

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 16, 17, 43 and 45 and schedules 2 and 3)

First Sitting

Thursday 17 September 2015

(Morning)

CONTENTS

Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
CLAUSES 1 and 2 agreed to.
Adjourned till this day at Two o'clock.

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IN GENERAL COMMITTEES

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The Committee consisted of the following Members:

Chairs: † SIR ROGER GALE, MR GEORGE HOWARTH

- | | |
|---|--|
| † Baldwin, Harriett (<i>Economic Secretary to the Treasury</i>) | † Malhotra, Seema (<i>Feltham and Heston</i>) (Lab/Co-op) |
| † Berry, Jake (<i>Rossendale and Darwen</i>) (Con) | † Menzies, Mark (<i>Fylde</i>) (Con) |
| † Burns, Conor (<i>Bournemouth West</i>) (Con) | † Merriman, Huw (<i>Bexhill and Battle</i>) (Con) |
| † Caulfield, Maria (<i>Lewes</i>) (Con) | † Mullin, Roger (<i>Kirkcaldy and Cowdenbeath</i>) (SNP) |
| † Cummins, Judith (<i>Bradford South</i>) (Lab) | Pearce, Teresa (<i>Erith and Thamesmead</i>) (Lab) |
| † Dakin, Nic (<i>Scunthorpe</i>) (Lab) | † Philp, Chris (<i>Croydon South</i>) (Con) |
| † Frazer, Lucy (<i>South East Cambridgeshire</i>) (Con) | Sherriff, Paula (<i>Dewsbury</i>) (Lab) |
| † Garnier, Mark (<i>Wyre Forest</i>) (Con) | † Stride, Mel (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| † Gauke, Mr David (<i>Financial Secretary to the Treasury</i>) | † Thewliss, Alison (<i>Glasgow Central</i>) (SNP) |
| † Hall, Luke (<i>Thornbury and Yate</i>) (Con) | † Thomas-Symonds, Nick (<i>Torfaen</i>) (Lab) |
| † Hoare, Simon (<i>North Dorset</i>) (Con) | † Thomson, Michelle (<i>Edinburgh West</i>) (SNP) |
| † Keeley, Barbara (<i>Worsley and Eccles South</i>) (Lab) | † Tolhurst, Kelly (<i>Rochester and Strood</i>) (Con) |
| † Kerevan, George (<i>East Lothian</i>) (SNP) | Warman, Matt (<i>Boston and Skegness</i>) (Con) |
| † Lynch, Holly (<i>Halifax</i>) (Lab) | † Zeichner, Daniel (<i>Cambridge</i>) (Lab) |
| McGovern, Alison (<i>Wirral South</i>) (Lab) | |
| † Mak, Mr Alan (<i>Havant</i>) (Con) | Matthew Hamlyn, <i>Committee Clerk</i> |
| | † attended the Committee |

Public Bill Committee

Thursday 17 September 2015

(Morning)

[SIR ROGER GALE *in the Chair*]

Finance Bill

(Except clauses 16, 17, 43 and 45 and schedules 2 and 3)

11.30 am

The Chair: Good morning, ladies and gentlemen. Before we begin, I have a few preliminary announcements. While I am in the Chair, Members may, if they wish, remove their jackets. I imagine that Mr Howarth will extend the same courtesy, but that is for him to say, not for me. No refreshments other than water may be consumed in Committee meetings, so if Members are in need of coffee or anything like that, they will have to go outside. Please could all Members ensure that mobile phones, pagers and the like are switched off or on silent? It is infuriating both to the Chair and to other Members to have people constantly ringing. It would be appreciated if Members could use electronic devices for parliamentary purposes, not for doing sudoku or whatever.

The pile of boxes behind me is provided for Members to keep their papers in. During the process of the Bill, there will be an accumulation of papers—that I can promise you—and if you wish to leave them in the room, they will be locked in the cupboard behind me. So it is possible to leave papers here, obviously other than those that arrive in your personal boxes and post during the week, and collect them before the start of each sitting. During the lunch break, the room will be locked. Mr Howarth will take the Chair at 2 o'clock, but, in the interim, if you wish to leave papers or indeed anything else within reason on the desk—I would not advise you to leave very valuable things—they can be left safely in the room. The room will be locked between 1 pm and 2 pm, so do not feel that you have got to take everything with you.

As a rule, Mr Howarth and I do not intend to call starred amendments, which have not been tabled with adequate notice. The required notice in Public Bill Committees is three working days, so amendments need to be tabled by the rise of the House on Monday for consideration on Thursday and by the rise of the House on Thursday for consideration on the following Tuesday.

Not everyone is familiar with the Public Bill Committee, so we will have a very brief teaching—this is also for the benefit of long-standing Members and, indeed, the Chairman. I think I am right in saying that I am now the longest-serving member of the Panel of Chairs and even I find these processes confusing sometimes. The first rule is: if you are in any doubt, ask. Please do not feel that we sitting in this Chair are so fierce that you cannot stand up and say, "Please, I don't understand that." We may or may not be able to explain, but if we cannot, Mr Hamlyn, our superb Clerk, will be able to.

The process is this: we first consider the programme motion on the amendment paper and the debate on that is limited to half an hour. For those of you who are not aware, that is the motion that was agreed at a pre-hearing with a small group of the Committee under the chairmanship of Mr Howarth. The agreement was reached on both sides Committee by consent. That does not mean that you cannot talk about it, but you cannot do so for more than half an hour.

We then proceed to a motion to report any written evidence. That is because, in the course of the sittings of the Bill, written evidence will be received and we need the Committee's consent to ensure that that is made available formally and becomes part of the record for the Committee. We then begin the line-by-line consideration of the Bill.

The selection list for today's sitting, which is available and I hope all Members now have a copy, shows how the amendments selected for debate have been grouped together for debate. Amendments are normally grouped on the same issue or similar or related issues. Ladies and gentlemen, I would be grateful if you would pay particular attention to this, because this is the article of the most confusion and it is important that everyone understands the process.

You will find a group of amendments. Clause 1, which will be the first piece of the Bill debated, is debated as a clause. The motion will be that clause 1 stand part of the Bill, and that will be a broad-ranging debate, because there are no amendments tabled to clause 1.

Clause 2, in similar fashion, will be a general stand part debate, but in addition we are debating new clauses 1 and 3. The first point of confusion is that whether or not a Member, on either the Government or Opposition side, wishes to put those provisions to a Division, it will not happen then because Divisions take place in order throughout the course of the Bill. While new clauses 1 and 3 will be debated with clause 2, if they are voted on at all it will not be until much later in the proceedings, when we get to them on the amendment paper. That applies to any other amendments.

If a Member—often an Opposition Member—seeks to table and then move an amendment, it may become the lead amendment in a group. It will be grouped with amendments of a similar nature or subject matter. Only the lead amendment will be moved at that time. People have a tendency to stand up and say, "I wish to move this," but they cannot. You must wait until we have reached it on the amendment paper, which may be the middle of next week or next month, depending upon how long the sittings take.

If you are in any doubt, please ask. Because there are a significant number of new Members on the Committee, Mr Howarth and I will endeavour to be as generous within the terms of proper procedure as we can, but once the tipping point is reached and the business moves on, it is not permissible to go back, so you need to keep your wits about you. It is normally assumed that Government amendments will become part of the Bill and that the Government will therefore always wish to move them. That is accepted by the Chair and understood by both Front Benches.

That's it. Let me repeat: if you have any problems, misunderstandings or difficulties, please ask. If there is something you really do not understand but do not feel

inclined to stand up and ask about, nobble the Chair after the sitting, and we will be pleased to do our best to explain it to you. The object of the exercise is not to confuse but to assist. Like the Inland Revenue, we are here to help you.

