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PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS

OFFICIAL REPORT

ORDER OF BUSINESS

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The first time a Member speaks to a new piece of parliamentary business, the following abbreviations are used to show their party affiliation:

Abbreviation	**Party/Group**
CB	Cross Bench
Con	Conservative
DUP	Democratic Unionist Party
GP	Green Party
Ind Lab	Independent Labour
Ind LD	Independent Liberal Democrat
Ind SD	Independent Social Democrat
Ind UU	Independent Ulster Unionist
Lab	Labour
LD	Liberal Democrat
LD Ind	Liberal Democrat Independent
Non-afl	Non-affiliated
PC	Plaid Cymru
UKIP	UK Independence Party
UUP	Ulster Unionist Party

No party affiliation is given for Members serving the House in a formal capacity, the Lords spiritual, Members on leave of absence or Members who are otherwise disqualified from sitting in the House.

House of Lords

Tuesday 13 September 2016

2.30 pm

Prayers—read by the Lord Bishop of St Albans.

Introduction: Baroness Bloomfield of Hinton Waldrist

2.37 pm

Olivia Caroline Bloomfield, having been created Baroness Bloomfield of Hinton Waldrist, of Hinton Waldrist in the County of Oxfordshire, was introduced and took the oath, supported by Lord Strathclyde and Lord Chadlington, and signed an undertaking to abide by the Code of Conduct.

Introduction: Baroness Chakrabarti

2.43 pm

Sharmishta Chakrabarti, CBE, having been created Baroness Chakrabarti, of Kennington in the London Borough of Lambeth, was introduced and made the solemn affirmation, supported by Baroness Kennedy of The Shaws and Baroness Lawrence of Clarendon, and signed an undertaking to abide by the Code of Conduct.

RAF Red Arrows

Question

2.48 pm

Asked by ***Lord Naseby***

To ask Her Majesty's Government whether they will review the role of the RAF Red Arrows Aerobatic Team at future Farnborough airshows so that they continue to perform aerobatics rather than just a flypast.

The Minister of State, Ministry of Defence (Earl Howe): My Lords, regrettably, in view of the densely populated area surrounding Farnborough Airport, the RAF decided that the Red Arrows highly complex displays can no longer be conducted there. It therefore has no plans to review the role of the Red Arrows at Farnborough International Airshow. The safety of the public has to be the priority.

Lord Naseby (Con): My Lords, does the Minister recollect other statistics such as that the number of people killed on the roads is 1,732, on the railways it is 39, and in air accidents it is 16? For well over 50 years at the Farnborough International Airshow, not a single civilian has been killed from any aerial activity. Is this not an overreaction, possibly to Shoreham? Surely it is possible for the authorities running this famous air show, alongside the RAF, to produce a dynamic aerobatic display? It could be modified in the light of the risk analysis, but to have no display diminishes what is at the moment the number one air show in the world, which is absolutely vital to Her Majesty's aerobatic exports.

Earl Howe: My Lords, I share my noble friend's disappointment at the decision but there is no doubt that, following the accident at Shoreham, the safety of the public at and near air shows has come into sharper focus. Following Civil Aviation Authority and Military Aviation Authority changes and amplifications to air display regulations, the Chief of the Air Staff made the judgment that the potential risks to air crew, spectators and other members of the public in the surrounding area were no longer acceptable. As the legally accountable person, the Chief of the Air Staff has to be respected in his decision.

Lord Lea of Crondall (Lab): My Lords, I declare an interest as a resident of Crondall, which is on the flight path into Farnborough and where the Chinooks line up for RAF Odiham. Great concern has arisen after Shoreham about the difficult manoeuvres of the Red Arrows. By the way, it is not true that there has never been an accident at Farnborough, although not in the past 50 years. I was at the air show in 1952 when around 30 people were killed when John Derry's aeroplane crashed and the engine fell into the crowd. Is it not the case that we need to bear in mind that while the flypast by the Red Arrows is highly appreciated, the decision on this is quite logical?

Earl Howe: I am grateful to the noble Lord. If one looks at the map of Farnborough and the surrounding area, it is easy to see how densely populated it now is. It simply is not possible to conduct a Red Arrows display without significant overflight of Farnborough, Camberley and Fleet. As I have explained, the decision has been taken by the Chief of the Air Staff that the potential risk to life from display flying over those areas, which I am afraid is inevitable given the extreme air manoeuvres that the Red Arrows undertake, could not be tolerated.

