Crondall: My Lords, is the Minister aware that, in the European Union, Britain is not atypical in subsidising each cow by £900 per annum? Is he further aware that in the two countries outside the EU that are much vaunted by Eurosceptics outside—that is, Switzerland and Norway—each cow is subsidised by £9,000 per annum?

Lord De Mauley: My Lords, I am not entirely sure what the question was, but we think that competitiveness is extremely important in this market.

Lord Livsey of Talgarth: My Lords, when the supermarket ombudsman is in his place, will the Minister take action to make it illegal for retail milk to be sold for less than the cost of production? It is the reason why 14,000 dairy farmers have left the industry since 1997 and why we have only 11,000 left. The ombudsman should use his powers to address that problem immediately.

Lord De Mauley: I acknowledge my noble friend's point, but it will be up to the ombudsman to make these sorts of decisions. Industry tells us that there are grounds for cautious optimism in the dairy industry. The continuing decline in production has put pressure on buyers to pay more remunerative prices. Secondly, most major retailers now have dedicated groups of farmers supplying them with milk in return for premium prices.

Lord Scott of Foscote: My Lords, do the Minister's answers apply simply to farms that produce milk by cows or do they apply also to the increasing number of farms where the milk is produced by goats?

Lord De Mauley: My Lords, I am answering in respect of dairy. I think that means principally dairy cows.

The Lord Bishop of Blackburn: My Lords, does the Minister accept that, if young people are to come into the dairy farming industry, superfast broadband is a necessity? Can he confirm that superfast broadband will be rolled out to the one-third of farmers who are unable to access it?

Lord De Mauley: My Lords, the Government are very keen that broadband should be rolled out. Ministers intend to provide a strong lead in driving forward rural policy, such as ensuring that rapid rollout.

Lord Brooke of Alverthorpe: My Lords—

Lord Davies of Coity: My Lords, does the Minister agree that the discounting of milk by the processors and

the abolition of the Milk Marketing Board have damaged the dairy industry considerably?

26 July 2010 : Column 1140

Lord De Mauley: My Lords, I think we need to move on to the future, which is, as I have tried to explain, reasonably positive for the industry.

Housing: Lettings

Question

2.47 pm

Asked By **Baroness Gardner of Parkes**

To ask Her Majesty's Government whether they will encourage the letting of residential properties by classifying them as businesses in the same way as holiday lettings.

Baroness Gardner of Parkes: My Lords, I beg leave to ask the Question standing in my name on the Order Paper. I remind the House that I have a declared land and property interest in the *Register of Lords' Interests*.

The Commercial Secretary to the Treasury (Lord Sassoon): My Lords, the tax system already treats both holiday lettings and residential lettings as businesses. However, furnished holiday lettings can benefit from some of the more generous tax rules for trades. This reflects the fact that they offer extra equipment and services in order to compete with hotels and guesthouses. We have no plans to extend these rules to other property businesses.

Baroness Gardner of Parkes: I thank the Minister for that disappointing reply. Is he not aware that if you have holiday lettings, you can roll over capital gains and therefore there is every encouragement to extend your business, whereas if you are a private residential landlord, you do not have that? Furnished holiday accommodation can only be let to anyone for a maximum of 31 days. Surely there is a desperate need for long-term residential accommodation in this country.

Lord Sassoon: My Lords, I fear that there is more disappointment coming. I had one grandparent who came from the great state of New South Wales and one parent who was educated there, and I thank my noble fellow Australian for her Question. However, the Government have no plans to change the tax or other arrangements for tenancies in the private rented sector. Since the assured shorthold tenancy rules came in in 1988, the private rented sector has grown steadily and responded flexibly to changes in the wider housing market, and some 21 per cent of tenancies now last for five years or more.

Lord Best: My Lords, I declare private and social housing interests, and I commend the suggestions of the noble Baroness, Lady Gardner of Parkes. Does the Minister accept the criticisms coming from many sides of the changes to housing benefit, which we fear will mean a rise in arrears, repossessions and homelessness? Does he accept that some new measures are needed if these housing benefit changes are not to discourage private renting at the lower end of the market, where it is most needed?

26 July 2010 : Column 1141

Lord Sassoon: My Lords, I am pleased that we have had attention drawn to social housing and housing benefit, because they provide a critical underpinning at the lower end of the residential housing market. Housing benefit will continue at a very substantial level and is a vital part of what comprises the broad housing market that we need in this country.

Lord Rennard: My Lords, does the Minister agree that changes in taxation for private landlords could incentivise them to refurbish and modernise their properties, increase capital gains tax revenues and increase the provision of housing at a time when it is very much needed?

Lord Sassoon: My Lords, we never rule out any suggestions for changes and developments of the tax system, but we have no plans to review taxation in the way that my noble friend has suggested.

Lord Foulkes of Cumnock: My Lords, in the light of the last question, will the Minister clarify whether all the words that he has said today represent the views of both parts of the coalition?

Lord Sassoon: My Lords, what I have said today represents the views of the coalition Government.

Baroness Hollis of Heigham: Following the question of the noble Lord, Lord Best, can the Minister inform the House what the cuts in housing benefit, particularly the cut after 12 months for those on JSA, will do to the private residential letting sector?

Lord Sassoon: My Lords, I am not sure that any assessment of that has been done, but I shall find out and write afterwards.

Lord Clark of Windermere: My Lords, the Question refers to holiday lettings. Is the Minister aware that in many rural areas, especially national parks, where there is a great shortage of housing for local people and many workers' cottages and former council houses are now used as holiday lets, every holiday let is a house

removed from the market for local people?

Lord Sassoon: My Lords, the changes to the taxation arrangements for holiday lettings, on which the Government will consult during the summer, are intended to strike a balance between recognising the important contribution that holiday letting makes to the economy in rural areas and making sure that the tax reliefs available are not principally for wealthy owners of second homes. The changes, on which we will consult, will make sure that the taxation benefit available is more targeted than it was previously.

Lord Anderson of Swansea: My Lords, the Minister said that he is not aware of any assessment having been made of the effect of the changes in housing benefit on the private rented sector. Is it not normal in government to assess the effects of policies before they are introduced?

26 July 2010 : Column 1142

Lord Sassoon: My Lords, I did not mean to say that no assessment had been made. As I said, I will take back the question, find out what assessment has been made and write on the point.

Lord Myners: My Lords, the Minister clarified in response to a question from my noble friend whether he was answering on behalf of the Conservative Party or the Conservative and Liberal parties. May I suggest that when answering questions in future, Ministers also indicate whether they are speaking in a personal capacity or on behalf of the Government?

Lord Sassoon: My Lords, I cannot quite see what that has to do with the Question. It could take up a lot of time if every time I stood up, I prefaced it by saying that I was speaking on behalf of the coalition Government, but I am happy to do that.

The Earl of Listowel: My Lords, will the Minister keep in mind the many families and children living in overcrowded and unpalatable conditions when he considers what might be done to encourage more private landlords to come into this area and to refurbish this housing?

Lord Sassoon: My Lords, I absolutely take the point that the noble Earl has made. My understanding is that the gap on decency between owner-occupied and rented accommodation has lessened over recent years-and indeed rented accommodation is now on average more energy efficient-so some progress is being made.

Sport: Football World Cup 2018

Question

2.55 pm

Asked By Lord Faulkner of Worcester

To ask Her Majesty's Government how they are supporting England's bid for the 2018 World Cup.

Lord Shutt of Greetland: My Lords, the Government wholeheartedly support the Football Association's bid for the 2018 World Cup. In his first week in office, the Prime Minister discussed the bid with the president of FIFA, the international federation of association football. Both the Secretary of State for Culture, Olympics, Media and Sport and the Minister for Sport and Olympics went to South Africa to discuss the bid with FIFA executive committee members and to demonstrate the level of government support.

Lord Faulkner of Worcester: My Lords, it gives me pleasure to thank the Minister for that positive and encouraging answer. He will be aware of the PricewaterhouseCoopers study published in May, which demonstrated that the potential benefit to the economy of a successful bid and of staging the World Cup in the summer of 2018 would be of the order of £3.2 billion. Can he clarify two points on his Answer? First, do the Government stand unequivocally by the £300 million

26 July 2010 : Column 1143

of financial guarantees that were entered into by their predecessor in December and which were signed at the same time by the then Leader of the Opposition and the leader of the Liberal Democrats? Secondly, when the FIFA inspection team comes to Britain at the end of August, will it have the opportunity to meet members of the Government at the highest level and be given every encouragement?

Lord Shutt of Greetland: My Lords, I pay tribute to the noble Lord's involvement in the world of football. First, I am able to confirm that the coalition Government have accepted the position agreed by the previous Government, as indeed the party leaders signed up to last autumn. Secondly, I understand that the inspection team is likely to come in late August and on that occasion will meet the Deputy Prime Minister.

Lord Willis of Knaresborough: What discussions has my noble friend had with the Premier League, to extract some of the obscene money that goes into that league rather than having to depend entirely on the taxpayer to fund a 2018 bid?

Lord Shutt of Greetland: My Lords, I have had no discussions with anybody to do with the Premier League. I think that is above my pay grade, as it were. I am sorry but I cannot help any further about that. Of course, this bid is very different from the Olympics, where there is an Olympic stadium to build and all that that means, in that there are already football stadiums up and down the country-it is a truly national event. They are

throughout the land, many in the north of England, and if the bid succeeds in 2018 it will be something for the country as a whole and not just for London.

Baroness Billingham: We firmly support and applaud the work by the previous Administration and by this one. This is something that the country really desires and we all want it to be successful. But clearly the key player here is going to be the Chancellor of the Exchequer, so my question to the Minister is whether he is convinced and can reassure us that the Treasury is absolutely on side on this issue, because without its support the bid is doomed.

Lord Shutt of Greetland: My Lords, obtaining a bid of this nature is a tricky process in that the Government are asked for a range of guarantees, and FIFA has asked for details all to be dealt with in confidence. These are to do with visas, work permits, tax treatment, security, foreign exchange operations, intellectual property and telecommunications. The bid book, as it is called, has been submitted. The Government of the noble Baroness, Lady Billingham, made this country's best offer in May, in order that this country is in the best place to get this World Cup.

Lord Griffiths of Burry Port: My Lords, can the Minister answer the question put by his noble friend? Have any discussions taken place with the Premier League and is it possible that money might come from sources other than the taxpayer?

26 July 2010 : Column 1144

Lord Shutt of Greetland: My Lords, I mentioned that I am not aware of the particular discussions with the Premier League. The bidder is the Football Association; there was a suggestion in earlier times that it would be looking for government money to assist it with the bid. That did not turn out to be the case, in that it got resources from elsewhere.

Lord Addington: My Lords, will my noble friend give us an assurance that, in bidding for the football World Cup, we are learning from our successes in the previous tournaments and games that we have achieved and from prior failures that we have had? Can he tell us the exact structure of the bidding for all future large sporting events?

Lord Shutt of Greetland: My Lords, there have been lessons learned from an unsuccessful bid for the 2006 World Cup. There was then an in-depth inquiry by the Culture, Media and Sport Committee of the other place back in 2001. That was analysed by both the Football Association and the Government and fed into the development of the bid structure and what has happened since. Winning the 2012 Olympics was, obviously, a great success story and account was taken of that in going forward for this bid. The major feature is that there is a stand-alone bid company, which has put in the bid. Football may be a national game but it is not a nationalised game. The bid company has done that work on behalf of the Football Association.

Lord Corbett of Castle Vale: Is the Minister aware that FIFA did not pay any tax on the profits it made from the recent world championships-in which England apparently did not take part? Can he assure the House that that will not be repeated should we be successful in this bid?

Lord Shutt of Greetland: My Lords, I cannot confirm that. It is a very tricky line, the whole basis of getting this bid. As I indicated, on the one hand one has to give all this information; on the other, the FIFA people say that Governments should not interfere with the game of football.

Russia

Question

3.03 pm

Tabled by Viscount Waverley

To ask Her Majesty's Government what steps they are taking to improve diplomatic relations and dialogue with Russia.

Lord Kilclooney: My Lords, in the absence of the noble Viscount, Lord Waverley, and at his request, I beg leave to ask the Question standing in his name on the Order Paper.

The Minister of State, Foreign and Commonwealth Office (Lord Howell of Guildford): My Lords, the Prime Minister and President Medvedev are agreed

26 July 2010 : Column 1145

that they want to see a stronger, more positive relationship between the United Kingdom and Russia, including through an exchange of ministerial visits. Although our bilateral differences will take time to resolve, we will take forward a broad agenda of practical co-operation that is in both our interests, engaging on the major global, political, economic and security challenges and working to enhance our prosperity.

Lord Kilclooney: My Lords, I thank the Minister for his reply. Does he agree that, in matters of international affairs, Russia is most important in matters such as Iran, the Caucasus, Nagorno-Karabakh and, of course, the Middle East? It is also one of the most important developing economies in Europe. Do we not need relations that are more positive and which depend on the United Kingdom engaging with rather than talking at Russia?

That was my experience, regrettably, when I was in the Council of Europe Assembly, and I know that my noble friend Lord Waverley shares this opinion.