The Financial Secretary to the Treasury (Mr David Gauke): I beg to move,

That—

(1) the Committee shall (in addition to its first meeting at 11.30 am on Thursday 17 September) meet—

- (a) at 2.00 pm on Thursday 17 September;
- (b) at 9.25 am and 2.00 pm on Tuesday 13 October;
- (c) at 11.30 am and 2.00 pm on Thursday 15 October;
- (d) at 9.25 am and 2.00 pm on Tuesday 20 October;

(2) the proceedings shall be taken in the following order: Clauses 1 to 11; Schedule 1; Clauses 12 to 15; Clauses 18 to 23; Schedule 4; Clauses 24 and 25; Schedule 5; Clause 26; Schedule 6; Clauses 27 to 31; Clause 33; Schedule 7; Clause 32; Clauses 34 to 42; Clause 44; Clauses 46 and 47; Schedule 8; Clauses 48 to 50; new Clauses other than those relating to the subject matter of Clauses 16 and 17 and Schedules 2 and 3 or the subject matter of Clause 43 or the subject matter of Clause 45; new Schedules other than those relating to the subject matter of Clauses 16 and 17 and Schedules 2 and 3 or the subject matter of Clause 43 or the subject matter of Clause 45; remaining proceedings on the Bill.

(3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 20 October.

It is a very great pleasure to see you in the Chair, Sir Roger. This is not the first time I have had the pleasure of serving under you in a Finance Bill Committee, and I know the Committee is in safe hands with both you and Mr Howarth.

I welcome all members of the Committee, and I am delighted we have such a large turnout for the beginning of our proceedings. I particularly welcome the Opposition Front-Bench team: the hon. Members for Feltham and Heston and for Worsley and Eccles South. I look forward to hearing their questions and inquiries. I do not know whether the Scottish National Party has the same Front-Bench arrangement, but I welcome all members of Opposition parties and, indeed, my own colleagues, in particular my hon. Friend the Economic Secretary to the Treasury, who will be sharing some of the burden over the weeks ahead.

I am pleased that agreement was reached at the Programming Sub-Committee, and I am grateful for the support of the usual channels. I thank my hon. Friend the Member for Central Devon and the hon. Member for Scunthorpe for their work in reaching that agreement. I very much looking forward to serving under your chairmanship in the weeks ahead, Sir Roger.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I thank the Financial Secretary for his opening words and his welcome, which I echo. I thank you, Sir Roger, and your co-Chair Mr Howarth, who I understand will be in the Chair this afternoon. It is a pleasure to serve under two distinguished Chairmen. Although I had the pleasure of serving on a previous Finance Bill Committee as a Back Bencher, this is the first time I have served on one as a Front Bencher. I was recently appointed shadow Chief Secretary to the Treasury.

I thank and pay tribute to my predecessor, my hon. Friend the Member for Birmingham, Ladywood (Shabana Mahmood), and the other outgoing shadow Treasury

Ministers, my hon. Friends the Members for Wirral South (Alison McGovern) and for Newcastle upon Tyne North (Catherine McKinnell). I also pay tribute to the previous shadow Chancellor of the Exchequer, my hon. Friend the Member for Nottingham East (Chris Leslie), who is a veteran of Finance Bills and has led much of our work this year. I also pay enormous tribute to my hon. Friend the Member for Worsley and Eccles South before she leaves the Treasury team, and in advance of her excellent contributions today, for her stellar work.

I extend my thanks to the hon. Member for Central Devon and my hon. Friend the Member for Scunthorpe. I have had experience of their office, so I know that the usual channels work behind the scenes to ensure everything goes well during Bill proceedings.

I welcome those who are relatively new to the House. If this is their first Finance Bill Committee, I am sure it will be an experience they will remember. It will be a good foundation for much more that they do in the House.

I know from past experience that we have many hours in Committee ahead. I am sure I speak for all here when I say that we relish the opportunity to get further into this legislation and to change it for the better. I also know that the Financial Secretary will relish the opportunity to serve on his 11th Finance Bill Committee—or is it the 12th?

Mr Gauke: Something like that.

Seema Malhotra: He is certainly a veteran. If there is a record for the Minister who has steered the most Finance Bills through Parliament, if he has not won it already, I am sure he is well on his way.

When I mentioned to a colleague that the Bill has only 50 clauses, they expressed concern that the Government are already running out of business, as they were in the months running up to the election. I recall that when I served on the Finance Bill Committee in 2012, that Bill had three volumes and 227 clauses. Indeed, last year's Finance Bill had 295 clauses. This year, the Finance Bill has 50 clauses, and we are scheduled to have only eight sittings.

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): This is the third one in a year.

Seema Malhotra: I know it is. Perhaps the Financial Secretary does not have the same concerns.

Although some aspects of the Bill are to be welcomed, many others are worrying. The change to the climate change levy, for example, has been almost universally challenged. The increase in insurance premium tax, which will raise substantial amounts for the Government, will cause significant hikes in insurance premiums for millions of people across the UK, with possible adverse consequences for consumer behaviour that must be understood. Those issues were tackled, to some extent, in Committee of the whole House last week.

We need a Finance Bill that supports working people and does not penalise them, as the tax credit statutory instrument, which we discussed two days ago, does. We need a Finance Bill that supports business and provides long-term certainty, and which leads to investment now that will reap dividends in the future. A retrospective change to carbon taxes, for example, will not achieve that aim. That is the approach we will take in Committee.

[Seema Malhotra]

Obviously it would not be proper to start proceedings without thanking the usual unsung heroes: not only the Treasury officials, whom I thank for their diligence, but the Clerks, *Hansard* and others who help keep our proceedings going smoothly.

I am sure I speak for all Members when I say that it is an honour and a privilege to serve on the Finance Bill Committee, and I am sure we will approach all the sessions in that spirit. Indeed, I hope we will scrutinise the Bill properly and methodically and do what we are all here to do, which is to serve the people of Britain.

11.45 am

Barbara Keeley (Worsley and Eccles South) (Lab): It is pleasure to serve under your chairmanship, Sir Roger, and that of your co-Chair, Mr Howarth, when he joins us later. I associate myself with the remarks of the shadow Chief Secretary, my hon. Friend the Member for Feltham and Heston, and welcome the Clerks, the *Hansard* reporters and others who will assist us in the days ahead, although it will just be one day ahead for me.

I welcome the members of the Committee and in particular those who came into the House in May. On the Labour side, that is my hon. Friends the Members for Bradford South, for Halifax, for Dewsbury, for Torfaen and for Cambridge, and we will be joined by my hon. Friend the Member for Erith and Thamesmead. We should also mention the stalwart work of our Whip, my hon. Friend the Member for Scunthorpe.

As has been said, this is the first ever Bill Committee for those new Members, and I remember when I served on my first Finance Bill Committee back in summer 2006. I checked back, and the Financial Secretary was on that same Committee. We know now that he has served on 11 Finance Bill Committees, so he certainly wins the prize. I am afraid I do not. I assure the Committee and him that we will scrutinise the Bill thoroughly, as is our duty. Members should be grateful that the Bill is much shorter than the Finance Bill in 2006, which had 21 sittings.

As an opening comment, the Bill sadly does little to help families and individuals on low and middle incomes, and I think that is a pity. Millions of those families have heard that they will be hit by the tax credit cuts that were voted through by Government Members earlier this week. Those savage cuts will come to be seen as the hallmark of the summer Budget of 2015, which was also a tax-raising Budget, but I will come back to that point.