Lord Craig of Radley (CB): My Lords, the decision about Farnborough whereby it is allowed to show formation flypasts but not formation aerobatics, would indicate that perhaps formation aerobatics carry some measure of risk. Can the noble Earl confirm that in making any decision about flights by the Red Arrows, there is never any question that there is a risk in their performance? If it is necessary to make a decision not to participate, would it not be better if the Red Arrows did not appear? It seems to me that an aerobatic team which does not perform aerobatics is of little use to the RAF or to the country.

Earl Howe: My Lords, I would not wish to give the House the impression that the decision taken in relation to Farnborough will apply to every other air show because each event is assessed on a case-by-case basis. There will be many shows and other events where the Red Arrows will continue to perform with an acceptable degree of risk, but that risk always exists and safety must remain the paramount consideration at all times. I am afraid that I cannot agree with the noble and gallant Lord about the Red Arrows remaining at Farnborough and performing a flypast. I think that the flypast was appreciated, as was the static display on the ground.

Lord Spicer (Con): My Lords—

Lord Palmer of Childs Hill (LD): My Lords—

The Lord Privy Seal (Baroness Evans of Bowes Park) (Con): It is the turn of the Liberal Democrat Benches.

Lord Palmer of Childs Hill: My Lords, we are all justifiably proud of the Red Arrows. They train for eight months of the year in order to perform and they are part of the RAF events team. Can the Minister please tell the House what is the annual cost of the RAF events team and the justification for that cost in the light of the severe reductions in our Armed Forces personnel?

Earl Howe: I thought I detected in that question some scepticism as to the value of the Red Arrows. Frankly, I am surprised by that because they are fantastic global ambassadors for the United Kingdom. They promote the best of Britain and represent the speed, agility and precision of the Royal Air Force. They showcase the professionalism of our Armed Forces very well. I will write to the noble Lord with the figure that he seeks. It is not as easy for me to quote a figure as perhaps some might think.

Lord Spicer (Con): If we continue to delay decisions at Gatwick and Heathrow, will we not be forced to make more use of Farnborough anyway?

Earl Howe: My Lords, that will emerge when the decision on their runway capacity is announced.

Lord Touhig (Lab): My Lords, over more than 50 years the Red Arrows have flown almost 5,000 displays around the world. They have been used to recruit to our Armed Forces and they have acted as ambassadors for Britain. I read the statement from the Minister's department about why it was thought that the traditional high-speed display was not appropriate at Farnborough and they performed a flypast instead. In response to an earlier question, the Minister said that in future we will look at these displays on a case-by-case basis. I hope we will because in the last figure I have, the cost of the display team is £6.1 million. That is a lot of money to spend on an occasional flypast.

Earl Howe: My Lords, the off-the-cuff figure for the cost of the Red Arrows in my brief is £9.7 million but there is a charge-out to event organisers in some cases. I will come back to the noble Lord on the precise figure.

Pension Protection Fund

Question

2.56 pm

Asked by ***Lord Haskel***

To ask Her Majesty's Government whether the Pension Protection Fund will be able to meet its obligations to pensioners.

Lord Young of Cookham (Con): My Lords, the Government recognise the importance of proper pension protection and are confident that the Pension Protection Fund will be able to make compensation payments now and in future. It has more than £23 billion worth of assets under management and a reserve of more than £4 billion. It is 116% funded; that is, it has 16% more money than it estimates it needs. That puts it in a strong position to face the future.

Lord Haskel (Lab): I welcome the Minister to the Dispatch Box for his first Question. Bearing in mind the numbers he gave us, and also that the current BHS episode affects 20,000 people, and the recent warning from PwC that our defined pension schemes have a total deficit of £710 billion, are the Government satisfied that the current regulation is good enough to prevent poorly run schemes having to be bailed out by well-run schemes, which is the whole purpose of the protection fund?

Lord Young of Cookham: I am grateful to the noble Lord for his welcome. I think my career is on a downward spiral rather than an upward one. On British Home Stores, that pension scheme is now in the assessment period so far as the PPF is concerned. It is confident that, should BHS fall into the PPF, it has the resources to meet those obligations. On the very substantial figure that the noble Lord mentioned, that is a snapshot of all the liabilities of the defined benefit pension schemes were they all to have to buy annuities at the present moment. Of course, that is a volatile figure. When interest rates go down, the deficit goes up; should interest rates go up, the deficit would go down and in many cases disappear. One must look at this in the long term, with the volatility of the economic cycle taken into account. A pension fund is, after all, a long-term investment.