Lord Howell of Guildford: The noble Lord is absolutely right. We need to engage very carefully. The Russians have been through the great traumas of the 20th century and while there are always difficulties and tricky aspects in dealing with them, this is certainly not a relationship of lecturing or harassing, or any other thing like that. This is a relationship of mutual respect, understanding the differences that we have but not letting them overwhelm the important, positive developments of our relations with such a vastly important nation in a whole range of areas. As for the EU, we certainly want to see there a united momentum in engaging with Russia and moving forward positively as well.

Lord Soley: While regular meetings between senior political and business leaders would obviously be very welcome, will the Minister not forget the importance of the links between the Russian and British people? Perhaps some thought can be given to something the Russians have already helped on—a visit to Poolewe where the Arctic convoys assembled during the war to supply Russia, at great loss of British life. The possibility of developing that link could be examined so there is a better understanding of the relationship between Britain and Russia. It has already been developed in a very limited way by the museum at Gairloch just a few miles from Poolewe.

Lord Howell of Guildford: I agree with the noble Lord that that is a positive and interesting aspect and there have of course been others. I do not know whether your Lordships shared my view that there was something rather splendid about seeing a platoon of the Brigade of Guards marching through Red Square the other day in full dress. I liked that.

Lord Wright of Richmond: My Lords, picking up the last point made by the noble Lord, Lord Kilclooney, can the Minister tell us whether Russia, as a member of the quartet, is playing a significant and positive role?

26 July 2010 : Column 1146

Lord Howell of Guildford: I think it is in so far as the quartet as a whole is able to get into a positive position. Certainly President Medvedev indicated to our Prime Minister that that was what it wanted to do, but it has found some difficulties dealing with Israel's position. All members of the quartet are still engaged and want to go forward together and I do not think there is any major gulf between them in recognising the vast importance of trying to make progress on that front.

Lord Teverson: My Lords, while it is important to improve relations between Britain and Russia, what moves are the Government making to free the occupied zones of Georgia-Abkhazia and South Ossetia—and making Russia comply with the Sarkozy agreement which it has clearly failed to do?

Lord Howell of Guildford: My noble friend is quite right. At present Russia is not complying with its commitment to evacuate Georgia, where it still has troops, as well as South Ossetia and Abkhazia. We are all the time raising this issue and pressing the Russians to get into a more acceptable and positive position but progress is slow. At the moment they are not moving.

Baroness Symons of Vernham Dean: My Lords, the noble Lord mentioned the economy and the important issues between Russia and us. He will know that the UK-Russia intergovernmental steering committee on trade was successfully relaunched in 2008 and last met last November. Are there any plans for that steering committee to meet again this year and, if so, will it be touching on some of the thorny issues such as international banking standards, concerns about corruption and corporate governance taxation?

Lord Howell of Guildford: I cannot answer the noble Baroness on her precise question about the meeting at this moment, but I will check. On corruption, she puts her finger on one of the central problems. There is no doubt that there is a very great deal of corruption still in Russia today and some of it at alarmingly high levels. President Medvedev has highlighted this and says he wants to tackle it. We will do everything to support him but we would like to see more results in certain cases than we have seen so far. Corruption is the cancer that could undermine the whole Russian progress.

Lord Anderson of Swansea: My Lords, in spite of the invasion of Georgia, the Litvinenko affair and the spies in New York, is it not true that we should build on areas where there is a mutuality of interest? One, surely, is the intelligence relationship because we both face Islamist terrorism. What are the prospects of reviving an exchange that I believe has virtually dried up?

Lord Howell of Guildford: I hope that the prospects are getting better. They have not been good, as the noble Lord recognises. There have been real difficulties and building up the degree of mutual understanding and trust on which aspects such as joint intelligence

26 July 2010 : Column 1147

can develop is very difficult and slow. But it is certainly an objective, and part of our view that we should have a better and stronger relationship with great Russia, which remains a major world power.

Wind Turbines (Minimum Distances from Residential Premises) Bill [HL]

First Reading

3.10 pm

The Bill was read a first time and ordered to be printed.

Business

3.11 pm

Baroness Anelay of St Johns: My Lords, at a convenient point after four o'clock, my noble friend Lady Neville-Jones will repeat a Statement entitled "Policing in the 21st Century: Reconnecting Police and the People".

Control of Donations and Regulation of Loans etc. (Extension of the Prescribed Period) (Northern Ireland) Order 2010

[Control of Donations and Regulation of Loans etc. \(Extension of the Prescribed Period\) \(Northern Ireland\) Order 2010](#)
[1st Report Joint Committee on Statutory Instruments](#)

Motion to Approve

Moved By Lord Shutt of Greetland

That the draft order laid before the House on 30 June be approved.

Relevant Documents: First Report from the Joint Committee on Statutory Instruments. Considered in Grand Committee on 21 July.

Motion agreed.

Communications Act 2003 (Maximum Penalty for Persistent Misuse of Network or Service) Order 2010

[Communications Act 2003 \(Maximum Penalty for Persistent Misuse of Network or Service\) Order 2010](#)
[1st Report Joint Committee on Statutory Instruments](#)

Motion to Approve

Moved By Baroness Wilcox

That the draft order laid before the House on 25 March be approved.

Relevant Documents: First Report from the Joint Committee on Statutory Instruments. Considered in Grand Committee on 21 July.

Motion agreed.

Consolidated Fund (Appropriation) Bill

[Consolidated Fund \(Appropriation\) Bill](#)

Second Reading and Remaining Stages

Bill read a second time. Committee negatived. Standing Order 47 having been dispensed with, the Bill was read a third time and passed.

26 July 2010 : Column 1148

Finance Bill

[Finance Bill](#)

Second Reading and Remaining Stages

3.12 pm

Moved By Lord Sassoon

That the Bill be read a second time.

The Commercial Secretary to the Treasury (Lord Sassoon): My Lords, I beg to move that the Bill be now read a second time.

This Bill follows the emergency Budget and puts in place many of the measures necessary to gain control of the public finances and strengthen the economy. Despite its brevity, this Bill makes significant and necessary changes to our tax system—changes that will secure fiscal credibility, changes that will promote free enterprise and changes that will promote fairness, especially for the most vulnerable in society.

Our Budget was necessarily a tough Budget, but it was also a fair Budget. It set out the decisive and credible plan that is necessary to deal with the record deficit that this Government inherited. We currently have the

largest budget deficit in Europe, with the single exception of Ireland, and we are borrowing one pound for every four we spend. Our deficit reduction plan will pave the way for sustainable, private-sector led growth, keep interest rates lower for longer and help to support jobs in the private sector. I cannot put it better than the noble Lord, Lord Myners, put it in this House on 8 June, when he said:

"There is nothing progressive about a Government who consistently spend more than they can raise in taxation, and certainly nothing progressive that endows generations to come with the liabilities incurred by the current generation. There will need to be significant cuts in public expenditure".

The noble Lord went on to say:

"The Government cannot create jobs. The Government can create an environment that is conducive to the creation of jobs, but they cannot create jobs and we mislead ourselves if we believe they can".- [*Official Report*, 8/6/10; col. 625.]

Earlier this month, in its report on the UK, the OECD said:

"The comprehensive budget announced by the government on 22 June was courageous and appropriate. It was an essential starting point. It signals the commitment to provide the necessary degree of fiscal consolidation over the coming years to bring public finances to a sustainable path, while still supporting the recovery".

Despite containing only nine substantive clauses, the Bill represents a clear change from the past and a new direction of travel. As my honourable friend the Exchequer Secretary said to the other place, it is underpinned by the three principles of responsibility, freedom and fairness. First, the Bill is based on the principle of responsibility. We are taking responsible action to restore our nation's finances because failure to address the deficit is the greatest economic threat that we face. We have been honest about the scale of the challenge and we have been honest about the actions needed to address it. If we are to bring down the deficit without cutting vital public services, raising valued added tax is an unavoidable choice.

26 July 2010 : Column 1149

For the first time, we have published within the Budget an analysis of the distributional impacts its measures will have. This shows that fairness underpins the tough choices that the Government have taken to tackle the deficit. It shows that this is a progressive Budget that deals with the deficit fairly: all sections of society will contribute, but the richest pay more than the poorest. We cannot, as some have done, look at the VAT increase in isolation. It is part of a wider package that ensures that the most vulnerable in society are protected. Without tough action on the deficit we risk losing the freedom to protect the services that the most vulnerable rely on.

Our long-term objective remains to increase the income tax personal allowance to £10,000, as set out in the coalition agreement, and we will take steps towards achieving that objective through the rest of this Parliament. Additionally, we have taken steps to increase child tax credit by £150 next year and £60 the following year. As a result of that, the level of child poverty will not increase.

Secondly, the Bill is based on the principle of freedom of enterprise in Britain, the freedom that our private sector so urgently needs in order to thrive and to spearhead a strong and stable recovery. A genuine and long-lasting economic recovery must have its foundations in the private sector. By cutting the corporation tax rate to 27 per cent, the Bill takes the first step towards reversing the decline in the UK's competitiveness that we have seen over the past decade. As the Budget announced, we will continue to cut the rate of corporation tax by one percentage point every year until it reaches 24 per cent-the lowest rate of any major western economy and the lowest rate that this country has ever known.

The concern has been raised that cutting the main rate of corporation tax would mean that banks do not pay their fair share of taxes. However, I would point to the wider reforms outlined in the Budget, in particular the announcement of a banking levy, which will, in fact, ensure that the banking sector makes a greater contribution, one that outweighs the benefit that it receives from lower corporation tax rates. Banks will pay at least £2 billion more in tax as a consequence of these proposals.

Concerns were also raised in another place that the banks will not be deterred from pursuing risky behaviour. This is not the case: we have taken a targeted approach that preserves competitiveness, while ensuring that those who indulge in risky behaviour pay an appropriate premium for it. Tax competitiveness is good for employment and society as a whole and the bank levy allows us to be competitive while ensuring appropriate tax treatment for those activities that pose the greatest threat.

The reduction in the main rate of corporation tax is just one part of a wider package to build a private sector led recovery. Instead of increasing the small profits rate by 1 per cent, as planned by the previous Government, in next year's Bill we will cut it to 20 per cent, benefiting some 850,000 companies from April 2011. We are also increasing the threshold at which employers start to pay national insurance contributions, and the Budget included a wider package of support for small businesses.

26 July 2010 : Column 1150

As we cut the rate of corporation tax we will also reduce allowances. The Budget announced a reduction in the writing-down value of plant and machinery allowances to 18 per cent and a reduction in the annual investment allowance to £25,000. However, allowances will remain broadly in line with depreciation and the annual investment allowance will still cover the annual qualifying expenditure of 95 per cent of businesses.

Furthermore, by reducing the main rate of corporation tax in 2011 and changing allowances only in 2012, we are giving companies a timing benefit, which will form part of the £13 billion additional investment that we expect as a result of these changes.

Thirdly, I come to the principle of fairness in the Bill. Clause 2 increases the rate of capital gains tax for higher-rate taxpayers to 28 per cent. This progressive change will substantially reduce the incentive for individuals to disguise their income as a return on capital and will ensure that the appropriate rate of taxation is paid. This is fair in itself, but we have also ensured protection for those on more modest incomes. Consequently, those who pay only the basic rate of income tax will carry on paying capital gains tax at 18 per cent. In addition, this increase in the rate will help to fund the increases in income tax personal allowances that I mentioned. Those who have the most will help to lift more of those who earn the least out of income tax altogether. The optimum rate of capital gains tax has been debated at length in another place. Treasury analysis has shown that 28 per cent is the revenue-maximising level and is therefore the appropriate rate. A different value would reduce revenues, either by increasing the incentive to shift from income to capital or by reducing the incentive to invest in the economy.

Tax avoidance has also been a significant issue during the passage of the Bill. It was raised in reference to corporation tax and capital gains tax and is the target of Clauses 8 and 9, which together protect around £200 million of revenue per annum. The Government are absolutely committed to tackling robustly avoidance and evasion. We must continue to take the necessary steps to protect the Exchequer and to maintain fairness in the tax system. In the future, we want to take a more strategic approach to tax avoidance by protecting against such opportunities when reforming policy and by seeking to reduce complexity within the tax system. Against this background, we are considering whether a general anti-avoidance rule should form one element of those defences and we will seek the views of interested parties on whether there is a case for this approach.

The Government have inherited plans to limit tax relief on pension saving for the wealthiest. Under the approach of the Finance Act 2010, individuals on the highest incomes who are able to make very large pension contributions could have continued to receive pensions tax relief worth up to £51,000 every year. We have concerns about both the complexity and the fairness of the previous Government's approach but, given the state of the public finances, we cannot ignore the £4 billion of revenue that this policy was set to raise. We are committed to protecting the public finances and we will put forward an alternative measure that will raise no less revenue than the existing plans. We

26 July 2010 : Column 1151

are looking at an approach where annual tax relief available will be restricted to less than half that available under the previous Government's plan, which will significantly curtail the ability of the super-rich to benefit from pensions tax relief. We want to ensure that this is a fair and effective approach and will be talking to employers, pension schemes and other interested parties to determine the design of an alternative scheme. It was requested in another place that the Government publish an analysis of the impacts of the alternative measure that we establish. I can confirm that the Government, as a part of our commitment to transparency, will publish a range of assessments alongside the legislation, including the impact on the economy and the impacts of the policy, as suggested.