In Prime Minister's questions yesterday, we heard about a working family who would be hit badly by the cuts, and there will be so many more, because 3 million families will lose more than £1,000 a year. In my constituency, more than 8,000 families with children receive tax credits, of whom 5,300 are working families. The Bill does not contain that measure on tax credits, but it comes from the same Budget, so I will keep those families in mind as we work through all the issues in the Bill.

Roger Mullin: It is a pleasure to serve under your chairmanship, Sir Roger, along with my colleagues. I start by thanking everyone who has already been thanked,

thus making sure that I miss no one out. I am slightly surprised that I am making this speech, because I did not know that this was how proceedings would begin, but on behalf of my colleagues, I would like to say that we look forward to scrutinising the Bill in detail. We are particularly unhappy about a number of matters, and we share the views already expressed by the Labour spokespersons.

We also want, through new clauses, to raise some matters that are of particular concern to Scotland and the people of Scotland, who are severely disadvantaged on a number of fronts by measures within the Bill. I hope we will contribute constructively and speedily. I had a wonderful experience when I attended the Sub-Committee of this Bill Committee on Monday; the thing I thought was particularly impressive was that it lasted one minute. I am sure this Committee will take a little longer, but we will do our best to contribute constructively and efficiently.

The Chair: Before I put the question, those who are long in the tooth in the House and those who are not have learned a lesson: most of the remarks just made were technically out of order—[*Laughter.*] However, within the half-hour available for this particular piece of the process, a Chairman is normally reasonably flexible.

I should have mentioned a couple of other things. I was asked by the Opposition Front Bench team what the form of address is. I am Sir Roger—for reasons I do not entirely understand—and George Howarth is Mr Howarth at the moment, although I am sure that will change in due course. In the English Parliament, in Committee as on the Floor of House, we refer to Members by constituency or by “my hon. Friend” or “the hon. Lady” or “the hon. Gentleman”, not by “you” or whatever. “You” is the Chair, and the Chair is non-partisan and does not take part in the proceedings. So if you say, “You have said that,” I shall leap to my feet and say, “No, I haven’t,” even though we all know what was meant. We will try not to be too heavy on that at the start, however.

Question put and agreed to.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Mr Gauke.*)

Clause 1

INCOME TAX LOCK

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

Mr Gauke: The clause makes changes to ensure that there will be no increase in the main rates of income tax for the duration of the Parliament. That will provide certainty for taxpayers and enable working people to keep more of the income they earn.

The Government committed to legislate to rule out increases in income tax rates, national insurance contributions and VAT for the duration of the Parliament. Clause 1 delivers that commitment for income tax and clause 2 deals with VAT. The national insurance contributions element of the tax lock is being legislated for in a separate Bill, because it is outside the scope of this Bill.

Nick Thomas-Symonds (Torfaen) (Lab): It is a pleasure to serve under your chairmanship, Sir Roger. On the passing of the Fiscal Responsibility Act 2010, which, like the clause, had declaratory effect, the then shadow Chancellor, who is now the Chancellor of the Exchequer, said that it was “vacuous and irrelevant”. Is the Minister as surprised as I am about the Chancellor’s U-turn on declaratory legislation?

Mr Gauke: I would draw a distinction between a Government who had no reputation for fiscal responsibility seeking to obtain such a reputation by passing such legislation and a Government who have a record of controlling income tax by increasing the personal allowance and not increasing rates, notwithstanding the challenges we face in the public finances. The clause underlines the Government’s commitment not to increase taxes, and income tax in particular, on the British people, because that is the wrong response. That is consistent with what we have done in office. The problem the last Labour Government had was that, in response to the fiscal crisis, rather than coming forward with clear proposals to reduce the deficit or even to accept a need to get to grips with that deficit, they simply sought to pass legislation. That was the wrong response then, whereas this is the right response now.

Nic Dakin (Scunthorpe) (Lab): It is a pleasure, as always, to serve under your chairmanship, Sir Roger. The logic of the Minister’s argument does not really stack up. If the country has confidence about the Government’s fiscal responsibility, there is no need to pass legislation. I am totally confused by his argument.

Mr Gauke: We fought the last general election saying that we would introduce this legislation. We won that general election, which suggests that the British people had confidence in the overall package of our fiscal policies. If Labour Members are worried about fiscal confidence, perhaps they should look somewhat closer to home.

Mark Garnier (Wyre Forest) (Con): Does my hon. Friend agree that one thing any Government should be able to do is give some sort of confidence to households that their tax rates will not go up, providing them with the opportunity to plan for the future with more security than they would have if this measure were not in place?

Mr Gauke: My hon. Friend makes an important point. A striking point made by a number of my hon. Friends on Second Reading of the National Insurance Contributions (Rate Ceilings) Bill earlier this week was that the introduction of the tax lock in the context of employers’ national insurance contributions gives employers much greater confidence. Providing economic stability and security is an important part of the Government’s long-term economic plan. A credible party needs to present to the British people how it will provide economic security and stability. That is what this Government are doing. I look forward to the day when there is cross-party consensus that economic security and stability are important to this country.

George Kerevan (East Lothian) (SNP): Sir Roger, not having served under your chairmanship before, I look forward to doing so. I accept the Minister’s point that

he is trying to produce certainty through the clause, but it is surely the case that he is merely displacing the uncertainty. If projected tax receipts fail and the Bill is on the statute book, the Government will have to either cut public expenditure, which will impact on the economy and affect the confidence of suppliers, or raise borrowing, which again will have an impact on confidence in the economy because interest rates will have to go up. In no way can we ever introduce certainty; all we can do is put the uncertainty somewhere else, so the Minister’s argument fails.

Mr Gauke: I was making the point that it is important we provide certainty on taxes. At the last general election, the Labour party—I am not sure this was the case for the SNP—certainly said that it would not increase income tax, VAT and national insurance contribution rates. In that sense, there was a cross-party consensus—at least there was at the last general election; I appreciate things may have moved on since then—on not increasing those rates. We are underlining our pledge by legislating for it, which further strengthens our commitment. In the context of a Government who have a record of ensuring that income taxes do not increase, even when we face the most difficult circumstances, that pledge and this legislation have credibility.

The changes made by clause 1 will set out that the basic, higher and additional rates of income tax will not rise above their current levels of 20%, 40% and 45% respectively for the duration of this Parliament. The tax lock will apply to the main rates of income tax for earnings and savings. That accounts for more than 90% of income tax revenue collected, and that is what we want to lock, enabling working people to keep more of what they earn.

The tax lock does not prejudice the Government’s commitments on tax devolution. From April 2016, Scotland will have the power to vary the rate of income tax for earnings, and we are devolving further unprecedented flexibilities over income tax to Scotland through the Scotland Bill, which will give the Scottish Parliament the power to set the rates and thresholds applying to earnings income. The Government are committed to delivering that in full, giving Scotland full flexibility over income tax rates and thresholds on earnings income. The tax lock will therefore not restrict Scotland from setting higher rates of income tax, nor Wales when it has the Welsh rate of income tax.

Clause 1 delivers the Government’s commitment to rule out increases in the main rates of income tax for the duration of this Parliament, ensuring that working people can keep more of the money they earn.

12 noon

Barbara Keeley: Clauses 1 and 2 enact the promise that the Government made during the general election not to increase the rate of income tax or VAT in the next Parliament. Clause 1 states that the basic, higher and additional rates of income tax will not increase above 20%, 40% and 45% for the duration of this Parliament.