Lord Flight (Con): My Lords, does the Minister agree that, at present, the reported scale of pension fund deficits is hugely exaggerated because we have artificially low gilt yields rendering a discount rate of 3% or 3.5%, whereas typically investment fund returns are of the order of 5%? That is misleading. I hope the Government will consider introducing some measures to address this issue.

Lord Young of Cookham: My noble friend is absolutely right that when gilt yields fall, the deficits go up. There is an international accounting standard, to which we are obliged to adhere, that indicates how the deficits are to be valued. As I said, they are volatile; should interest rates go up, the deficits would go down. But I am grateful to my noble friend for putting it in that broader context.

Lord Stoneham of Droxford (LD): My Lords, at a time when most private sector companies have ended their final salary pension schemes—and, indeed, the Government have conducted very substantial reforms of public sector final salary schemes—is it appropriate that the Bank of England's senior management scheme should be subsidised heavily, oblivious to the policies that the Bank of England is making, which affect people's pensions?

Lord Young of Cookham: Like the noble Lord, I saw the comment in today's business news. It is worth remembering that at the beginning of the previous Parliament we asked the noble Lord, Lord Hutton, to conduct an independent review of public sector pensions. He recommended that defined benefit should remain the core principle of public sector pension schemes. That is the case with the Bank of England, as with the rest of the Civil Service. He also recommended that it should be based on a career average, rather than final salary, and made other recommendations about the appropriate contribution. It is important to distinguish this question from QE. QE has a number of impacts on all defined benefits but, in addition to increasing the deficit, one could argue that it has increased asset values, which has helped the pension funds, and has had a benign effect on the UK economy, from which the pension funds also benefit.

Lord Watts (Lab): My Lords, does the Minister agree that it is a national scandal that the Pension Protection Fund may have to bail out the BHS scheme, given the way that this company has been run?

Lord Young of Cookham: I think anybody who has read the Select Committee report on BHS, particularly an employee of BHS, will feel anger at the history of mismanagement of that company. As the noble Lord will know, there are a number of inquiries going on into that collapse: the Pensions Regulator is conducting an inquiry, the Serious Fraud Office is conducting an inquiry, and so is the Insolvency Service. So I think it makes sense to await the outcomes of those inquiries to see whether any fresh legislation is necessary to deal with any gaps there may be at the moment.

Baroness Jones of Moulsecoomb (GP): My Lords, can the Minister explain what the Government are doing about the potential for stranded assets, particularly investments in fossil fuels? Greenpeace produced a report yesterday which pointed out that, when you look at the growing interest in climate action, the lack of infrastructure for the development of fossil fuels actually means that a lot of pension funds could find that their assets have simply gone.

Lord Young of Cookham: The noble Baroness raises a very important issue, which goes way beyond what I thought was the fairly extensive briefing I have in my pack. I hope she will excuse me if I say that I would like to make some inquiries and then write to her.

The Lord Bishop of St Albans: Perhaps I may push the Minister a little more. I totally accept that the value of pension funds goes up and down according to a number of factors, but recent statistics show that 56 of the FTSE 100 companies had a combined pension deficit of £42.3 billion, which was up from £25 billion in the previous year—so growing fairly steadily. Just last year those FTSE companies were able to pay out dividends of £53 billion—a sign of their success. Does the Minister think that those companies have the balance right between shareholders and employees? If not, will the Government consider doing something about it to ensure that their responsibilities are taken more seriously?

Lord Young of Cookham: The important thing is that the pension funds are able to discharge their obligations to current and future pensioners. With regard to the broader issue that the right reverend Prelate raised, we keep under constant review the legislation concerning the PPF and, indeed, the impact on defined benefit schemes of the current interest rate regime. These things are kept under constant review, including the very valuable point he has just made.

Naval Warships: Repair at Sea
Question

3.04 pm

Tabled by ***Lord Trefgarne***

To ask Her Majesty's Government what arrangements will be in place for the repair of naval warships at sea following the proposed sale of RFA "Diligence".