This is a progressive Budget. It ensures that every part of society makes a contribution to deficit reduction, while protecting the most vulnerable, including pensioners. In fact, the Budget included a number of measures to support pensioners, not least our triple lock guaranteeing an annual increase in the state pension in line with earnings, prices or a 2.5 per cent increase, whichever is highest, to the benefit of 11 million pensioners across the country.

Lord Lea of Crondall: Is the noble Lord suggesting that inequality in Britain will be reduced by this Budget?

Lord Sassoon: My Lords, as I have already said, the Budget document sets out transparently for the first time tables which have never been published before and indicate the effect on different decile income bands of the population. These show that the Budget is progressive in its effect.

Continuing on the theme of pensions, the Government will enable people in retirement to make more flexible use of their pension savings. We intend to end from April 2011 the obligation to annuitise by the age of 75. Last week we launched a consultation on the detail of this change. The Bill therefore provides interim measures which delay this requirement until an individual has reached the age of 77, so that people turning 75 on or after the day of the Budget will not be required to annuitise before the new system is introduced in next year's Finance Bill.

To conclude, the Finance Bill is founded on the principles of responsibility, freedom of enterprise and fairness, and is a vital part of implementing the changes to the tax system set out in the Budget. I look forward to hearing this afternoon's speeches. In particular, I will listen intently to the maiden speeches of my noble friends Lady Browning and Lord Spicer, who bring many years' experience of scrutinising Finance Bills in the other place. I commend the Bill to the House.

3.26 pm

Lord Tunncliffe: My Lords, I thank the Minister for setting out in such detail the Bill and what it will do. I was tempted for a few moments to think that it would be exciting to go through all this detail and slog it out, clause by clause, in Committee, but I was reminded that it is a money Bill. As such, this afternoon is a formality. Nevertheless, it is an occasion when this

26 July 2010 : Column 1152

House can debate the generality of the Budget. I will stick to that generality, rather than go into much detail.

The objective of the Budget should be to set a fiscal framework for the enhancement of the material well-being of the British people. That is how it should be judged. Does the Budget contribute to the expansion of the production of goods and services that define national well-being? Mr Geoffrey Dicks of the Office for Budget Responsibility told the Treasury Committee in another place that, "logically the chances of" a double-dip recession "have increased" as a result of the Budget. I think Mr Dicks is right, which raises another important question: why is the coalition proposing measures that most objective observers believe will harm the well-being of the British people? To answer that question we need to examine the coalition's analysis of the crisis and its own justification for its destructive policies. Consider, for example, Mr Cameron's statement:

"Nothing illustrates better the total irresponsibility of the last Government's approach than the fact that they kept on ratcheting up unaffordable ... spending even when the economy was shrinking".

Thank goodness the Labour Government did ratchet up spending in the face of the worst financial crisis in 80 years. That is what saved us from entering the terrible recession that would have been our fate if the coalition had been in charge. Indeed, the coalition may take us there. Even now, government expenditure is vital to the maintenance of the fragile recovery.

In the face of the fact that government expenditure is necessary, Mr Cameron still argues that spending is unaffordable. The Budget and the Finance Bill herald massive cuts in the public sector. In his Budget speech, Mr Osborne said:

"What we have not inherited from our predecessors is a credible plan to reduce their record deficit".-[*Official Report, Commons, 22/6/10; col. 166.*]

Contrast that with the report by the Office for Budget Responsibility, which demonstrates that the Budget put forward by Alistair Darling would have halved the deficit in four years, exactly the timeframe recommended by the G20 at its meeting in Toronto last month.

Consider also Mr Osborne's statement that the crisis in the eurozone shows that unless we deal with our debts, there will be no growth. Contrast that with the fact that the UK has the lowest debt to GDP ratio of any major EU economy, that the average maturity of British government debts at 14 years is significantly more than double that of any eurozone economy and that the cost of government borrowing in Britain has been falling all this year. There is no comparison. Mr Osborne said:

"Because the structural deficit is worse than we were told, my Budget today implies further reductions in departmental spending of £17 billion by 2014-15".-[*Official Report, Commons, 22/6/2010; col. 171.*]

Note that the Chancellor refers to the structural deficit, not the actual deficit. The structural deficit is a theoretical construct that relies heavily on contentious assumptions. The OBR clearly states that the actual deficit is less than Alistair Darling estimated in March, and the rate of growth of the economy is slightly higher - a fact borne out by second-quarter figures. In other words, the overall economic position is better than my right honourable friend estimated, not worse.

26 July 2010 : Column 1153

To sum up, it is not true that the overall fiscal position is worse than that presented by Alistair Darling in March. It is not true that the overall economic standing of the UK is comparable with that of major eurozone countries, let alone Greece and Spain. It is not true that the Labour Government had no plan to deal with the deficit. Of course, we have serious economic problems in this country; how could we not when we have just gone through the worst world recession for 80 years and when we have suffered massive convulsions in the financial sector? However, it is our contention that the massive cuts in public expenditure trailed in the Budget will make the situation worse.

There is one crucial question that the Government must face: with the withdrawal of public sector demand planned by the Government, where is the demand in the economy going to come from? The OBR seeks to answer this in the Red Book. It sees only 1.1 per cent coming from private consumption, compared with 1.9 per cent in the boom years. Even 1.1 per cent is likely to be generous as unemployment increases and real pay is cut. Instead, the OBR forecasts that growing business investment will make a positive contribution of 1.1 per cent to the growth of GDP-three times greater than in the boom years-investment in housing will contribute twice as much as in the boom years and the contribution of net trade will be 1.1 per cent, when it was negative in the boom years.

These heroic assumptions are difficult to believe. Of course, the Liberal Democrats will believe them-they have to keep the coalition together-but do the Tories really think that they are credible, or are they just a cover for the old-fashioned slash-and-burn politics with which they are so comfortable? Their goal is not simply to cut the deficit-Alistair Darling's proposals did that-but to shrink the public sector, whether it be education, transport or, of course, support for the poor. The Tories want less public sector to make way for tax cuts to come.

One specific measure in this Bill on which I wish to comment is the broken promise on VAT. The Budget announced that VAT would rise from 17.5 per cent to 20 per cent in January 2011. This will cost each household in the country more than £500. Labour rejected a VAT increase as part of our deficit reduction plan and chose to increase national insurance contributions instead.

Lord Bates: My Lords, I am grateful to the noble Lord for giving way, but on that point is he familiar with the comments made by Alistair Darling on the "Andrew Marr Show" on Sunday, when he said that he favoured increasing VAT and not increasing national insurance contributions? Does the noble Lord agree with him?

Lord Tunncliffe: My Lords, regrettably, I did not watch the "Andrew Marr Show" and did not hear Alistair Darling's precise words. Therefore, I will not comment on them.

Before the election, the Liberal Democrats warned that the Conservatives would raise VAT. Nick Clegg said, "Our plans do not require a rise in VAT, the Tory plans do. Their tax promises on marriage and jobs may sound appealing, but they come with a secret

26 July 2010 : Column 1154

VAT bombshell". In fact, their election campaign was based on it. During the campaign, the Conservatives repeatedly denied they had plans to raise VAT.

"We have no plans to increase VAT",

said George Osborne in the *Times* on 10 April 2010. VAT rises are unfair and regressive, as both David Cameron and Nick Clegg know. David Cameron has made an absolute promise that VAT is regressive and hits the poorest hardest. Nick Clegg shares this view that raising VAT would be regressive and penalise the poor.

I touch upon an area that is difficult given our Budget and expenditure structure. I commend the Government and the OBR for the comprehensive analysis in both the Red Book and subsequent documents that have been released, although some of it is based on assumptions I do not find particularly credible. However, this Budget will change the shape of our society, and we will not see that change until the spending review in the autumn, although we can be sure that it will be significant. The Budget anticipates £83 billion less public expenditure in 2014-15, which is more than £1,000 for every man, woman and child. Some of this will come from efficiency, as Alistair Darling's Budget assumed. Some will be payments by cash transfer, and they are analysed in the Budget documentation. Yet a most important part will come from the non-cash value that we as citizens get out of society. That is what is so weak about the Budget process; the value that is withdrawn by these non-cash items is undoubtedly regressive.

The non-cash items pay for education-everything from Home-Start to universities and research. Cuts in these areas will hit poor people who have to go through state education and use things such as Home-Start. They will come from policing and justice. Yes, some efficiency will be available, but there will also be less policing and fewer justice facilities. They will come from social services such as home helps and respite care-the things that support lonely older and poorer people. They will come from programmes to protect the environment and from the arts, culture and sport. They will come from transport, which needs revenue support to maintain services to all our citizens and specialist support for the bus pass scheme so valued by our older citizens.

This Budget and its consequences in spending cuts will make our nation less secure. It will hit the poor and weakest most. It will leave society as a whole poorer and more fractured. It will leave it a less happy society, attacking those things that cause society to be at peace with itself. History tells us that, once the Tories start cutting, they will not stop. Sadly, these damaging measures may not achieve the Tories' ultimate goal of tax cuts for the better-off because that depends on an economic recovery. This Budget and Finance Bill make recovery less likely. Without sustained recovery, no significant group of citizens in the country can achieve significant improvement in their material well-being. That is how this Finance Bill should be judged.

3.39 pm

Lord Razzall: My Lords, I rise in support of the coalition's Budget proposals although, as the noble Lord, Lord Tunncliffe, has indicated, it is immaterial

26 July 2010 : Column 1155

whether or not I do as this is a money Bill and we can only talk to it, not vote on it. I rise to support it as the relevant Liberal Democrat spokesman; I am not part of the Government but am in the coalition. This is probably the first Budget to emerge from a coalition since the 1930s. Apart from trying to provide stability for our government, one reason why the Liberal Democrats went into the coalition was to see which of our measures could be implemented by the coalition agreement and what our track record would be, having implemented the sort of policies on which we fought the election.

Of course, no one will know what went on within the Cabinet rooms in the Treasury when the Budget was agreed; nor indeed will we know until we see everyone's memoirs, which I suspect will not be rushed out quite as quickly as those of the noble Lord, Lord Mandelson. However, looking at the proposals in the Finance Bill and the related announcements, there are clearly some issues where the Liberal Democrat members won the relevant arguments. I suspect that there would not be the proposed bank levy, on which we campaigned during the election, without the influence of the Liberal Democrats, and, bearing in mind the hostility that came from certain elements of the Tory party against an increase in capital gains tax, I suspect that the proposals to increase capital gains tax enshrined in this Bill came from the arguments raised by the Liberal Democrats. As noble Lords will know, we attacked over a period of years the Labour legislation under which, to coin a phrase, many of the rich paid less in capital gains tax compared with the income tax paid by those who cleaned their offices. As the Minister indicated, the coalition Government have taken the first steps to eliminate from tax altogether people with an income of under £10,000, and, as he has indicated today, those proposals are part of a process which the coalition has agreed will continue throughout the period of the Government. Most importantly, we have long advocated the restoration of the earnings link on pensions-something that Labour has always resisted-and that link is now being restored.

I have said what I agree with in the Budget and have referred to the legislation that reflects Liberal Democrat policies. However, I think that the role of the Liberal Democrats in your Lordships' House is also to question the coalition about areas at which the Government need to look carefully. Taking up the point that the Minister

made regarding the fairness of the Budget, undoubtedly both parties in the coalition have tried to demonstrate that this Budget is fair across all elements of society. However, there is no doubt that there are issues here, one of which was touched on in the intervention of the noble Lord, Lord Lea of Crondall. The Budget briefing indicates that the package mitigates,

"the impact on the most vulnerable in society",

and that fairness will be achieved by sharing the impact across all income deciles—a wonderful Treasury phrase. It claims that, while the bottom 20 per cent will lose, on average, 0.9 per cent of income, the top 20 per cent will lose 2 per cent. However, as always, the devil is in the detail, and Robert Chote, the head of the IFS, has said that the problem is that that does not take into account alterations in welfare benefits. If the

26 July 2010 : Column 1156

coalition is to claim that this is a fair Budget, the Government need to look at how the Treasury models the impact of the reductions in taxation at the bottom end and plugs in the impact of the loss in welfare benefits. I certainly urge the Government to do that.

A number of right wing newspapers have trumpeted the impact of reductions in housing benefit, and there have been horrendous stories of people getting hundreds of thousands of pounds in housing benefit in the wealthier parts of London; but as the noble Lord, Lord Best, indicated in the debate on Thursday, that is just the tip of the iceberg of the issue and the proposals to cut housing benefit could bear down particularly on the unemployed in London and the south-east. Why should we attempt to make life tougher for the unemployed? As some of these measures will require legislation, I urge the coalition Government to have a look at the detail in order to see the extent to which these problems can be ameliorated.