We support the Government’s pledges on tax locks for this Parliament. In fact, it would be surprising if we did not, because we made them first. The Labour party made the same pledge on 25 March, and our 2015

[Barbara Keeley]

manifesto contained a commitment not to increase the basic or higher rates of income tax, or to raise VAT or national insurance. We are glad the Conservative party adopted our pledge during the election.

However, as my hon. Friend the Member for Torfaen said, and as was discussed in the Budget debates, legislating for that pledge represents a U-turn. As my hon. Friend rightly said, in 2009 the current Chancellor said he was very critical of Chancellors passing laws to ensure they fulfil their promises. The current Chancellor stated then:

“No other Chancellor in the long history of the office has felt the need to pass a law in order to convince people that he has the political will to implement his own Budget...As one commentator observed this week, there are only two conclusions. Either the Chancellor has lost confidence in himself to stick to his resolution, and is, so to speak, asking the police to help him, or he fears that everyone else has lost confidence in his ability to keep his word, but hopes that they might believe in the statute book if not in him. Neither is much of a recommendation for the Chancellor of the day.”—[*Official Report*, 26 November 2009; Vol. 501, c. 708.]

Simon Hoare (North Dorset) (Con): On Tuesday the hon. Lady advised us on the Floor of the House that she would not seek to defend or reference remarks made on previous occasions by the new leader of her party. Surely what is sauce for the goose is sauce for the gander.

Barbara Keeley: I think comments that somebody made when they were a Back-Bench MP are different. Once somebody has taken on a role, either in opposition or in government, what they say carries a certain weight. There is a freedom to the Back Benches that I and others here have experienced. Many Members of the Conservative party say things that their Front-Bench team would not agree with. That is my distinction, and I am sticking to it.

It appears that the Chancellor had a change of heart, and now feels the need to pass a law to convince people that he has the political will to implement his own Budget. During the debate on the National Insurance Contributions (Rate Ceilings) Bill earlier this week we discussed the view that measures such as this are in fact gimmicks. We questioned why Ministers feel the need for this additional legislation when the promises that the Prime Minister and the Conservative party made during the election should be good enough. To people outside Westminster, it could appear that Treasury Ministers have lost confidence in their ability to stick to their resolutions, or perhaps they fear that everyone else has lost confidence in their ability to keep their word. The Minister may want to tell us which he thinks it is.

Although Labour supports the pledge to make no increase to VAT, income tax and national insurance contributions during this Parliament, I still question whether introducing legislation to ensure those locks is the best course of action. Rather than gimmicks, we need long-term tax reform and sensible policies to ensure that the taxpayer gets a good deal.

We have some concerns about the durability of the income tax lock in clause 1. As it stands, it appears that rates could be raised by repealing the Bill in a future Budget. Can the Minister assure the Committee that it is not simply a gimmick? Will he outline how he intends

to show that the lock will remain in place? In our deliberations, we should consider the impact of that tax change and the other changes to the tax system announced in the Budget. As many tax experts have pointed out, only then will we be able to see the real impact of Government measures on particular groups of people.

In Committee of the whole House, I raised the issue of the insurance premium tax. Although the clause protects workers against an income tax rate rise, I note that they will not be protected from the other tax increases in the Bill.

Chris Philp (Croydon South) (Con): I look forward to serving under your chairmanship, Sir Roger; I hope to profit from your experience. I want to challenge the hon. Lady's assertion that the tax lock is a gimmick. Is it not in the same spirit as the legislation that ensures that 0.7% of GDP is spent on international aid each year? That measure is ensuring, as we speak, that refugees from Syria are being rescued from terrible circumstances. Is this not in a similar spirit?

Barbara Keeley: I do not think it is. In fact, if it is seen in the same way, someone needs to have a word with the Prime Minister. He constantly refers to the 0.7% commitment as a matter of huge pride and has quoted it a great deal in our debates about the refugee crisis over the past week or two. The difference with financial matters—this is probably why the current Chancellor was so critical of things in 2009—is that there are many opportunities to legislate. This is the third Finance Bill this year, so things could change. The 0.7% international aid commitment was a very long-term commitment. It came up a great deal in international discussions and still does, so there is a difference.

I was talking about the insurance premium tax and the fact that people are not protected from those sorts of tax increase. Paul Johnson, director of the Institute for Fiscal Studies, has said:

“The tax and welfare changes between them mean that poorer households have lost quite significantly and as a result of yesterday's Budget, much more significantly than anything that has happened to richer households.”

He also said:

“Unequivocally, tax credit recipients in work will be made worse off by the measures in the Budget on average.”

Let us bear in mind that many of the households that benefit from this tax lock have been adversely impacted by other tax changes. In fact, the summer Budget did not cut the overall tax bill; it raised it.

Mark Garnier: The hon. Lady makes a lot about feeling it unnecessary that the Government have to promise to legislate not to change tax rates and about the importance of not affecting working households, particularly those at the bottom end. Is it not the case that when her party was in government, there was an understanding that people at the bottom end would be protected, yet at that time the 10p tax rate was removed, causing huge problems for working households? What is sauce for the goose is sauce for the gander.

Barbara Keeley: There is a great deal of looking back, but let us look at what is happening this year and what will happen in the years following this Budget. The Office

for Budget Responsibility forecasts net taxes to rise by more than £47 billion over the next four years, with much of the money coming from increases in dividend tax, insurance premium tax, vehicle excise duty and cuts in pension tax relief. Of course, welfare cuts will also raise almost £35 billion. It is one thing saying that families will benefit from the tax lock, but all of those measures will hit many families and individuals in the UK hard.

The combination of changes needs to be seen in the context of the cut to tax credits that Government Members voted through this week, which are likely to leave millions of families worse off. I was asked the other day, “What else would you do?” It is our contention that the welfare reform we need is to things such as overpayments and the error and fraud in the welfare system, because things are not properly checked at the point of application. Error and fraud cost £3 billion a year. The cut to tax credits will hit working people on middle and lower incomes, which undermines the Government’s argument that this is a Budget for working people.

Nick Thomas-Symonds: On that point, the Chancellor of the Exchequer made much in the last Parliament of a distinction between those who are in work and those who are not. By this attack on those who are in work, does he not find himself on the wrong side of his own dividing line?

Barbara Keeley: Absolutely so. A great deal is said at the moment about working people, working families and who supports them. Paul Johnson, director of the IFS, has said:

“Significant allowances were an integral part of the design of universal credit, intended to give claimants an incentive to move into work.”

That is an important point. On tax credit cuts, he adds:

“This reform will cost about 3 million families an average of £1,000 a year each. It will reduce the incentive for the first earner in the family to enter work.”

Chris Philp: Could the hon. Lady confirm whether it is the Labour party’s intention to reverse the tax credit proposals put forward earlier this week?

Barbara Keeley: We had the same question the other day. It is not helpful for us to keep repeating things.

As we saw during the election campaign, we have a different mix of changes that we want to introduce and different ways of moving the economy forward, and that will always be the case. I am sure we would not have made the cuts to tax credits. We introduced tax credits to help working people. We believe in them, because they help to bring children out of poverty. We would never have made such savage cuts. We believe that it is necessary to tackle the root causes of welfare spending—low pay and high housing costs—to bring down Government spending sustainably. Those things are not being tackled; rather, the infrastructure that supports families in work is being taken away. The Institute for Fiscal Studies confirmed that the introduction of tax credits played an extremely powerful part in the improvement in child poverty figures, and that is what is at risk.