Lord Astor of Hever (Con): My Lords, on behalf of my noble friend Lord Trefgarne and at his request, I beg leave to ask the Question standing in his name on the Order Paper.

The Minister of State, Ministry of Defence (Earl Howe) (Con): My Lords, RFA "Diligence", the forward repair ship, is one part of a system providing support facilities to deployed ships and submarines. This support is regularly supplemented by commercial arrangements and international agreements. When bespoke afloat capabilities are required, these are contracted on the open commercial market. This solution is not dependent on "Diligence" and has proven effective. Of course, we continue to consider all our capability requirements, depending on the operational task.

Lord Astor of Hever: My Lords, "Diligence" has provided wonderful support to Royal Naval ships. What is the cost of her recent refits and is my noble friend satisfied that her sale will not affect the maintenance of Royal Naval ships when away from home ports?

Earl Howe: My Lords, there was a refit of RFA "Diligence" in 2012-13 and another in 2014-15, both driven by mandatory certification requirements. The aggregate cost of those refits was £28.6 million. I reassure my noble friend that the withdrawal from service of RFA "Diligence" will not have a material effect on the support provided to the fleet. We are always considering different and innovative ways of providing that support to deliver the best value for money for the taxpayer. The Royal Navy is confident that, through a combination of the measures that I have outlined, the required support will be available.

Lord West of Spithead (Lab): My Lords, this news fills me with despair. As late as this spring, the Government said that "Diligence" was invaluable to the Royal Navy, as I know from my own experience. We now have 19 frigates and destroyers; six of those destroyers have intercooler problems. We have not resolved that problem yet and we need to do so. We are using merchant ships—the Royal Fleet Auxiliaries—to do the jobs that warships should do. We have a shortage

[Lord West of Spithead]

of manpower and we have ships laid up alongside. We are not fulfilling the tasks that I think our nation would expect us to fulfil. Is it not the case that there is insufficient money to run the naval programme today? Are we not creating an ever-bigger black hole, if I may refer back to that term? We have a very real problem. We will have less ships in the Navy in 2025 than now—I am sorry, we will have fewer; I did go to grammar school but I get my words wrong occasionally—despite what the Government said firmly. After a long interchange between us, the noble Earl admitted that there would be fewer. How many will we have in 2025?

Earl Howe: My Lords, the noble Lord made a series of points and asked a series of questions. Of course, there are always acute cost pressures where we have a service at the cutting-edge of excellence, as the Royal Navy is. But there is now a range of ways in which the Royal Navy delivers operational maintenance and repair to the fleet. It can often be, as I am sure the noble Lord knows, through a Royal Navy repair and maintenance party being deployed to a ship or, more likely, as will be the case with the carriers, through the ship's own personnel and capabilities. In addition, we have well-established commercial arrangements and international agreements, such as the use of other countries' bases and facilities. I would mention that, due to a successful recruitment campaign, RFA manning is currently on target, with many vacancies oversubscribed.

Lord Boyce (CB): My Lords, with due respect, I fear that the Minister's Answer to the Question of the noble Lord, Lord Astor, is somewhat complacent. The fact is that the Navy's attribute to be deployable worldwide without any host nation support is critical. Where I believe it is complacent is that the noble Earl overlooks what happens in conflict. We are scarred with examples of where allies and international agreements sometimes fall away when we get into conflict situations. RFA "Diligence" may be only one component of our support but it is a critical one, especially for the servicing, maintenance and repair of nuclear submarines, which cannot get into ports where there are no nuclear-cleared berths. Will the Minister please reflect on that and reassure the House that the Ministry of Defence may look at this again?

Earl Howe: The House will listen with great respect to the noble and gallant Lord, with his enormous experience. The approach now being taken by the Royal Navy is to upskill our own engineers and give them an opportunity to use their skills. That is a good thing and, to that end, we are working with industry to improve training in diagnostics and repair techniques, which puts the service man and woman at the centre of operational maintenance. I will, however, reflect on the points that the noble and gallant Lord has made.

Lord Touhig (Lab): My Lords, some would argue that the Royal Navy is the most successful fighting force in the history of our country, and high standards of training have ensured that it remains so, despite cuts in personnel, ships, submarines and aircraft. Why, then, on 4 August did the Ministry of Defence slip out an advert seeking expressions of interest and inviting parties to buy RFA "Diligence", which it described as surplus equipment "in good overall condition"? Will the Minister say how it is surplus when it is our only at-sea repair ship? It should certainly be in good overall condition because we spent £16 million on the last refit. Can the Minister offer us any hope that his department will soon have a long-term strategic approach to defence spending and planning? It would make his life a lot easier as he would not have to keep coming here to defend the indefensible.