The elephant in the room, which the noble Lord, Lord Tunnicliffe, touched on, is what will happen in the comprehensive spending review in October. We are all aware that the Finance Bill and the Budget proposals have, in a sense, a relatively small impact compared with the CSR. I am sure that the Liberal Democrat Members of the Government will be arguing strongly with the Tories that whatever happens in the CSR, and clearly there will be significant cuts—we should endeavour to ensure that they do not bear unfairly on those in our society who are less able to cope.

One point which nobody has touched on yet is the fact that managing economic policy is not just about fiscal policy or public expenditure; there is also the whole area of monetary policy, which has now been handed over to the Bank of England. I refer to a point which a former member of the Monetary Policy Committee raised today in the *New Statesman*. Will the Minister indicate whether, if the MPC were to lose control of its senses and significantly raise interest rates, tightening monetary policy at the wrong moment, the Government would not rule out exercising Section 17 of the relevant legislation, which allows the Chancellor of the Exchequer to overrule the committee? Although it looks like that will not be necessary, it would greatly comfort those of us who follow these matters to know that that would not be ruled out.

I listen with absolute fascination to what the Labour Party has to say on the Budget, the Finance Bill and the Government's current economic policy. Let us look first at the point that the noble Lord, Lord Tunnicliffe, made on VAT. Not only did Alistair Darling indicate that he had been in favour of an increase in VAT when he appeared on "The Daily Politics" and "The Andrew Marr Show"; the third man has indicated it as well. In his book, he said:

"Alistair's final pre-election PBR was due to be delivered on December 9 ... he told me his proposed surprise announcements would reduce the bill for basic-rate taxpayers ... here was the shock—to balance these moves he was minded not only to restore VAT to its previous level of 17.5 per cent, but ... even to 19 per cent".

"I was impressed", said the third man:

"These were exactly the sort of hard choices that would enable us to regain the initiative ... Gordon ... vetoed [it], point blank".

26 July 2010 : Column 1157

Alistair Darling floated a VAT increase before the March 2010 Budget, and again Gordon Brown vetoed it. Alistair Darling disclosed that on "The Andrew Marr Show", but he had also done so on 13 July on "The Daily Politics", when Andrew Neil asked him whether he had considered an increase in VAT, which Gordon Brown was against. Alistair Darling said:

"This is public knowledge. It's well known that there was this difference between us".

So, on the question of VAT, the Labour Party really should keep silent.

Let us consider Labour's record. Labour has left this country with the second largest deficit in Europe. On the OBR's forecast, the UK deficit will be 10.1 per cent of GDP in 2010-11. That is higher than France, at 8 per cent, Germany, at 5 per cent, Japan, at 6.7 per cent, and—would you believe it?—Greece and Portugal, the two weak members of the euro zone, at 9.3 per cent and 8.5 per cent respectively. Under Labour the UK has had the deepest recession on record, and the longest recession in the G20. Labour cannot deny that. There have been six consecutive quarters of negative growth, and no other country has had that. There is also no doubt that the Labour Party was planning cuts just as large as those which the coalition Government are proposing. The IFS has indicated that on Labour's own Budget plans we would have to have cuts of 25.4 per cent to non-protected areas. Those are huge cuts which Labour was committed to bringing in but which it was not prepared to disclose in the run-up to the election. As I said in the debate on the gracious Speech, to misquote Attlee on

Laski: a period of silence from the Labour Party on this issue would not come amiss.

3.51 pm

Lord Stern of Brentford: My Lords, many of the challenges we face in the world economy in the coming years are structural and profound. These include high public deficits in some countries and major imbalances in savings and investments with correspondingly large external surpluses or deficits in key economies of the world. Both can feed, and have fed, instability. Over this decade, we will continue to see fundamental changes in the international division of labour, which will imply great industrial change and some dislocation in both the rich and the poor world, and our international financial and economic system will have to change to reflect the new realities. Still more profound is the necessary acceleration of the energy and industrial revolution, which will be not only innovative, creative and dynamic but critical to our building of the low-carbon economy which is essential for managing climate change. If we see these related challenges together, we will do much better on each than if we try to tackle them one by one or in sequence. This decade in the world economy is of special importance. In the UK, we must close our deficits while avoiding tipping back into recession. We must come out of this recession by laying the foundations of long-term and sustainable growth and not, as we did in much of the world, including the UK, a decade ago, by sowing the seeds of the next bubble.

Today, in the long-term and international context I have described, I want to consider briefly three particular related issues that confront us now and which are, or

26 July 2010 : Column 1158

should be, central to our consideration of the UK's fiscal policy and the Finance Bill. These are first, revenue forecasting, secondly, the pace and flexibility with which we attempt to close the deficit and thirdly, tax reform.

I must declare an interest in the economics of public policy. I am currently professor of economics at the LSE and have been a professor of economics, specialising in public policy, for more than three decades. For 10 years, I was first chief economist of the European Bank for Reconstruction and Development and then chief economist and senior vice president of the World Bank, interacting with finance Ministers around the world. Closer to home, and of direct relevance to what I have to say today, I was from 2003 to 2007 head of the Government Economic Service in Her Majesty's Treasury, and for the first nine months of that time, I was Second Permanent Secretary of the Treasury with particular responsibility for the revenue side of the public finances, before I turned in my next two and a half years as a civil servant to write two major reports, the report of the Commission for Africa and the review of the economics of climate change. I was indeed fortunate in my assignments. I returned to the LSE three years ago.

On revenue forecasting, I must welcome the establishment of the Office for Budget Responsibility. My brief experience in this area at the Treasury in 2003-04 underlined very strongly the importance of independence and of transparency. In my view, in the Treasury at that time, there was a lack of clarity in setting out the assumptions, an absence of clear models of revenue and excessive use of hopeful judgment on future revenues. One result was that we went into the crisis in 2007 with inflated forecasts of structural revenues, and thus inflated expenditures which had expanded to meet the anticipated, or rather "wished for", revenue, and with a substantial structural deficit.

There were some positive moves on the revenue front at that time. We brought Her Majesty's Revenue and Customs together—one or two centuries too late, but better late than never—and provided much greater clarity for the formation of tax policy across the Treasury and HMRC. But in my few months working on revenue, I was not successful in bringing more rigour to revenue forecasting. Hence, my emphasis now on clarity, transparency and independence.

We must not, however, confuse independence with isolation or incoherence. It is important that the OBR is well informed about the analysis and sense of direction on policy of Her Majesty's Treasury and the Bank of England. Independence of the OBR is perfectly consistent with discussion on analysis and policy with these two key institutions. Indeed, all three will function the better for this interaction. Bank of England independence is not compromised by constructive and detailed discussion with Her Majesty's Treasury, which during my time was a much weaker discussion than it should have been. The reluctance to engage was not for the most part in my view on the side of the Bank of England.

I have three questions on the OBR for the Government, to which I hope that the Minister can respond. First, will he encourage the OBR to illustrate its value-added by examining how far its methods would produce

26 July 2010 : Column 1159

different results from the less transparent methods of the past? This would be very helpful in assessing the contribution of the OBR. Secondly, will he encourage the Government to emphasise still more strongly the uncertainty surrounding all revenue forecasts and thus uncertainty in deficit forecasts? To be slightly nerdy, we should welcome the appendix on fan charts in last month's pre-Budget forecast of the OBR. Thirdly, will he consider establishing an independent board for the OBR, advisory or otherwise, which could provide guidance to the chair of the OBR and play a role in defending its independence, as Sir Michael Scholar has so admirably done for UK statistics?

Finally, on revenue forecasting, I should like to pay tribute to the outstanding work of Sir Alan Budd in establishing the OBR so effectively and so rapidly. I have known for some months of his clear intention to serve for only a few months as its head. This was also very clear to senior Treasury officials and to Ministers, as I am sure that the noble Lord will confirm. Thus, any speculation from the press and elsewhere to the contrary is completely misplaced.

My second issue is the pace of closing the deficit. I fear that this is a subject that sometimes descends to camps and slogans. If I said that the entire structural deficit should be closed in one year, you would think that I was mad. If I said that it should be closed in a decade, you would doubt my seriousness. It is clear that we must discuss whether it should be targeted over four, five, or six years. There is nothing in the subject of economics that allows us to be very precise on this. Thus it makes no sense to denounce those who rightly draw attention to the risk of recession as narrow Keynesians who care little about budget responsibility and the future servicing of debts, just as it makes no sense to label those who rightly emphasise the dangers of large deficits and ever-increasing debt to GDP ratios as Hooverians intent on repeating the mistakes of the great depression.

Let us recognise not only that we shall have to set clear intentions on deficit reduction but also that we must feel our way on the risks of recession. These risks are very real. We will probably see strong growth in China and India, but while they are around 36 per cent or 37 per cent of the world's population, they are around only 10 per cent of the world's economy, although somewhat larger on a purchasing power parity basis. The US and Europe are far more important in the global economy, constituting around 45 per cent of the total. More than half our exports are to Europe where there seems to be a clear intent to go for a strong and co-ordinated fiscal consolidation with significant risks to overall demand. As Ben Bernanke said last Wednesday, the future of the US economy is "unusually uncertain". While we have in the UK the advantage of a flexible exchange rate there can be no guarantee that rising exports and private investment will replace the demand reduction in the UK from fiscal consolidation.

It is difficult to be precise about the risks of recession in the UK, but they are not small. Let us recognise both that we will learn more in the coming months and the next year or two, and that if we fall into recession we risk not only the severe human cost of

26 July 2010 : Column 1160

unemployment but, via the automatic stabilisers, raising the deficits we are trying to reduce. We do not know how much capacity or underlying potential have changed as a result of the crisis and recession. It is thus difficult to distinguish cyclical from structural deficits. As I have said, there are strong risks to export demand and we do not know what may happen to consumer and investor confidence. It is absurd to pretend otherwise.

Thus, while agreeing with the Government and their predecessors on the importance of cutting the deficit, I would like the Minister's assurance that the Government will keep the risk of recession under review and stand ready to adjust their fiscal stance if necessary. While recognising that the Bank of England has a strong role to play in demand management, it cannot be left solely to the Bank. This is not lack of resolution or anticipating U-turns; it is sound economics in the face of risk and uncertainty and it is common sense.

As to tax reform, at a time when strong shorter-run decisions are necessary on the public finances, we must also recognise that tax reform is about the medium and long run. Let us not make the urgent need for extra revenue and expenditure control an excuse for yet more incremental tinkering that is not well thought through in terms of the coherence of the tax system as a whole. Tax systems suffer badly from the creeping approach to policy. Each new initiative might have had some plausibility at the time, but we now have a system with a set of major defects. These include: disincentives to work for many at the bottom end of the scale; incoherence between the various forms of personal income tax, corporate income tax and national insurance; no clear rationale on the taxation of wealth and savings; and inefficient and inconsistent ways of pursuing distributional objectives. The tax treatment of housing is a special mess. Now is the time for a strong move to correct the great market failures associated with the environment and climate change. With green taxes and other measures, including the green investment bank, we can simultaneously raise revenue, help markets work better and foster a new and cleaner source of growth. This is surely what our American friends would call a no-brainer.

There is not time to develop these points in detail. I recommend to noble Lords the work of the Mirrlees review from the Institute for Fiscal Studies which is scheduled to be published in September this year. Much of this analysis is already available and there is a clear discussion by Paul Johnson, a co-editor of the Mirrlees Review, in his lecture at the LSE last month which is available on the IFS website. Three decades after the important and influential Meade review on the tax system, it provides a most valuable analysis and sense of direction.

Let me give two examples from indirect taxation. First, the base of the VAT could be substantially broadened and the extra revenue used to more than compensate, as we should, those on low income who are most affected. Secondly, a financial activities tax, as suggested by the IMF, could be structured in a way that would be economically equivalent to a VAT on this currently exempt sector. I could go on to give examples concerned with income and other taxes and benefits.

26 July 2010 : Column 1161

There is also much analysis to draw upon from international institutions in other countries—for example, the expert groups of the OECD and the Fiscal Affairs Department of the IMF. At the request of an earlier Chancellor, I ran, as Second Permanent Secretary of the Treasury, a series of internal seminars on tax reform in the first half of 2004 and provided the summary paper drawing conclusions for the Chancellor in June of that year. I quite properly left my only copy with the senior management of the Treasury when I left in the summer of 2007, and I am sure they will have retained—at least, I hope they will have retained—their own copies. I hope they find the study useful.

Now is the time for a careful and considered discussion of the reform of tax and benefits in this country. I trust that the Government will play a strong, analytical and thoughtful role in this discussion and that we will see the fruits in terms of action in the coming two or three years. I seek the Minister's assurances on this point. There

is so much that we could do at this time of reform and reappraisal to move towards a system which is simpler, more equitable and more efficient. Furthermore, it could foster the entrepreneurship and creativity to drive the new forms of growth that are vital to our nation and the world in this decade of fundamental change.

Policing Statement

4.05 pm

The Minister of State, Home Office (Baroness Neville-Jones): My Lords, with the leave of the House, I would like to repeat a Statement made earlier today in another place by my right honourable friend the Secretary of State for the Home Department.