Simon Hoare: The hon. Lady is being generous in giving way, as always. Under the moderate and reforming Labour leadership of the right hon. Member for Doncaster North (Edward Miliband), Labour Front-Bench Members for the whole of the previous Parliament were never able to say what they would actually do. They were very good at saying what they would not do and at opposing everything that my right hon. Friends in the Treasury sought to do to reduce spending and bring it back under control. We await—with bated breath, it has to be said—what the reforming instincts of the new Labour leader will bring forward, but can the shadow Minister say what she would do? She has spoken about her long-term plans for house building, and so on, but, in the shorter to medium term, what would the Labour party do today, or what would it have done recently, to balance the nation’s finances better?

Barbara Keeley: That is a very easy question to answer. We heard earlier about the former shadow Chancellor, my hon. Friend the Member for Nottingham East, who put in a great deal of work this year on zero-based budgeting spending reviews. He came up with a list of savings that amounted to £12 billion. We talked about that a great deal during the election—

Simon Hoare: He got sacked!

Barbara Keeley: I think it would be better, Sir Roger, if we could move away from things to do with the Labour party and concentrate on the Bill. It is not helping progress.

The Chair: Order. It is for the Chairman to decide what is in order and what is not. Inevitably in any debate of this kind there is going to be a certain amount of party political skirmish, and both Chairmen understand that. However, now that I am on my feet, what is relevant is that this debate is about income tax. We could have a debate about every aspect of tax—we could not, actually, because it would be out of order. Perhaps we can now revert to income tax.

Barbara Keeley: Indeed. I think one of my hon. Friends wanted to intervene.

Daniel Zeichner (Cambridge) (Lab): It is a pleasure to serve under your chairmanship, Sir Roger. I quite take the point you just made, but does my hon. Friend agree that it is slightly rich for Government Members to talk about the past when they were elected last time on a pledge to reduce the deficit by half by the end of the Parliament, which they have completely failed to achieve? Setting tax rates in stone will only further perpetuate their past failure.

Barbara Keeley: Absolutely. In talking more broadly, I have been trying to paint a picture of the impact of the set of policies in the Budget, not all of which are in the Bill.

We feel that the tax lock is a short-term measure. As I said earlier, we need to think about long-term reform to ensure an equitable and efficient tax system that provides good value for the taxpayer. There is also a need for long-term tax system planning. We welcome the

[Barbara Keeley]

consultations announced by the Government, but action is also needed on, for example, the alignment of national insurance contributions and income tax. That has been discussed many times, over and over again, but never acted upon, and I will be talking about that later in the debate.

Mr Alan Mak (Havant) (Con): May I associate myself with hon. Members from both sides of the Committee in saying that it is a pleasure to serve under your chairmanship, Sir Roger? I look forward to profiting from your experience. Does the hon. Lady—

Barbara Keeley: I had concluded my speech.

The Chair: Ah. I understood that the hon. Lady was giving way. As no one else wishes to speak, I call the Minister.

12.15 pm

Mr Gauke: I shall briefly respond to the hon. Lady's speech. Let me be clear that if one looks at the measures set out by the Chancellor of the Exchequer in his Budget speech this summer, one will see that we are ensuring that working families will benefit from a strong and growing economy. By 2017-18, eight out of 10 working households will be better off as a result of the changes we are making to the personal allowance, the introduction of the national living wage and the welfare changes set out in the Budget.

The concern has been raised that the clause is somehow just presentational, but I return to the point I was making earlier about underlining our commitment. It is consistent with the approach we have taken to the tax system, and I think families up and down the country will welcome that. In particular, in the current context, with the official Opposition apparently moving in the direction of wanting to increase taxes, the fact that Parliament is making it clear what the current majority feels can only be helpful.

Barbara Keeley: As I have said already in this debate and the other day in the Committee of the whole House, this is a tax-raising Budget and the Government are raising taxes. I touched on some of those taxes and we have talked about the insurance premium tax. This is a tax-raising Budget and a tax-raising set of measures.

Mr Gauke: The Government are committed to creating a low-tax economy and the clause marks clear progress towards that. We must remember that the Government inherited the biggest deficit in our peacetime history. We heard criticism from the hon. Member for Cambridge, who said it should—[*Interruption.*] If the Scottish National party's position is that the deficit should be larger, I strongly disagree. The deficit fell significantly over the course of the previous Parliament, but there is still further work to do. In that context, we must make some difficult decisions.

Public spending is taking the greater share of the strain when it comes to fiscal consolidation, and we believe that is the right approach. I do not know whether the Opposition parties share that belief, but I very much

doubt it. The clause demonstrates our commitment on income tax, just as in the next clause demonstrates it on VAT—to ensure that over the course of this Parliament we do not increase those tax rates. I think the British public will welcome those measures—after all, they were set out before the last general election. I hope that the clause has the Committee's support.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

VAT LOCK

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

The Chair: With this it will be convenient to discuss the following:

New clause 1—*VAT treatment of the Scottish Police Authority and the Scottish Fire and Rescue Service*—

'(1) The Treasury shall, within six months of the passing of this Act, publish and lay before the House of Commons a report on the VAT treatment of the Scottish Police Authority and the Scottish Fire and Rescue Service.

(2) The report must include (but need not be limited to) an analysis of the impact on the financial position of Police Scotland and by the Scottish Fire and Rescue Service arising from their VAT treatment and an estimate of the change to their financial position were they eligible for a refund of VAT under section 33 of the VAT Act 1994.'

New clause 3—*VAT on sanitary protection products*—

'(1) The Treasury must, within 12 months of the passing of this Act, lay before the House of Commons a report setting out the impact of exempting women's sanitary protection products from value added tax.

(2) The report must include (but need not be limited to)—

- (a) an estimate of the impact on VAT revenue of exempting women's sanitary protection products; and
- (b) an assessment of the impact on the purchase of women's sanitary protection products of exempting them from VAT, with particular reference to purchasing by women aged under 25.'

Mr Gauke: I will say a word or two about the clause and then, if I may, I will respond to the new clauses that I assume will be set out by the hon. Member for Kirkcaldy and Cowdenbeath. The clause states that the standard and reduced rates of VAT will not rise for the duration of the Parliament. It also locks certain provisions in the Value Added Tax Act 1994 to prevent them from being used to change the scope of VAT by moving any goods or services out of the zero rate or reduced rate for the duration of the Parliament.

The Government believe in lower taxes and are committed to eliminating the deficit in a way that is fair to taxpayers. As part of our plan to move the UK to a lower tax economy, we made a manifesto commitment to rule out any increase in the main rates of income tax, national insurance contributions and VAT for the duration of this Parliament, as I have mentioned. Clause 2, following on from clause 1 on income tax, implements that commitment for VAT. This initiative will provide certainty to taxpayers and ensure that working people will not have to pay any additional VAT on their purchases for the duration of this Parliament.

Let me set out the changes made by the clause in a little more detail. Currently, the standard rate of VAT is 20% and the reduced rate is 5%. Clause 2 states that the standard and reduced rates of VAT will not rise, locking the rates for the duration of this Parliament. As the zero rate clearly cannot be more than 0%, it is not covered by the legislation. Supplies that are subject to the reduced rate, such as domestic fuel and power, are listed in schedule 7A, and those that are zero-rated, such as books, children's clothes and most food, are listed in schedule 8. The supplies listed can be varied by means of a Treasury order. However, the legislation will prevent the use of Treasury orders to expand the scope of VAT by removing supplies from the zero and reduced rates.

While the 20% standard rate of VAT is among the lowest in the EU, the UK also has the lowest reduced rate of VAT permitted by EU law and is one of only eight EU member states to have successfully negotiated to apply a zero rate of VAT. The Government will not increase the reduced or standard rates of VAT and will retain the zero rate of VAT, in keeping with our commitment to creating a higher wage, lower tax and lower welfare country.