Earl Howe: My Lords, I assure noble Lords that there is a long-term strategy for the Royal Navy's expenditure plans. The Royal Navy has declared that "Diligence" is no longer essential to its needs. Over 30 years, it has performed a very useful service to the Royal Navy, but it started life before the Falklands conflict. It is an obsolescent ship. However, the taxpayer will be getting value for it. The sale of "Diligence" will be managed by the Disposal Services Authority, which issued the notice to which the noble Lord referred.

Lord Lee of Trafford (LD): SDSR15 specifically said that the Government would publish a new national shipbuilding strategy in 2016. Can the Minister give us any indication of when we might expect this?

Earl Howe: My Lords, Sir John Parker is leading the national shipbuilding strategy. That work is intended to place UK warship building on a sustainable long-term footing. He is considering a range of issues to do that, including that regularly raised by the noble Lord, Lord West, which is a regular drumbeat of warship building.

Independent Inquiry into Child Sexual Abuse

Question

3.11 pm

*Asked by **Lord Morris of Aberavon***

To ask Her Majesty's Government what consideration they have given to amending the terms of reference of the Independent Inquiry into Child Sexual Abuse.

The Minister of State, Home Office (Baroness Williams of Trafford) (Con): My Lords, the inquiry is a once-in-a-generation opportunity to get to the truth, to expose what has gone wrong in the past and to learn lessons for the future. The Home Secretary is clear that the original terms of reference were the right ones, and the new chair has confirmed that she has no intention of asking for them to be revised.

Lord Morris of Aberavon (Lab): No lessons appear to have been learned from the Chilcot inquiry. One of the problems there was the width of the terms of reference. In her resignation letter, Judge Goddard referred to the,

"inherent problem in the sheer scale and size of the inquiry".

The Home Secretary has given evidence that she has no expertise of an inquiry of this size. Will the Government think again about the proposal from the committee chaired by the noble Lord, Lord Shutt, that there should be a permanent body of expertise in the Cabinet Office to assist Ministers? In this instance, it could report to Parliament on the progress of this inquiry in 12 months' time.

Baroness Williams of Trafford: My Lords, on the terms of reference being too wide, the previous chairman and the new chairman agreed that the terms of reference are right. It was not until she left that the former chairman, Justice Goddard, talked about the terms of reference being too broad. The inquiry will report on a regular basis, including a review in 2018.

Lord Faulks (Con): My Lords, nobody would wish to preclude anybody bringing an action a long time after the event, and there are generous limitation periods, nor to prevent any prosecution for historic sexual or other abuse, but we need to learn lessons. Those of us who have experience of multiparty actions know that by choosing sample cases and sample institutions, there is a much greater possibility of concluding swiftly and enabling lessons to be learned within a reasonable timeframe.

Baroness Williams of Trafford: The noble Lord is absolutely right.

Lord Laming (CB): My Lords, does the Minister agree that the terms of reference are not only incredibly broad but go back decades? Some of us in this House remain confused about whether the process is about the systems or individuals. Inquiries of this kind need the most precise terms of reference. Could the terms of reference be looked at again to make sure that they are as precise as possible, because some of us still find it difficult to understand the limitations of the inquiry?

Baroness Williams of Trafford: My Lords, I pay tribute to the noble Lord, Lord Laming, for the inquiry into the death of Victoria Climbié which he undertook so skilfully. The terms of reference have been agreed by the Home Secretary and the chairman, and have the support of the victims' and survivors' group.

Lord Foulkes of Cumnock (Lab): My Lords, the noble Lord, Lord Faulks, is absolutely right. What are the Government going to do to take account of that?

Baroness Williams of Trafford: My Lords, in reference to what my noble friend said, the chairman has undertaken to conduct the inquiry with pace and clarity. Making regular reports does keep Parliament updated on progress.

Baroness Pinnock (LD): With a new inquiry chair, will the inquiry be able to fulfil the requirements and hopes of the victims and keep to the timetable stated in the terms of reference: an interim report by the end of 2018?