"Mr Speaker, with permission, I would like to make a Statement about a consultation paper I am publishing today. Called *Policing in the 21st Century: Reconnecting Police and the People*, it sets out the most radical reforms to policing in at least 50 years. For this Government, police reform is a priority, not just because we inherited the worst public finances of any major economy, but because for far too long the police have become disconnected from the communities they serve. They have been bogged down by bureaucracy, and they have answered to distant politicians instead of the people. Crime remains too high, too many families and communities suffer from anti-social behaviour, and barely half the public are confident that important local issues are dealt with. Meanwhile, the challenges we face have changed. Terrorism and the growth in serious organised crime and cybercrime all require new approaches that cross not just police force boundaries but international borders.

First, we will transfer power back to the people. We will introduce directly elected police and crime commissioners by 2012. The commissioners will set the police budget, determine police force priorities, and have the power to hire, and when necessary fire, their chief constable. To help the public hold their local police force to account, we will publish local

26 July 2010 : Column 1162

crime data and mandate beat meetings so that people can challenge the performance of their neighbourhood policing teams.

Secondly, we will return professional responsibility to police officers. Front-line staff will no longer be form writers but crime fighters, freed up from bureaucracy and central guidance and trusted to get on with their jobs. We have scrapped the policing pledge. We have got rid of the confidence target. We will restore police discretion over charging decisions for particular offences. We will limit the reporting requirements for stop and search, and we will scrap the stop form in its entirety.

Thirdly, we will shift the focus of government. As the Home Affairs Select Committee noted during the last Parliament, the last Government tried to micromanage local policing but failed to support forces effectively on national issues. We will build on the work of the Serious Organised Crime Agency to create a more powerful National Crime Agency, which will tackle organised crime and protect our borders. We will phase out the National Policing Improvement Agency and scrap Labour's plans for a statutory police senior appointments panel. We will discuss with the Association of Chief Police Officers the way forward in its role as a professional leadership body.

Fourthly, we will make the police more efficient at force, regional and national levels so that front-line local policing can be sustained. To this end, we are already consulting separately on police procurement regulations to get better value for taxpayers' money.

Fifthly, we will unleash the power of community pride and civic responsibility so that people can come together to cut crime. We will look for a cost-effective way to establish 101 as a single police non-emergency number so that it is easier to report crime and anti-social behaviour, and we will do more to encourage active citizens to become special constables, community crime fighters and members of neighbourhood watch groups.

There is nothing inevitable about crime. That is why we are determined to press ahead with these reforms. They demonstrate our determination to undo the damage of the Labour years, to put the people back in charge, and to rid our communities of crime, anti-social behaviour and disorder. I commend this Statement to the House."

That concludes the Statement.

4.10 pm

Lord Brett: My Lords, I thank the noble Baroness for repeating the Statement made by the Home Secretary in another place and for her letter notifying me of the review and inviting views.

Passing over the pejorative paragraph, repeated by the Government ad nauseam, about public finances, I am struck by the rhetorical style of the Statement, with phrases such as,

"power back to the people".

I know that the Minister bears no resemblance to Wolfie Smith, but the Home Secretary's call sounds to me more like that of the Tooting Popular Front than of responsible government. I refer particularly to the proposal to legislate to remove police authorities in favour of elected police commissioners with wide powers. This is done

in the name of accountability. It is backed

26 July 2010 : Column 1163

up by the police being required to publish local crime figures and data, and the mandating of meetings so that people can meet, and challenge the performance of, their neighbourhood policing teams. Is that revolutionary action? Well, not quite.

The Minister tells us that the Government have scrapped the policing pledge. I am sure that that was said in the other place with a flourish. Let us examine what has been scrapped. Let us look at policing pledge number 9, which states:

"We will arrange regular public meetings to agree your priorities at least once a month, giving you a chance to meet your local team with other members of your community. These will include opportunities such as surgeries, street briefings and mobile police station visits which will be arranged to meet local needs and requirements. We will provide monthly updates on progress and on local crime and policing issues. This will include the provision of crime maps, information on specific crimes and what happened to those brought to justice, details of what action we and our partners are taking to make your neighbourhood safer and information on how your force is performing".

The pledge now contains an update on progress and meetings with local representatives. Therefore, what the Statement promises is already in place in the policing pledge, which the Home Secretary has chosen to scrap.

I turn to elected police commissioners, which the Statement says is about accountability to the public. Let us see how it impacts on the public. What is the current level of accountability? I commend to all Members of your Lordships' House an excellent debate last Thursday on policing and crime rates proposed by my noble friend Lord Mackenzie of Framwellgate. He made clear all the areas of accountability that the police already have. Consultation on local policing, as set out in the policing pledge, is now apparently to be reinstated.

The issue is therefore one of scrapping the police authorities, which are currently made up of elected council members from all the major parties, independent councillors and independent appointed members. Their role is to be invested in a police commissioner, who, unless he or she has a wide-reaching consultative body of some kind, will inevitably narrow the consideration of public accountability that now exists in law enforcement and local government.

A number of people have voiced to me their fears of political interference and the potential for cronyism and corruption among elected police commissioners. Why should that be? In an elected police authority, which comprises members of different political parties, people will express different views about policing. They will be tackling the same issues. There is no evidence that that has led to anything other than consensus policing, which has assisted chief constables in meeting their operational requirements while enforcing the accountability that we want. No one in the police service, in police authorities or in local authorities has any great confidence in this proposal.

If the overwhelming response to the consultation on elected police commissioners is negative, as it was when a similar question was asked in a survey in 2004, will the Minister abandon the proposal? The Local Government Association says that elected police commissioners will cost £50 million. What is the Minister's

26 July 2010 : Column 1164

estimate of the cost? Will not the abolition of the police authorities remove a reservoir of knowledge and experience that no single individual can replace?

If I were to stand for police commissioner for Cumbria, in whatever competition there was—and I buy completely the idea that there should be no interference in the policing part of the role of the chief constable—I would get elected by making promises. That is how people get elected. Those promises might include a rebalance between rural and urban policing in Cumbria. The chief constable is very clear that with the reduced resources he is likely to have, the way to do it is the way he is doing it, so I have a problem at re-election of presenting how I delivered my promises. That at least has major potential for political interference. If I do not interfere, how do I deliver the promises on which I have been elected against whatever party or non-party opposition that has stood in the same competition?

On the SOCA proposal, the coalition agreement talks of refocusing SOCA, not eliminating it. Is this a coalition U-turn? A press briefing over the weekend talked of creating a British FBI. Is this the Government's intention? This has been denied in the past and there have been very clear views from senior police that that is not what is required. A good friend of mine with the metropolitan police in Washington DC said to me in the late 1980s that FBI stood for "famous but incompetent". When I questioned that, he said that he was referring not to the ability of FBI agents but to everything from what you might call turf wars to the unwillingness of certain parts of local law enforcement and the agencies to accept the authority of the other. There are major problems attached to this, and I would be very interested to hear more on that subject.

We also hear that there is to be an enhanced border police force. Is this to replace the UKBA? Is this going to impact on numbers? It is very odd because in the debate last Thursday, and indeed in every previous attempt by this side in both this House and the other place, we have tried to persuade Ministers to admit simply that with the kind of cuts that they are contemplating, there will be fewer police on the beat and fewer resources available to maintain the present successful battle against crime. When I say "successful", I agree with the noble Baroness that it can always be improved, but it is not a damaged record. It is the best record for 30 years, the level of confidence among the public is the best in 30 years, and there is the least lack of confidence in the ability to deal with social issues and anti-social behaviour. It is therefore a rhetorical, Wolfie Smith-type Statement, and it would be better if we dealt with it in a much more serious manner.

We are making major moves ahead of the review that we are told will take place in October, so I ask yet again: is that going to reduce the number of front-line police officers or not?

Baroness Neville-Jones: My Lords, 68 per cent of the public in recent surveys support the idea of having elected commissioners, and I hear what the noble Lord says about the way in which the police authorities have performed. I do not think that the Government are suggesting that the police authorities have done a sustainedly bad job, but they are invisible to the local

26 July 2010 : Column 1165

population. One of the main objects of this exercise is to reconnect the police force of the locality with the people of the locality, and we believe that the way to do that is to have an official who has to account to the people. We are trying to get away from the police accounting bureaucratically upwards instead of being the servants of their local populations. With all the measures that we are trying to put in place, including the beat meetings and the crime and policing panels, it is not true to say that there will be no checks and balances in the system. The police commissioner will himself be answerable to these panels. They have the right to challenge his decisions. They cannot override them, but they can certainly conduct dialogue in the name of the local people, so you will have local discussion. There is probably a philosophical difference between my party and the other side of the House on the need to reconnect authority over the police to the local community.

Lord Brett: The noble Baroness makes a great play of the lack of connection. We have had elected and appointed members on police authorities for a number of years. Does she have information on a failure of people coming forward to be independent members of police authorities? I happen to know that in Cumbria there were 100 applicants last time for what I think were two or three posts. Is there evidence to sustain the argument that there is a disconnect, other than in surveys?

Baroness Neville-Jones: Only 8 per cent of wards have a councillor on their local police authority. It seems to me that there is a much more slender connection between local accountability and the people than is suggested by that kind of assertion. Police commissioners are much more directly responsible and accountable to the locals than a police authority, which has relatively few councillors among its number, with an election behind them.

The noble Lord made a number of other points. The general proposition that we are putting forward here is that accountability is not to and for government but towards local communities. As the Home Affairs Committee said in its report during the last Parliament, the previous Government succeeded in micromanaging too much local policing while neglecting some of the national issues.

On the national side, the noble Lord asked a number of questions about the nature of the National Crime Agency. The agency will be a much more powerful body than we have at the moment. It will be at the centre and will take issues of national importance. It will perform in two areas. One is serious organised crime. It will build on what SOCA has done and achieved and will retain SOCA's facilities, including its intelligence-gathering capability.

At the same time, the agency will also have control over the border police force and will direct a chief constable directed at that. The border police force will sit alongside the UKBA, which will not be incorporated into it. We have decided that for a number of reasons, including the need for economy. Also, with the Olympics in sight, it is not sensible to have vast structural change

26 July 2010 : Column 1166

at this juncture. It therefore seems more sensible to us to have, overarching the agency, a strategy to which the agency will work. The agency will then be responsible for the part of the strategy over which it has control: serious organised crime and border policing. The UKBA will, however, be tied into that overarching strategy as well. We will therefore have a single strategy for border control, part of which will lie with the National Crime Agency—that is to say, SOCA and the functions that it performs, plus the functions that will be created for the border police command. The UKBA will work alongside the border command within the framework of that overriding and overarching strategy. The object of that exercise is to create more coherent control of the borders without resorting to excessive expense in an era in which that is not going to be possible.

I am sure that the noble Lord asked me some other questions, which I would be happy to answer; I am looking at my notes.

The noble Lord asked if it was going to be a British FBI. No, it is not going to be a British FBI. We want to try to ensure that the National Crime Agency has broader powers, but it will not have a FBI-style role. All the powers it exercises will in the end also link back to the constabularies. Part of the role of the National Crime Agency will also be to link into the constabularies when it comes to, say, level 2 crime. So it will not be divorced from the role of the 43 police forces round the country, but it will give a strategic override to that function.

Lord Brett: My Lords, I have one question—

Lord Wallace of Saltaire: Order.

Baroness Hamwee: My Lords, perhaps I may ask the Minister two questions. First, can she say something about the role of local authorities? They have crime and disorder responsibilities and will need to be linked into the new arrangements. Secondly, I ask for an assurance that giving the new National Crime Agency some border responsibilities does not portray a mindset that immigration and crime are necessarily and inevitably linked.

Baroness Neville-Jones: We intend to consult on the role of local authorities and how they will link into the police and crime commissioners. I take the point about the new agency. The fact that the UKBA will retain its own separate role alongside the border police agency indicates that we recognise that there are border control functions that are unrelated to and do not concern themselves with crime.

Lord Dear: My Lords, I should first remind the House that I served for more than 30 years in police forces in this country—in one of the smallest and, indeed, in the two biggest forces. I also currently hold three non-executive chairmanships of companies that have some sort of interface with the police service, although I hasten to add not directly related to the issues that have been mentioned today.

I welcome this Statement. I should say immediately and it will not be any surprise to those listening that I respect and greatly admire the police service, both for

26 July 2010 : Column 1167

its history and for what it does today. However, there is no doubt in my mind that there has been a need for a top-to-bottom, root-and-branch overhaul of the functions of the police service for at least the last two decades and probably longer. These proposals address only some of those issues, but it is I believe a good start and I look for more to come in the future.

First, one needs to recognise that the police have slipped quite badly in terms of public confidence, and a good deal of the blame for that must come from the issue of bureaucracy in general, in the broadest sense. About 10 days ago Her Majesty's Chief Inspector of Constabulary, in conjunction with the Audit Commission, published a damning report on the back-office function of the police. It has grown to enormous proportions. It has been indicated that that, coupled with the growth of specialist groups, must change. Therefore, the moves in the Statement today to support a retreat from micromanagement and to cut central targets have to be applauded.