In summary, clause 2 provides the strongest possible backing for the Government's commitment not to increase VAT for the duration of this Parliament. It delivers on our manifesto promise and is consistent with our policy to deliver a lower tax economy for hard-working taxpayers.

Barbara Keeley: Many of the points I raised about clause 1 on the principles of tax locks also apply to clause 2, which states that the standard and reduced rates of VAT will not rise for the duration of the VAT lock period. It also ensures that no goods and services can be removed from the zero and reduced rates of VAT for the duration of the VAT lock period.

The Labour party made a commitment not to raise VAT back in March and in our 2015 manifesto. Indeed, the Government's tax lock was announced in response to our challenge about not repeating their broken promises on VAT. We are pleased the Government have agreed that VAT rates should not go up, because that will benefit people on lower and middle incomes. This legislation is perhaps a little more needed, given the Conservatives' record on VAT. The Prime Minister made a similar commitment in 2010 not to raise VAT, only to raise it to 20% immediately after entering Downing Street. However, as with the income tax lock, we are concerned that there is nothing to prevent the Government from changing the VAT lock in future legislation.

How will the VAT lock stand up in the face of European Union intervention? The UK is subject to EU VAT law and European Court of Justice decisions on VAT will have an impact on VAT here. On 4 June this year, the European Court of Justice judged that the UK had failed to comply with the VAT directive by applying a reduced rate of VAT to the supply and installation of energy saving materials for housing, which the Court ruled will have to be charged at the standard UK VAT rate of 20%. Another recent example of EU involvement is the 2015 Court decision in the "Go Fair" case, in which the Court found that VAT should be chargeable on the supply of care workers provided by a temporary agency. Currently, UK agencies supplying nursing staff can benefit from a VAT exemption. Will the Minister indicate whether that will change as a result of the European ruling?

Lucy Frazer (South East Cambridgeshire) (Con): The hon. Lady may know that courts are overruled by higher courts day in, day out in the court system. Should the initial legislation not be passed because it may be overruled at some point in the future?

Barbara Keeley: I am not in any sense challenging it; I am asking the Minister to tell us what he thinks the impact on the legislation will be of that Court's decisions. Those cases seem to suggest that the lock on UK VAT is not as robust as the Chancellor claims, so it would be helpful if the Minister outlined what impact future EU Court rulings could have.

On the scope of the VAT lock, clause 2 prevents any increase in the standard and reduced rates, and prevents anything from being moved out of the scope of the reduced or zero rates, but there is no mention of exemptions. It would be helpful if the Minister confirmed that the current exemptions from VAT will remain over the course of this Parliament.

SNP Members tabled a new clause that seeks a report on the impact of exempting women's sanitary products from VAT. Labour supports the new clause. We welcome the opportunity to call again for those essential healthcare products to be made tax-free. Women do not choose to use sanitary products; they are essential. Although the reduction in the rate of VAT on sanitary products in the UK from 2000 was welcome, more needs to be done. This is not just a female issue, but a family and household issue. Women supporting families across the country should be able to purchase those necessary items VAT-free. We recognise the complexity of the EU rules on VAT and the challenges faced by national Governments that want to make such unilateral changes. I ask the Minister to take action at an EU level to support the exemption of women's sanitary products from VAT in the UK.

The Chair: I assume that the hon. Member for Kirkcaldy and Cowdenbeath wishes to speak to his new clauses, but I may be incorrect. Before he does so, I ask hon. Members look at the amendment paper. I will reiterate what I said earlier for understanding. At the end of this morning's amendment paper are new clauses 1, 2, 3 and 4. Only new clauses 1 and 3 have been selected for debate with clause 2, because they relate to VAT. New clause 2 does not relate to VAT, so although it appears on the amendment paper ahead of new clause 3, we are not debating it now. The new clauses will not be moved now. They can be spoken to by any hon. Member who wishes to address the subjects. Clearly, the hon. Gentleman in whose name the new clause was tabled will wish to speak to it. Others may also wish to speak to it; that is entirely in order. The new clauses will not be moved now. They will be moved, as with all other new clauses, right at the end of the Bill, which may be, I suspect, several weeks hence. There is an arcane form of words in which new clauses, as distinct from amendments, are moved. That is a pleasure in store for us, but we will deal with that when we come to it.

Roger Mullin: Thank you, Sir Roger. You have no idea how grateful I am to have you in the Chair guiding me through this process. I rise to speak to—not move—new clause 1, and later my colleague, my hon. Friend the Member for Glasgow Central, will speak to new clause 3.

[Roger Mullin]

New clause 1 addresses a long-running issue that has affected the provision of police and fire and rescue services in Scotland. The Scottish Police Authority is the only police authority in the United Kingdom that does not have relief from VAT, which costs it about £23 million per year. The Scottish Fire and Rescue Service is similarly disadvantaged and is liable for an annual cost of about £9 million to £10 million. The reason sometimes given is that—hon. Members may not be aware of this—a few years ago the Scottish Government, after taking advice, decided to go down the road of having a single national police force. It was undertaken for a number of reasons, and I would like to point out two that might be relevant and of interest to Government Members in particular.

First, we previously had eight forces. As hon. Members may recall, some years ago there was a terrorist incident at Glasgow airport. We are just as concerned about the impact of terrorism on our society in Scotland as other Members will be, quite rightly, in their constituencies. One thing the new police force has been able to do is join up measures so that we can address the terrorist threat more effectively than before. Similarly, it used to be that when the Scottish forces had issues, say of serious crime and relating to—[*Interruption.*]

12.30 pm

Simon Hoare: The hon. Gentleman might wish to have cognisance of the note that his colleague passed to him.

Roger Mullin: That is one of the most helpful interventions of my entire parliamentary career. I hope I do not require any similar interventions in the future—[*Laughter.*] I am so glad that I can bring some levity—it was not deliberate. Where was I?

Jake Berry (Rossendale and Darwen) (Con): Will the hon. Gentleman give way?

Roger Mullin: On that point, yes.

Jake Berry: Does the hon. Gentleman agree that it often pays to advertise?

Roger Mullin: Dare I agree? Back to a slightly less humorous point. When we had eight police forces in Scotland, some of them were very small, and at times that created difficulty in co-ordination on cross-border issues with forces south of the border. One benefit is that we now get much greater co-ordination of police forces across the United Kingdom. Terrorism and cross-border co-ordination are two serious areas where the police service is delivering benefits not for merely the people in Scotland, but for the people of the whole United Kingdom.

It seems strange, therefore, that the Government of the United Kingdom has continued to deny every overture made by the Scottish Government for VAT relief. My colleagues in Edinburgh inform me that no fewer than five letters from Scottish Ministers have been sent to the UK Government: two from the Justice Secretary, two from the Deputy First Minister and one from the Minister

for Community Safety. There has also been: a letter from the cross-party Convenor of the Scottish Parliament's Finance Committee to HM Treasury; eight letters from Scottish Government officials; and six meetings or conference calls in which the Scottish Government have sought to have our police and fire and rescue services treated in the same manner as all other forces in the United Kingdom.

We are not asking for something completely unusual or out of order. Since the amalgamations took place, the new transport agency, Highways England, has been granted VAT exemptions, so there is precedent. It is matter of common justice that this should be looked at. In new clause 1, we ask the Government to produce a report and lay it before the House to examine in greater detail some of the problems that arise because the police and fire and rescue services cannot reclaim VAT.

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to serve under your chairmanship, Sir Roger. I welcome the support of the hon. Member for Worsley and Eccles South for new clause 3, and I saw the Economic Secretary to the Treasury nodding as well. I therefore hope to get some support on this issue.

My concern with the VAT lock as presented is that it is very restrictive. Our new clause would leave a window open to resolve the injustice of VAT being levied on sanitary products. This injustice has long needed to be corrected and, as a female MP, I feel obligated to use this opportunity to raise the issue. My hon. Friend the Member for Glasgow North East (Anne McLaughlin) informed me that she campaigned on this issue in the 1980s, so it is a long-running one. The fact that it has not yet been resolved is quite disappointing and perhaps reflects a lack of willpower from the men who hold the purse strings in many of these cases. This is perhaps the chance for the Minister to make a difference. In the past, we have seen Jaffa Cakes and Tunnock's teacakes go to the courts to fight for their zero ratings, and I seek the support of all Committee members to allow leeway for further consideration of this issue.

There seem to be a lot of inconsistencies in the application of the rating. As no one can fully control the manner in which sanitary products are required, it is a bit odd and incongruous that we do not treat them as we do other exempted items, such as medical incontinence pads and babies' nappies, which I understand are both zero-rated. There is a recognition that those products do not fall under the full rate. Sanitary products are taxed at the 5% rate, but they are not, as the hon. Member for Worsley and Eccles South said, optional or luxury items. I certainly know of no woman who would exclaim, "Wow! I had my period—what a luxury!" We need a recognition that these are essential items that are very much required in households across the country. Indeed, if we were to go without these products, we would see public indignation, as there was when Kiran Gandhi ran the London marathon in April without any protection, as a means of protest about the issue.

Another concern for me is that sanitary protection for women who have just given birth is not exempted from VAT. It is charged at 5%, despite being an absolute essential for women who have just had a child and being used for up to six weeks afterwards. These are medical products, in my view, and should also be exempted. We cannot do without them, and it would be both unsanitary

and dangerous for our own health and that of our families if we were to go without them. We need a recognition that women across the country use these products. There is no recognition that they are essential items, and a zero rating would go some way to addressing that.

It has been mentioned that this is a European Union issue. My understanding is that Ireland has an exemption for these products, which is something we should look at. It would be useful if the Government were to take a stance on this, push it and send a message out to the rest of the European Union and women right across it, who would see a benefit if this went to the EU for further discussion.

What we are proposing today leaves a window open. I appreciate that we cannot ask for a particular change to be made, but it would leave the window open for negotiation, for further study and for a report, in order, I hope, for the issue to finally be resolved after many decades of campaigning.

Holly Lynch (Halifax) (Lab) *rose*—

The Chair: Order. I paused to allow precisely what has just happened to happen. I am sorry to continue to lecture, but members of the Panel of Chairs are blessed with both second sight and extra-sensory perception—it comes as part of the kit. That said, if anybody wishes to speak, it makes life earlier if they rise in their place, as is custom and practice on the Floor of the House. The danger is that we move on and an hon. Member then does not get called. While any Member can ordinarily intervene on the Minister's winding-up speech, once the Minister has sat down at the end of that speech on a particular debate, the Chairman will not call any other Member. In other words, if you want to speak, get in early.

Holly Lynch: Thank you, Sir Roger. It is a pleasure to serve under your chairmanship. Thank you for your kind and thoughtful guidance, which is particularly useful to me and, no doubt, other new Members.

I rise to speak in support of new clause 3, and I encourage other Members to join me in doing so. I am mindful that there are European implications regarding VAT that we must consider, but I am certain that the European restriction on abolishing VAT on sanitary products is more oversight than intent. I have every faith that there will be support for addressing this injustice at a European level, and I urge the Government to investigate those possibilities. The new clause would give the Government 12 months, which would be ample time to conduct investigations.

There is huge public support for abolishing VAT on sanitary products. A recent change.org petition asking the Chancellor to look into the issue has reached nearly 250,000 supporters. The Prime Minister was asked what he would do about the issue by a student at the University of East Anglia in the run-up to the general election and he agreed to look into it again. We know that the new clause has cross-party support and would be well received by the electorate.

I am pleased that the new clause makes particular reference to women under 25. On average, girls need to start purchasing sanitary products at the age of 12. It should have as small a financial impact as possible.

Girls at that age are inevitably in full-time education, so we need to ensure that what can be a big personal transition has a limited financial burden.

I found examples of bizarre VAT-exempt products, including alcoholic jellies, edible sugar flowers and exotic meats, such as crocodile and kangaroo. Perhaps most ironically of all, no VAT is paid on millionaire shortbread. *[Laughter.]* We can all have a giggle about some of those bizarre contradictions, but what an insult to women and girls they are. It is a travesty that tampons and sanitary towels have ever been deemed luxury purchases. They are necessities for millions of women. I hope the Government will do the right thing in considering the new clause.

George Kerevan: I am mindful of the fact that we have got another 48 clauses, so I will try to be brief—which is difficult for me. There are particular issues about the VAT lock that have to be put to the Minister.

VAT income to the Treasury is notoriously variable because VAT is a tax on consumption. It varies with the business cycle because it is a consumption tax. Unfortunately, in clauses 1 and 2 the Government are introducing the new doctrine that major taxes, including VAT, will be set once every five years at the start of each Parliament. I presume that in the Government's mind the tax lock will exist in perpetuity and will be set at a different level every time we elect a Government. They are decoupling the raising of revenue—the revenue function of the Government and the Treasury—from the business cycle. As the business cycle goes up and down, income to the Treasury will go up and down independently of when we set tax rates—particularly VAT.

Mark Garnier: I am acutely aware of the fact that we have got a lot to get on with, but I find the hon. Gentleman's argument utterly preposterous. He is arguing that, should the business cycle slow down, he would increase VAT—were he in a position to do so—which would have the effect of stifling consumption and thereby amplifying the problem, rather than negating it. This measure is quite clearly a cap, not a floor, so we can reduce VAT should we want to stimulate the business cycle.

George Kerevan: My good friend from the Treasury Committee anticipates what I was not going to say. All I am arguing is that we require flexibility in setting taxes to respond to events in the real economy. The doctrine that the Government are introducing of a tax lock in perpetuity removes such flexibility. That in itself creates uncertainty in the minds of business and the financial community, which the Government will have to address.

I accept the principle that we should try to set taxes in a way that is not destabilising. That should lead us to consult with the business community and community interest groups before we change taxes. That is perfectly possible and it is done in other countries. In Germany, for instance, there is mandatory consultation between the federal and regional Parliaments before income tax levels are changed. There are other ways to do that. The Chancellor accepted that principle in relation to North sea oil taxes when he gave an undertaking that any major changes would come only after consultation with the industry. Unfortunately, he did not extend that doctrine to the renewables industry, which would have been sensible.

[George Kerevan]

To put a tax lock on VAT in perpetuity decouples revenue setting from the business cycle and, in the end, that is not tenable, because the taxes would be varied in an emergency. It is not tenable to decouple them, so the Government will live to rue the day that they put the lock in. That explains the reason for the lock. It is not for economic reasons; they are playing a political game. It is a gimmick.

12.45 pm

The Chair: Before I call the Minister, I need to make it plain that the recommendations of the Procedure Committee have not yet been adopted and, until they are, there has to be an Adjournment of the sitting rather than a suspension. It is what is known in the trade as madness, but that is nevertheless what is needed. I do not have the power to suspend the sitting at 1 o'clock as would normally be the case to allow hon. Members on both sides of the Committee time to review papers and emails and to have some lunch. Therefore, I gently caution the Committee: if the Minister wishes to go past 1 o'clock, he is entirely entitled to do so—he may have some cross friends on both sides of the Committee—and the Whip has to have the opportunity to move the Adjournment before we can end the sitting.