So far as the central crime agency—

Lord Wallace of Saltaire: My Lords, I remind you that the rules on Statements apply. People should make short interventions in order to leave time for others to come in.

Lord Dear: As for the National Crime Agency, I support what is being said there. I have supported border policing, working in conjunction with UKBA, for some time.

The nub of the whole problem for onlookers is with elected commissioners, and I seek two reassurances from the Minister. In principle, I give qualified support to that proposal, which amounts to a revamp or modernisation of current police authority structures, which have stood the test of time for the past 50 years. Times have changed and this may be the time to look again at the role of police authorities, but the devil is in the detail. I ask the Minister to comment on the issue of hire and fire. Hiring will need very careful handling at a time when the whole question of police leadership is under the microscope and the need is even greater to ensure that there is selection of the right person for the right job and that careers are managed not only for the benefit of the individual but to the advantage of the community. On the issue of firing I seek a very firm reassurance from the Minister. If there is the power to fire, reserve powers must be given to the Home Secretary to endorse that, or the chief officer will be at the mercy of single-issue politics and extremist groups. Comment has been made about operational independence not being damaged, and I accept that, but I seek reassurance, particularly on the issue of hire and fire. Overall, I welcome the Statement and look forward to the debates that will follow.

Baroness Neville-Jones: On the question of hire and fire, the noble Lord is right to say that those powers are contained in the proposed remit of the police and crime commissioner, who is himself potentially subject to recall. It is not the case that any police commissioner would be able to exercise his powers unreasonably or arbitrarily without himself thereby being called to

26 July 2010 : Column 1168

account. The whole point of having him—I mean, these individuals; I hope that there will be some women, too—accountable to the local electorate is precisely so that unreasonable behaviour can be checked. I see no reason why an elected official in such a position should behave unreasonably any more than any other elected official.

I take note of what the noble Lord says about reserve powers, and will take that back to the Home Secretary.

Lord Harris of Haringey: I declare an interest as a member of the Metropolitan Police Authority, which I understand is to be abolished under these proposals. Could I ask about this brave new world of the police and crime commissioners? In parenthesis, calling somebody a crime commissioner implies that they commission crime, which seems a slightly strange thing for the Government to want to do. Given that the commissioners will apply to the forces that provide neighbourhood policing, which is essentially visible to local communities and for which there are already substantial arrangements for local dialogue with local communities, why are other areas of policing not to have the benefit—if benefit it be—of having their own police and crime commissioners? Why, for instance, is there no police and crime commissioner for the British Transport Police or the Civil Nuclear Constabulary or the Ministry of Defence Police—or, for that matter, the City of London Police? The Civil Nuclear Constabulary and the Ministry of Defence police are extremely heavily armed and the work they do raises important issues of public accountability. The City of London has its own slightly different means of democratic control from anywhere else. Why is there not that clarity? Could the Minister also tell the House about the accountability arrangements for the new national agency, given, again, that this will have very important but not essentially visible responsibilities for policing? These are precisely the areas in which strong, robust and transparent accountability mechanisms are necessary.

Baroness Neville-Jones: The noble Lord raised the question of other functions not covered by the police and

crime commissioners and he is quite right to do so. The proposals make a distinction between those issues where we believe that local accountability is of the essence, in the area of neighbourhood and constabulary activity. Where we think that the functions have a much more national character—and certainly the police commissioners themselves must contribute to efficient national policing by collaboration—such as in counterterrorism, or in the powers that are going to be grouped under the National Crime Agency, different arrangements are needed. We will certainly have to put in place, subject to further consultation, the nature of the accountability arrangements that will be required. There will certainly be accountability arrangements but they have not yet been spelled out. Our purpose today is to make it clear that lying at the core of this is the need for accountability of local and neighbourhood policing.

On the British Transport Police, there is indeed a series of other protective policing powers and activities which are not covered by today's proposal. We are

26 July 2010 : Column 1169

looking at the rationality of present structures in that area with a view to seeing whether we cannot make them more efficient. Again, we will have to deal, in that instance also, with the question of accountability.

Lord Martin of Springburn: My Lords, as someone who has served both as a councillor and an elected Member of Parliament for 37 years, I always felt that it was the chief constable who was accountable to local people and to his police region. If the local people were displeased about his or her performance, they were not long in making that known. Can the Minister check her facts on the make-up of police authorities? It has been my understanding that there is a large proportion of elected councillors on those boards.

Baroness Neville-Jones: The noble Lord says that chief constables are accountable. Yes, but it has to be said that police authorities as they stand at the moment had the money and the strategy and the problem that we have at the moment is that they are insufficiently accountable. I do not think it follows that because we are putting in place police and crime commissioners, the chief constable is therefore relieved of accountability. That is most certainly not the case. His accountability will be for the efficiency of his operations and he will retain his operational independence.

As for my facts on the elective elements within police authorities, it is certainly the case that each authority has 50 per cent of councillors, but it is still a small number nationally, and at ward level it is only 8 per cent.

Baroness Scott of Needham Market: Perhaps the Minister can clarify the expression in the Statement that the new commissioner will "set" the budget. Do the Government really mean set the budget, or do they mean manage the budget within its existing parameters? For example, do they intend to retain the precepting arrangements whereby it is the local authority which levies it? If they do, how can this flexibility be exercised within the context of a council tax freeze, which would impact on police spending as well as local government spending?

Baroness Neville-Jones: My understanding is that the police commissioner will set the priorities for the budget and, indeed, I think that he does have a hand in the setting of the precept. I will have to write to the noble Baroness about other detail, because I would not want to mislead her.

Baroness Gibson of Market Rasen: Will the noble Baroness answer the question asked by my noble friend Lord Brett about the cost of elections for police commissioners?

Baroness Neville-Jones: Clearly, elections cost money, but it is difficult to know before we have had one what they are likely to cost, although we will certainly make an estimate. The money will have to come out of the finance that is available to the Home Office for policing, but we believe that this is good value if the public are

26 July 2010 : Column 1170

to have better control. Given the totality of the package that we are putting forward, with our determination to increase value for money, to drive down duplication and to improve procurement, for example, which at the moment is lamentably fragmented, duplicative and therefore costly, we believe that, in the end, this will not be a more costly way of running the police service than the current one.

Lord Stevens of Kirkwhelpington: My Lords, I declare an interest as the previous Prime Minister's senior adviser on international security and the chairman of the committee set up by David Cameron to look at border policing. I have two points. First, this is a consultation paper, so other people's views will be looked at and considered. I should like to see the evidence, if I may—no doubt the House would, too—showing how the police authorities have been a failure. The bottom line is that, having been a policeman for 46 years and inspector of constabulary for two years, during which time I was at the appointment of 12 chief constables, I have seen no evidence that police authorities are a failure—quite the opposite. When I was Commissioner of the Metropolitan Police, I thought that the police authority was a very effective, although sometimes hurtful, reminder of what one's duties were. I should like the consultation to take account of why it is thought that the police authorities in this country, linked in with local authorities, have been a failure.

Secondly, it will come as no surprise to the House to hear that I am totally in favour of where we are going with border policing and the amalgamation of some agencies that are seen to be separate in terms of where they are. The committee, which is made up of 14 people, has met for nine months to a year, during which time there has been an absolute need to firm up the borders of this country in every aspect. Yes, we are hard up for money and have to work in the financial situation in which we are, but does the Minister agree that we must work towards having a proper border policing agency as soon as we can and that that agency must be beefed up by a more effective Serious Organised Crime Agency?

Baroness Neville-Jones: The noble Lord makes two points, the first about police authorities and the second about the border policing arrangements. As I said at the outset, I do not think that the Government are claiming that police authorities have been a failure in the sense that they have not been able to exercise functions properly. The point that the Government are making is that the authorities are not visible and, in that sense, properly accountable to local people. Only 7 per cent of people know what the authorities do or have ever heard of them. Some authorities, although not all, perhaps do not rate as more than adequate. We are saying that we can do better. The whole drift of the Government's policies is to return authority to local people and to make those who have considerable control over the condition of their daily lives more directly accountable to them. One of the ways of doing that is to give both power and authority to somebody whose job is, in the end, owed to the people who put him in that position. There is legitimate room for difference in this area and we will certainly want to consult on the functions of

26 July 2010 : Column 1171

the police authorities and the contributions that they have made over time to see whether some of those aspects can be properly incorporated in the role of the police commissioners. However, we are determined to put police commissioners in place.

The other point that the noble Lord raised was about border policing. He asked whether what I had outlined was the last word. I do not think it is but it is certainly what we think it is sensible to do now. If we manage to get an effective strategy in place—one that unites the functions of the border policing command, which brings together several agencies which are separate at the moment—and, in turn, ensure that that strategy also incorporates the role of the UKBA, which will, however, retain its own functions, we will move a good way down the road of creating a single strategy for border policing. This is the first important thing to do. I am sure that, in the process of doing that, we will find that there are further improvements that we can make.

Turning to SOCA, or the functions performed by SOCA at the moment, I do not know what this part of the agency will eventually be called but those functions will also be closely tied into what we need to do at the border. It is very clear that we must be able to police serious organised crime at level 2. There must be good connections between the constabularies and that part of policing at the national level which is responsible for organised crime. However, we must also be able to operate at the border because of its international dimensions. We need a tight strategy which brings all these elements together.

Lord Morris of Aberavon: My Lords—

Lord Shutt of Greetland: My Lords, I am afraid we are out of time.

Finance Bill

[Finance Bill](#)

Second Reading and Remaining Stages (Continued)

4.46 pm

Lord Northbrook: My Lords, I welcome the emergency Budget as a whole. The emergency that we face is that, as the Minister said, one pound in every four that we spend is being borrowed. I could not quite believe—if I heard correctly—the remark of the noble Lord, Lord Tunncliffe, that Labour policies prevented the UK falling into recession. Under Labour, Britain had the longest and deepest recession on record. Britain has had the longest recession in the G20, with six consecutive quarters of negative growth—more than any other major economy. The coalition has inherited from its predecessor the largest budget deficit of any Government in Europe with the exception of Ireland. This is at the very moment when fear about the sustainability of sovereign debt is the greatest risk to the recovery of European economies.

The second quarter preliminary GDP figures published on Friday show that there is some light at the end of the tunnel, but there is still a need for the strong measures proposed in the Budget. The Office for Budget

26 July 2010 : Column 1172

Responsibility has downgraded the previous Government's overoptimistic growth forecasts to more sensible figures of 1.2 per cent for 2010 and 2.3 per cent for 2011. It has also increased the estimate of the structural deficit.

The majority of debt reduction measures are to come with proposed spending cuts. I welcome the forecast that public sector net borrowing will decline from the horrendous figure of £149 billion to £37 billion by 2014–15. Taking the consolidation as a whole, Table 1.1 in the Red Book—which, as a whole, seems much more straightforward this year—shows that roughly three-quarters of the total cumulatively will be made up of spending cuts by 2015–16. This is where the challenge comes. Paragraph 1.4 of the Red Book says that once you discount the ring-fenced departments, other departments could see average real cuts to their budgets of around 25 per cent over the four years. This is where the coalition must keep its nerve. There is likely to be strong departmental resistance and special case pleading against the 25 per cent reductions to their budgets. There are also likely to be strikes over the proposed pay freeze and reduced pension arrangements for much of the public sector workforce. The general public must continue to be told why these sacrifices are necessary.

I move on the tax measures proposed in the Budget. On VAT, the noble Lord, Lord Tunncliffe, seems to be unaware of the former Chancellor's view that VAT had to be raised and has not yet read the third man's book on the subject. Like Alistair Darling, I understand the need to raise VAT to 20 per cent next January, while not especially welcoming it. I support the new bank levy. Likewise, I back the increase in insurance premium tax. I

welcome the reduction in the main rate of corporation tax from 28 per cent to 24 per cent over the next four years, and the plans to reduce from 21 per cent to 20 per cent the small companies corporation tax rather than increase it, as the previous Government proposed, as the Minister stated. I accept the need for an increase in the capital gains tax rate but regret that there is not a lower rate for business assets.

I applaud the increase in the lifetime limit for CGT entrepreneurial relief. However, I feel that it sends the wrong message to our manufacturing companies to cut the annual investment allowance by 75 per cent from 2012-13 and the writing down allowances together with the abolition of the agricultural building allowance to nil by 2011. I declare an interest as a landowner. The situation is well summed up by the accountants Saffery Champness. It says, "It seems that tax relief on investment by businesses is not considered a priority". How does the reduction in capital allowances square with the Government's wishes to encourage a more manufacturing-based economy?

In the area of personal tax the situation is more complicated. The 50 per cent higher rate of tax proposed by the previous Government still stands but must be reversed as soon as possible. How much extra revenue does the coalition anticipate it will bring in? With regard to national insurance, despite the current Chancellor's protestations in the run-up to the election, it is still the case that employer and employee rates are going to rise by 1 per cent with effect from April 2011. This will be mitigated to an extent by the fact that the

26 July 2010 : Column 1173

level at which employers will start to pay NIC will increase by £21 per week above indexation from April 2011. The tax take from national insurance is forecast-per table C11 of the Red Book-to increase from £97 billion in 2008-09 to £128 billion in 2015-16. However, should not the Minister be a little concerned that it sends the wrong signal as a tax on jobs that may hinder the recovery? Would it not have been better to tax alcohol and tobacco more heavily or to consider motorway tolls? But overall, as I said, I support the Government's decision to take rapid steps to cut the deficit. The dangerous result of doing nothing for a period was demonstrated by what happened in Greece. We could not take the risk of interest rates for our debt rapidly increasing.

Another measure I strongly support is the creation of the Office for Budget Responsibility. This has already brought a more realistic tone to government economic forecasts. However, it must be seen to be independent of the Treasury. First, this means not being in the same building. Secondly, as Sir Alan Budd told the Treasury Select Committee on 20 July, it must be free of ministerial interference. It did not, for instance, look good that the OBR tweaked its budget forecasts at the last minute to erase 175,000 job losses by 2014. Sir Alan also admitted that the OBR does not have its own economic models but uses the Treasury's. The Treasury Select Committee in a separate report stated:

"It is unfortunate that the independence of the OBR has been called into question. This makes it all the more important to get the structure and the statutory basis of the permanent organisation right, as both the OBR and the Chancellor recognise".

What progress is being made in finding a new chairman of the OBR?

I welcome another new body set up by the Chancellor, the Office of Tax Simplification. I am particularly pleased that John Whiting, a former tax partner at PWC, has been chosen to lead it. However, two issues are important: first, that it is genuinely independent; and, secondly, that Ministers are prepared to act on its recommendations.

The coalition has produced an interesting document, *Tax Policy Making: aNewApproach*. I highlight two areas here: first, to reconsider the requirement to purchase a compulsory annuity at the age of 75; and, secondly, a review of PAYE to consider how the system could be made easier for employers to operate. My only criticism is that it fails to consider how this House could usefully further scrutinise finance Bills, building on the useful reports of the Economic Affairs sub-committee.

Overall, the emergency Budget puts in place a credible plan as approved by the OECD to eliminate the UK's structural current budget deficit over the lifetime of this Parliament. The medicine is tough and may dampen growth in the short term but it should help to support a more sustainable recovery in the longer term.

4.55 pm

Lord Desai: My Lords, I have been in favour of a serious cut in the budget deficit since before the election. When I said that, I had no idea which Government would be in power so my desire for a budget cut had nothing to do with political preferences. We have heard that in his March Budget, Alistair Darling

26 July 2010 : Column 1174

proposed a time-path of cutting the deficit over the course of five years. We even had a debate in your Lordships' House in which the noble Baroness, Lady Noakes, questioned why the Government had not decided to comply with the Maastricht criteria by 2015. I remember speaking in that debate.

The Chancellor has now proposed his own time-path over the next five years. There are some significant differences but they are less dramatic than people think. It is important to note that we have already had a debate about how soon and how much to cut because of whether the current economy is in a fragile or strong recovery, on the brink of a double-dip recession or whatever. That uncertainty remains despite the fact that for the last three quarters we have had positive growth of output-a small 0.4 per cent in the last quarter of 2009, 0.3 per cent in the first quarter of 2010 and then suddenly 1.1 per cent in the second. We have to average these things out and not take recent numbers all that seriously but there have been three quarters of percentage growth so there is a recovery. We do not know how fragile it is. That is a problem in economics: we

do not even know what the recent past is, much less what the future will be.

Given that we have had three quarters of recovery, it is worth examining what the Budget does. It has a mild cut in 2010-11. The numbers are on page 37 of the OBR's Pre-Budget Report. In table C13 and C14, for 2010-11 the cut is only £3 billion-the current spending is £640 billion as in the Alistair Darling Budget and £637 billion in the Osborne Budget. In terms of investment expenditure, there is a slight difference in the two projections. Alistair Darling projected about 1 per cent real growth in current spending over the next five years. The Chancellor has eliminated that 1 per cent and decided that current spending ought to be constant in real terms.

It is not so much that the cuts in spending will be severe this year and so we may have a double-dip recession, but a political gamble that the size of the cuts grows over the Parliament and that more severe cuts come in the third or fourth year. If the Chancellor wants to take a political risk, that is his business. As an economist, I note that he has left current spending constant in real terms. That is perhaps the best risk-averse strategy if you are uncertain about growth. If you are pessimistic about growth, it is best to leave current spending constant in real terms so that it grows a little year by year but not much more than that. That requires the Chancellor to do a variety of things, such as freezing public sector pay for those above a certain level, freezing various benefits or indexing them slightly lower, perhaps at CPR rather than RPI, and so on, although I do not wish to go into too much detail on that.

The spending strategy is quite straightforward but current spending should be kept under control. To those who disagree with that and would like spending to be higher, I say that it should be higher only if it is investment spending and not current spending. Even if it were desirable to do so, I do not believe that we would get a revival based on consumption or current spending. A revival has to be based on investment. If the private sector is not ready to invest, the Government can borrow in benevolent surroundings but only if

26 July 2010 : Column 1175

they do so for investment purposes. The markets would probably tolerate that. That, so far as I can see, is the strategy to follow. In my view, the risk is not that there will be a double-dip recession, although no one knows. Indeed, as noble Lords have said, especially the noble Lord, Lord Stern, if we have a double-dip recession, the Government should be ready to relax the constraints -not just through monetary policy, as I think the noble Lord, Lord Razzall, said, but also through fiscal policy.

The advantage of overbidding on the cutting side, if I may put it that way, is that the Chancellor will have some room in the future. If he did not cut too much now, he would not be able to relax later, so I think that he has front-loaded the psychology of the pain so that he will be able to retract if there are problems later. However, I suspect that we will have not a double-dip recession but very weak growth of perhaps 1.2 or 1.3 per cent this year and maybe somewhere between 2 and 2.5 per cent next year. Some of the sluggish growth relates to longer-term problems, as the noble Lord, Lord Stern of Brentford, said in an excellent speech. The sources for rapid growth, or an accelerated 3 to 3.5 per cent growth, are extremely weak in the view of economists. Unless we do something really fantastic by way of green technology or some such innovation, we will face severe competition in the standard manufacturing sectors from Asian economies, which have not suffered a recession. They are growing very fast and are acquiring, through research and development, the kind of industries in which we thought we had a temporary monopoly. There are already complaints in Germany and the United States that various Chinese industries are catching up in relation to some of the capital goods that China used to import but now exports. I think that we will have to be quite organised about a growth spurt, but it will have to come from investment and not from current spending.

I want to say something about taxation. My personal preference would have been for a higher proportion of tax increases rather than spending cuts but that is a judgment which a Government in power have to make. I welcome the VAT rise. I have always been a hawk on VAT and in a speech some time ago in your Lordships' House I even said that the Chancellor should have taken the opportunity to remove the zero-rating on VAT and go all the way. I do not mind saying that I have been sacked twice from the Front Bench for saying that, but the IMF agreed with me that zero-rating of VAT should be removed and that we should have no sacred cows when it comes to taxation. We have to reduce our consumption and raise our saving and investment. VAT is a tax on consumption. We should think much more progressively about using VAT and not be worried by what I might call the standard economic 101 response that it is a regressive form of taxation. It is not quite true, but we ought to define it.

I am worried that the Government have not taken the opportunity to do very much about taxation of work. I do not know how national insurance contributions got to be where they are, but it is interesting that we tax earned income more than we tax unearned income. Someone in employment pays both income tax and NIC. If I were sitting on my butt at home drawing

26 July 2010 : Column 1176

dividend income I would pay income tax only, not NIC. There is an opportunity for this or any Government to think about integrating income tax and NIC and the real extent of how much we tax earned income will become clear. It is about one-third. Having to pay 30 per cent plus tax on earned income is something that we ought to think about seriously. We should try to reduce tax on work and raise it on spending.

There is a lot of scope for simplification and integration of tax. I do not see why there is an upper limit on NIC. That makes it very regressive and it should be brought into line with income tax. I am not, and never have been, in favour of the Liberal Democrat proposal to increase personal allowances from £6,500 to £10,000. I have spoken about that before. I think that that would be a regressive step. I commend the fact that the Budget limits the regressive effect of that tax cut by not letting the higher income levels earn the benefit of raising the personal allowance as well. There is something else to think about regarding personal allowances.

We could make them more into a tax credit rather than maintaining them as they are, but I have spoken before on that so I shall say no more.

I hope that the Government do not adopt a graduate tax. I beseech them not to do that. I would much rather British undergraduates paid the same fee that foreign students pay, which is roughly £10,000. I have been advocating that since 1997. We should allow universities to charge whatever fees they want and remove the subsidy for undergraduate tuition fees. The money saved could be put into research for universities, which would be a much better use of money and more growth-enhancing than having 18 year-olds who have nothing better to do but to go to college. There is no logic in subsidising them up to £7,000 a year over three years-£10,000 would be the right amount. We currently subsidise EU students coming to British universities, and we could eliminate that if all students, from wherever they came, had to pay the same amount of £10,000. I hope that the Government will consider these mild proposals.

5.08 pm

Lord Spicer: My Lords, 36 years ago almost to the day and the hour, I made my maiden speech in the other place. I spoke in the Second Reading of the Finance Bill, and as punishment was put on the Finance Bill Committee for the next five years. Luckily, that cannot happen to me here. It was my first speech in Parliament but it was almost one of my best. Inflation at the time was raging at 20 per cent, which is completely unsustainable and I came to the conclusion and suggested in my speech that it would result in middle-class revolution. I said that middle-class people would be marching on the streets between the fruit-growing areas of Evesham in my constituency and the Malvern Hills. I was completely wrong-they all stayed at home-but it was a magnificent speech.

I am afraid that this one will not be as good for various reasons, not least that it will be short-I have almost finished it already. As I enter my dotage I do not remember or even understand the clever economic arguments that one used in the past. In 1974 I was still running a semi-respectable econometric forecasting

26 July 2010 : Column 1177

company-the noble Lord, Lord Burns, was a part-time member. Terry Burns, as I used to know him, was absolutely brilliant as a computer and econometric programmer. He was working at that time on the London Business School forecasting model, commanded-I think that is the right word-by the inimitable Professor Jim Ball.

The other thing that I have to consider in this speech is not to be controversial. I suppose that means being anodyne. However, I hope that your Lordships will forgive me if I say one thing of substance about the Bill that we are currently debating-I shall be as uncontroversial as I possibly can be in saying it. It is, I assume, a matter of no controversy that there is a debt problem in this country. It is also a matter of no controversy that the coalition Government are adopting a fiscal stance in terms of taxation and public expenditure policy to remedy that situation. I understand that it is, in a broad sense, supported by the Opposition. There is debate about timing and, because it is controversial, I do not intend to go into that.

I simply want to put before your Lordships the point that there is a strategic alternative to what is going on at the moment. It is not one that I support-I have to give an opinion about that-but there is one. The noble Lord, Lord Razzall, hinted at it. In most cases similar to the one we are in with high government debt, there could be a monetary policy aimed at stoking up a bit of inflation to bring down the cost of the debt in real terms. That is quite normal for Governments. It is a perfectly reasonable alternative and may, indeed, come about by default at some point, but the problem with it is that if you have a little bit of inflation, it can, in bad times, become quite big inflation. That was the point of my raising this in my maiden speech when we had 20 per cent inflation. One fifth of people's savings were collapsing every year. It seems to me that a policy that implicitly or explicitly is based upon inflation, which could be an alternative to what we have at the moment, is not a brilliant idea. Even if you have low inflation, it is not good news for those dependent on savings or on fixed incomes. I hope that it is not too controversial to say that I support the present strategy so far as fiscal policy is concerned.

I have one final, very small, point, which I hope your Lordships will not feel is too sycophantic. This House in its present shape contributes a little bit towards the balance of public expenditure by not paying its Members. If there were to be a change to an elected Chamber where professional Members were fully paid, that situation would alter. I simply make that point. It is a very small point in connection with the revision of this Chamber, and there are much wider issues that I hope noble Lords will allow me to come back to on another occasion, but I would tax noble Lords' patience and it certainly would not be relevant and would be controversial if I went down that way so, on that basis, I will sit down.

5.14 pm

Lord Ryder of Wensum: My Lords, it is a great pleasure to follow my noble friend. I congratulate him on his fine maiden speech and, in particular, on his words about the dangers of inflation. As he said, my noble friend represented a Worcestershire constituency in the other place for 36 years, and I know he represented

26 July 2010 : Column 1178

it with great distinction. He was a Minister, deputy chairman of the Conservative Party and served as chairman of the 1922 Committee for nine storm-tossed years. It is testament to his admired calm and strength of character that he managed to emerge from this experience with his sanity and humour still intact.

My noble friend is also an author. His books include *The Cotswold Murders* and *The Cotswold Mistress*. Disraeli

once remarked:

"An author who speaks about his own books is almost as bad as a mother who speaks about her own children".

What with murders and mistresses, my noble friend's literary reticence does not surprise me in the least. We welcome my noble friend to your Lordships' House.