Mr Gauke: It is not the cross friends on either side that I am worried about, but the cross friend chairing the Committee.

The Chair: The Chair is always at your disposal.

Mr Gauke: Let me say that I share your ambition for the timing of the Adjournment, Sir Roger.

I have addressed some of the points about the tax lock already. As for the application of EU law and ECJ judgments, which by the hon. Member for Worsley and Eccles South rightly raised, let me be clear: EU VAT law and Court decisions will have to apply to the UK, too. Legislation will have to be changed to reflect any changes or Court decisions, otherwise the UK would be breaking the law. I do not wish to evade that point in any way. None the less, that does not undermine the basis of the VAT tax lock, because the great bulk of VAT issues on rates and the boundaries between the zero rate, reduced rates and standard rate are unlikely to change. However, I acknowledge that point. VAT exemptions are set out in EU law and cannot be changed by the UK unilaterally. We are therefore not binding our hands on the exemptions because they are not determined by the UK alone. I hope that provides a little clarity.

Barbara Keeley: Before the Minister moves on, I want to clarify once more why Opposition Members believe that the tax lock is a gimmick. If things go really wrong, it will have to change and, having bound their hands, if the Government have to increase VAT or income tax, that will really destroy public confidence out there. That is the problem.

Mr Gauke: Let me respond to that quickly. I come back to the intervention made by my hon. Friend the Member for Croydon South. We did not hear those

arguments from the hon. Lady or her colleagues when we were legislating for the 0.7% expenditure on overseas aid; these points were made in the context of the tax lock. One cannot help feeling that when the Opposition's heart is really in the legislation, they think it is the right thing to do, and when their heart is not in it, they call it a gimmick. Very similar arguments apply to both items of legislation.

New clause 1 would require the Treasury to write a report on the VAT treatment of Police Scotland and the Scottish Fire and Rescue Service, including analysis of the change in their financial position since 2012 as a consequence of their ineligibility for section 33 VAT refunds. As we heard, in 2012 Scotland's eight locally governed police and fire authorities consolidated to become two national bodies. As a result, they were no longer reliant on local taxation for funding, which is one of the two criteria for eligibility for the section 33 VAT refund scheme. Following the restructuring, the new national bodies were therefore no longer eligible for VAT refunds.

The new clause asks the Treasury to write a report on the VAT treatment of those bodies, including an estimate of the change to their financial position since their restructuring if they had remained eligible for VAT refunds. However, it is important to remember that the Scottish Government were forewarned of that consequence well in advance of the decision they took. The Treasury was keen to ensure that the Scottish Government considered that consequence as part and parcel of their decision to restructure the services. Because the expected cost savings to the Scottish Government outweighed the loss of any VAT refunds, I perfectly understand why they went ahead with their restructuring programme.

As I have explained, as the Scottish Government restructured those services, they are no longer eligible for VAT refunds. That is plain and clear, and the eligibility is set out in legislation. There is no need to explain it further or for a report to be submitted to the House. If the Scottish Government are now reconsidering their position and wish to discuss how the services can become eligible once again for VAT refunds, the Treasury will happily engage with them to advise. In conclusion, there does not seem to be any justification for using Treasury resource to set out in a report something that is clearly set out in legislation. As things stand, the Scottish police and the Scottish Fire and Rescue Service are not eligible for VAT refunds. I therefore ask that new clause 1 not be moved.

New clause 3 would require the Treasury to write a report on a VAT exemption of women's sanitary protection products, including a financial assessment and an assessment of the impact on the purchasing of these products, especially by those aged under 25. I am well aware of the ongoing campaign to zero-rate or exempt from VAT sanitary protection products, which has cross-party support. I very much sympathise with the aims of the new clause, but this is not simply a case of the Government taking action.

The new clause asks the Treasury to submit a report to the House on the impacts of exempting sanitary protection products from VAT. The plain facts of the matter are that the goods and supplies to which the UK Government can apply a VAT exemption are set out in EU law. Any change to EU VAT law would require a proposal from the European Commission and the support of all 28 member states, which is no easy task.

To put this into context, the UK applies a reduced rate of 5% to sanitary protection products—the lowest permissible rate of VAT under EU law. However, different countries have different priorities, setting their tax rates to meet the economic conditions prevalent in their own jurisdictions. Across the EU, the average rate of VAT applied to sanitary protection products is more than 17%. The hon. Member for Glasgow Central made reference to the Republic of Ireland. My understanding is that it is not correct that these products are zero-rated or exempt there. The UK applies the lowest rate across the whole EU.

In discussions in the EU, some member states may consider other reviews to be of more concern to them at this time. It is not that there is any lack of sympathy for the cause. When the previous Labour Government, under Gordon Brown, reduced the rate, he did not zero-rate these products because of the constraints of EU law. Any change would require the overall consent of the EU institutions.

Barbara Keeley: Will the Minister give way?

Mr Gauke: Before I do so, I wish to correct something. I understand that the Republic of Ireland has a zero rate for sanitary products. I correct what I said: the hon. Member for Glasgow Central was correct, so I apologise. That zero rate was agreed before Ireland joined the European Union in the early 1970s. A zero rate on these products was not in place when the UK joined the EU, or the Common Market as it then was. I am sure we would all consider that regrettable, but that was the situation. Trying to extend zero rates across the board would be difficult.

Barbara Keeley: There is a recognition of the difficulty—that certainly came out in the speeches we heard on this element of the Bill. What other Members and I would like to hear from the Minister is whether he supports doing something about it. Does he want to have a push on it? Party leaders seem to say that they do, but it would be helpful if we could hear him say that he wants to do something about this issue.

Mr Gauke: There are a number of ways in which the European Union and the rules that apply within it could be improved. A strong case is made from all parts of the House that greater flexibility in this context would be helpful, but the point I would make is that we see little indication that other member states, which by and large have higher rates—the average rate is 17%—share that objective. If there is a general move, we would support that.

Other than when an accession country joins the EU and negotiates a zero rate, there is no particular indication that the Commission or member states as a whole are prepared to introduce new zero rates. Indeed, quite a lot of the advice coming from organisations such as the OECD and the general position that the Commission takes tend to be against that, so I do not want to underestimate the difficulties.

Alison Thewliss: Will the Minister give way?

Mr Gauke: I will take one more intervention, but I am sure the Committee will want to conclude shortly.

Alison Thewliss: I thank the Minister for giving way, and I am glad he was able to make that correction, because I checked whether Ireland had a zero rate this morning on the Irish Tax and Customs website. I appreciate what he is saying about things being difficult, but this is about promoting what is correct and right. I seek an assurance that he will lead on this issue. Changes could and should be made in this instance to correct a long-standing injustice, and I would like to hear a wee bit more about the Government's ability to do that.

Mr Gauke: I come back to the point that we are not stating that we do not see the case the hon. Lady is making, but that we should not underestimate the resistance to the introduction of zero rates. The UK already has zero rates to a greater extent than most if not all other member states. As I said, zero rates have been possible only on accession, which is why the Republic of Ireland has a zero rate. There is a reason why the Labour Government introduced a 5% rate, not a zero rate. We are supportive and we would like the rate to be as low as possible, but without wider EU reform and greater flexibility in this area—other member states have other priorities—it will be a challenge. I do not dismiss the issue: were we able to progress further, I would be sympathetic, but we should bear in mind the task ahead of us.

With those remarks, I hope that new clause 3 will not be moved when it comes to it, however much I sympathise with the intentions behind it.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.
—(Mel Stride.)

1 pm

Adjourned till this day at Two o'clock.