The Chancellor's Budget deserved praise for its aims, construction and delivery, but of course it was just a June hors d'oeuvre before October's main course. I favoured broadening the VAT band rather than raising the scales. It would have yielded the same revenue and I fancy that Treasury officials recommended this option. It remains incongruous for the United Kingdom to keep one of the narrowest VAT bands in Europe while espousing the virtues of tax incentives to businesses and preferences for indirect taxes and lower direct taxes.

I supported the establishment of the Office for Budget Responsibility, but it must stay separate from the Treasury and free from ministerial interference, broadly along the lines advocated by the noble Lord, Lord Stern, earlier. It is required because circumstances have changed. During my spell as a Treasury Minister more than 20 years ago under my noble friend Lord Lawson, ministerial tampering with growth forecasts was strictly out of bounds. Yet it became clear each year under Gordon Brown that growth forecasts were manipulated for political purposes. Indeed, the noble Lord, Lord Mandelson, confirms this practice in his memoirs.

During our debates in the past three years, some noble Lords have heard me dissenting from the then Opposition's policy of sharing the proceeds of growth adhered to by the Conservatives long after it became apparent that the Labour Government's spending had emptied the kitty. Consequently, and in view of the grave condition of our public finances, I rued the Opposition's vow to ring-fence the health and international development budgets.

My late noble friend Lord Bauer, a colleague of the noble Lord, Lord Desai, at the London School of Economics, would have raised an eyebrow over protecting overseas aid. He would have reminded us that it is a process by which the poor in rich countries often subsidise the rich in poor countries. Evidence of these government-to-government subsidies, fitting Bauer's maxim, come from Afghanistan and elsewhere. Apparently, the Dubai construction industry is a beneficiary of siphoned off aid redirected by corrupt rulers. Doubtful schemes said to be assisted by British overseas aid include fraud in the Kenya education sector, 700 "ghost" teachers in Malawi and money spent on strengthening the voices of older people in the Ukraine.

Julian Harris of the International Policy Network, which scrutinises aid, said:

"It is extremely irresponsible to increase ... aid ... while at least a quarter of projects are failing".

26 July 2010 : Column 1179

What provides Britain with better value for money, pound for pound: the ring-fenced DfID or the unprotected BBC World Service? Eight years ago, after the death of Lord Bauer, the noble Lord, Lord Desai, wrote that his views had won the respect of time-but not at DfID. Lord Bauer, a classical Smithian, would have raised another eyebrow; namely, that a Government in office for three months had failed to appoint a trade Minister.

Of course, it is heartening to hear the Prime Minister's declaration about the need to attract inward investment and explore trade opportunities in emerging markets partly by obliging the Foreign Office to become more commercially minded. Yet can these outcomes be achieved unless the Foreign Office budget is protected? As it stands, the Foreign Office budget is about a quarter of the size of DfID's. I would merge them, as of old, giving the Foreign Secretary control with a Minister of State responsible for DfID. I understand that up to 27 people are now entitled to sit around the Cabinet table. One fewer would be a start, still leaving no fewer than 18 more table sitters than at the height of our empire. It is right, of course, to reduce the numbers of Members of Parliament, but why not cut the number of Ministers too?

Last week, the Prime Minister spoke about competitiveness with great enthusiasm. His precise words were:

"We have got to fight the battle over free trade all over again".

I am sure that he is familiar with the name of Professor Paul Krugman, a Nobel prize winner in economics. Krugman, when invited to define an economist's creed, replied:

"I understand the principle of comparative advantage and advocate free trade".

I wonder whether the Krugman creed applies to overseas aid or pages 16 and 17 of the coalition's programme for government devoted to energy and climate change. These pages amount to at least a dozen public spending pledges worth more than £200 billion during the next decade. Ben Warren, a partner in Ernst and Young, said:

"We don't know how the government intends to raise money, and we do not know the green investment bank is going to leverage in private capital".

Most of the cost will ultimately fall on consumer bills. Funded that way, boosting the use of renewable energy may prove unaffordable.

Thus I was concerned over the weekend to read the Energy Secretary evangelising about the need to increase subsidised wind turbines when priority should be given to nuclear power. Your Lordships' Economic Affairs Committee estimated that wind was at least 50 per cent more expensive per unit generated than nuclear. Whatever we think, the renewable targets will not be met. Gas may be the best answer to bridge the gap between 2015 and the new nuclear stations. Both gas-fired power stations and fuel cell technology in urban and rural areas should be studied in greater detail and with greater urgency.

Professor Dieter Helm from the Oxford Energy Institute has calculated that the added cost to business of the coalition's energy plans could be as high as 25 per cent-hardly a spur to competitiveness. We

26 July 2010 : Column 1180

already know that climate change policies constitute 21 per cent of our industrial bills and last year the burden of green taxes and regulations amounted to £26 billion. The ITEM Club has stressed that recovery will not come from consumers this time but from the business sector. My fear is that yet more additional costs could force manufacturing businesses abroad and limit our growth rate. A danger exists that the energy measures of the coalition as set out could damage our economy far more and far sooner than any projected global warming when the economy is in such a vulnerable state as it is to day.

The same anxieties haunt Congress. It and the president are unwilling to risk higher taxes in order to subsidise China. Even President Sarkozy, never the soundest man on parade, has warned about green protectionism; and Canada, a Kyoto signatory, has increased its emissions more than the USA, a Kyoto dissenter, simply to protect its competitiveness on world markets.

I support the coalition and its general direction, but it must not impose unnecessary costs on British industry in the name of fashionable doctrines, however well intentioned. Otherwise it will find that growth is blunted and our better manufacturers move abroad for fear of lacking competitiveness.

5.25 pm

Lord Barnett: My Lords, I add my congratulations to those already given to the noble Lord, Lord Ryder. I think he said he made his maiden speech 36 years ago on a Finance Bill and, for his sins, got put on it again either for five years or five times-I am not sure which he said. For my sins, as Chief Secretary I took those Finance Bills all the way through the House, whether it was for five years or five times, and there were often two a year in those days. I cannot remember what I said so I hope he will forgive me if I cannot remember what he said at that time.

I will not speak about the Finance Bill this year. I want to speak about the central economic forecasts of the present coalition Government. The central policy, as expressed in the emergency Budget, was reducing the deficit. The only other major policy, described as a new policy, was the Office for Budget Responsibility. Unlike 1997, when the Monetary Policy Committee was a genuinely new policy given real powers, the Office for Budget Responsibility has powers only to forecast, and those forecasts can, of course, be ignored. The OBR's independent forecasts have been semi-criticised by many as not necessarily being so independent. The criticism of Sir Alan Budd was much overstated. He himself admitted that he was a little naive. Perhaps he should learn that he should never be naive about the Treasury and its forecasts. Otherwise, I would not doubt his integrity or his honesty, either on this occasion or on any other.

There is no shortage of independent forecasts, as the noble Lord, Lord Sassoon, will know. The Treasury itself in most, if not all, of its documents constantly quotes independent forecasts. It seems a little insulting to suggest that the Treasury's civil servants were so lacking in independence that they were not really independent at all and allowed Chancellors over the years to override what they were saying in their published documents.

26 July 2010 : Column 1181

The noble Lord said that one of the benefits is greater transparency. I am sorry to see that the noble Lord, Lord Sassoon, is not transparent on every occasion. In answer to a Written Question from me, asking him for various discussions that the Chancellor may have had with the Governor of the Bank of England, he said:

"As was the case with previous Administrations, it is not the Government's practice to provide all details of such discussions".-[*Official Report*, 21/7/10; col. WA220.]

So the noble Lord, Lord Sassoon, is not transparent on all occasions, even if he is now telling us that the OBR is.

What is clear from the OBR's forecasts is that, unlike what was said in the emergency Budget about there being no alternative to the Government's Budget policy, there clearly is an alternative and it was shown in the pre-Budget forecasts. In the pre-Budget document we were told that if the pre-Budget forecasts had been based on the predecessor Government's policies, the deficit would come down to 3.9 per cent of GDP in 2014-15. In the June Budget document, we were told the Budget deficit would come down to 2.1 per cent. Even if it were to come down to zero, the difference is not so huge as to warrant such major cuts as are proposed in the emergency Budget. In any event, huge uncertainties underlie those forecasts. On page 7 of the pre-Budget forecast, under the heading, "Constructing the forecast", we are told of the uncertainties five times within some five lines. Even the OBR and its forecasts, therefore, are massively uncertain. Despite that, a substantial programme of public expenditure cuts is now being planned, based on all those uncertainties in the OBR's forecast.

It is clear, then, that there is an alternative. Not only is the pre-Budget forecast of the OBR not so different from the Budget forecast for 2014-15, but page 99 of the Treasury's Red Book shows net debt remaining in 2014. Total net debt is expected to be 69.4 per cent of GDP; it would have been 74.4 per cent under the pre-Budget forecast. Although the Government's Budget anticipates the public finances being in better shape-in their terms-than under the previous Government's forecast, the previous forecast could by no means be described as disastrous. In any case, as I have said, there are huge uncertainties in anybody's forecasts.

Much depends on the assumptions made. For example, the pre-Budget forecast took the predecessor Government's growth forecasts, which many thought were too optimistic. I agree that they seemed too optimistic, although I am bound to say that the figures for the latest quarter, showing 1.1 per cent growth-which is the equivalent of nearly 4.5 per cent per annum-suggest that I was being too pessimistic. Perhaps the previous Government's growth forecasts were accurate and would have helped cut the deficit rather faster than the present Government's plans. However, it is much too soon to suggest that growth next year will be that high. I would not suggest for a minute that it is likely to be, because none of us knows-the uncertainties remain. The forecasts may have been reasonable-it may even be that the inheritance of the Government is rather better than they have been telling us-but the figures do not provide certainty, and it is planning major policy on the basis of such uncertainty that is so wrong.

26 July 2010 : Column 1182

Against that uncertain background, the Chancellor has chosen to make the savage public expenditure cuts that he will tell us about after the comprehensive spending review. Even if it is the right policy to cut to that degree, what are the chances of success? The Chancellor is setting about it in the right way-as Chief Secretary, I had to make rather a large number of cuts over many years-and asking the departments to choose their own priorities. They will have to set out public expenditure cuts in their own departments ranging from 25 per cent to 40 per cent, with the Chancellor, or the Cabinet if necessary, deciding. The departments know their own priorities.

Overall, when you are spending £700 billion of public money, I would not deny that there is room for cuts. However, I would not have ring-fenced any department, not even the National Health Service. After all, the National Health Service's expenditure in 2008-09 was nearly £110 billion-it will be much higher now in real terms. To pretend that there is no room for substantial cuts in administration out of that level of expenditure is surely wrong, so one could have reduced the cuts even more.

Public expenditure can be cut, and it is clear that this was the Conservative Party's agenda. Indeed, even if there had been no deficit, these cuts would have been proposed so that it could make the tax cuts, which is what it is really about. It is going to have considerable difficulty in making 25 per cent cuts, never mind 40 per cent, in every single department.

I have spoken to a number of other former Chief Secretaries and Chancellors, Conservative ones as well, and none of them thinks it can be achieved. If it is achieved, as the Government seem determined it will be, I am sure they will appreciate, although I am not sure their coalition partners the Lib Dems appreciate, what it will mean to those departments to make 25 per cent cuts in every one of them over a four year period. I hope we never come to it, but I fear we may if the House accepts and the Government accept that what they are doing is right.

The OBR has shown, given its uncertainties of forecasts, that it will no longer forecast what exactly is going to happen, so we should listen to Ben Bernanke in the United States, where they also have uncertainties. Indeed the phrase used by Bernanke was, "unusually uncertain". Despite all that, we are going to get these massive cuts, come what may. I can only hope that by keeping interest rates low, the Bank of England would offset some of the worst of it.

The Bank of England is truly independent of course. It is more independent than the OBR because it has an Act of Parliament already. We have always known that a senior Treasury official attends the monthly meetings of the Monetary Policy Committee of the Bank of England. What we have never known is whether he sits there saying nothing, because no previous Treasury Minister has ever been willing to say what exactly goes on at those MPC meetings or whether the Treasury official joins in. He is not a member of course. Now we know that he does. We had an answer the other day which I think the noble Lord, Lord Sassoon, may regret, but it is worth quoting. He is shaking his head, but let me quote what he said, because I promise him

26 July 2010 : Column 1183

that it will come back to him. It was on 20 July in answer to a supplementary question from me, in which I said:

"the noble Lord has just said that it is not for him to comment on what the Bank of England does",

but I pointed out that a senior official from his department attends those MPC meetings. His reply was very interesting.

"My Lords, it is correct that a senior official of the Treasury sits in on the monthly Monetary Policy Committee meetings, but that official is not a member of the committee. I have performed that function myself on one occasion, and I understood that it was my duty to bring to the attention of the MPC anything the Treasury thought it ought to be aware of".-[*Official Report*, 20/7/10; col. 908]

[Next Section](#)

[Back to Table of Contents](#)

[Lords Hansard Home Page](#)

[A-Z index](#) | [Glossary](#) | [Contact us](#) | [Freedom of Information](#) | [Jobs](#) | [Using this website](#) | [Copyright](#)