Baroness Williams of Trafford: The noble Baroness makes a very important point. The chairman and the whole inquiry have the support of the victims' and survivors' group. As I have stated, the aim is to produce an interim report by 2018.

Lord Pannick (CB): Does the noble Baroness agree that, for the inquiry to make so-called findings of fact about the alleged conduct of the late Lord Janner, and to do so without any intensive process of cross-examination of the witnesses, is grossly unfair to the reputation of someone who is unable to defend himself? Does she recognise that the inquiry is purporting to do more than look at institutional failings? I declare an interest as a friend of the late Lord Janner's son, Daniel.

Baroness Williams of Trafford: My Lords, it is for the inquiry to consider the best way to conduct its investigations and hearings, and it would not be appropriate for me to comment. I understand that counsel to the inquiry set out the inquiry's position on this issue at the preliminary hearing of the investigation into Lord Janner in July.

Lord Rosser (Lab): Can the Minister confirm a couple of points? In the light of her earlier response, can she confirm that Justice Goddard never suggested to the Government that the terms of reference of the inquiry should be amended or clarified in any way? Secondly, the terms of reference, as has already been mentioned, refer to an interim report by the end of 2018, which suggests there may be a final report at some stage. When is that coming, then?

Baroness Williams of Trafford: My Lords, the Government have not sought to put a cap on the time but have made it clear that regular reporting back is quite important in this process, so that we do not go for long periods without hearing anything. The terms of reference were drawn up by the Home Secretary in agreement with the chairman—at the time, that was Justice Goddard. But yes, she did subsequently talk about her dissatisfaction with the terms of reference.

Syria

Private Notice Question

3.19 pm

Asked by ***Lord Wallace of Saltaire***

To ask Her Majesty's Government what is their assessment of the cessation of hostilities in Syria.

Lord Wallace of Saltaire (LD): My Lords, I beg leave to ask a Question of which I have given private notice.

Baroness Goldie (Con): My Lords, I welcome the restoration of the cessation of hostilities that began at sunset yesterday. The Government urge all parties to support and comply with the cessation. In particular, the regime and its backers must end air strikes against civilians and moderate groups and enable full humanitarian access. The Government will remain vigilant to violations of the agreement but hope that it marks the turning of a page leading to a political settlement.

Lord Wallace of Saltaire: My Lords, this is clearly a bilateral US-Russian accord. What is the British contribution to ensuring that this moves beyond the initial ceasefire into humanitarian aid and positive diplomacy? Do we expect that RAF aircraft from Cyprus will play a role in monitoring who is using Syrian airspace during the ceasefire and in providing the humanitarian aid that is so desperately needed? Do we expect that British diplomats will be actively engaged with other interested states, particularly Turkey and Iran as key actors, in trying to move from ceasefire into positive negotiations?

Baroness Goldie: As the noble Lord will be aware, there has been enduring activity, diplomacy and engagement by the United Kingdom Government, and that will continue. On the specific issue that he raises, I would observe that the Foreign Secretary issued a statement welcoming the announcement of the cessation and calling on all parties to support the deal.

In relation to air strikes, as he is aware, the United Kingdom has made air strikes against Daesh in the context of the global coalition. Our relationship with that coalition continues but, along with all parties to the coalition, we will be watching closely how the ceasefire proceeds, in the particular hope that it will remain stable and enduring so that further progress can then be made, as outlined in the agreement between the United States and Russia.

Lord Collins of Highbury (Lab): My Lords, obviously the ceasefire provides an opportunity for a political process but, as we have heard, it is also a window of opportunity to provide humanitarian aid. What immediate steps is the Minister's department taking, with the MoD and DfID, to ensure that all NGOs, including the United Nations, are fully able to use that window of opportunity to ensure that aid is there when the roads and airspace are open?

Baroness Goldie: We have as a Government been active in our endeavours to support the provision of humanitarian aid. The noble Lord will be aware of the very extensive resource that has been allocated to that by the United Kingdom Government. We are in a sensitive and delicate period. The unanimous hope is that the ceasefire will work and continue. That is necessary to allow some form of planning for what might then be possible. I say to the noble Lord that an important component of the agreement achieved between the United States and Russia is that humanitarian access is provided, and the regime in particular has been forcefully reminded of the need to co-operate in that endeavour.

Lord Gordon of Strathblane (Lab): My Lords, with regard to the ultimate political solution that the Minister referred to in her first Answer, it is only appropriate to regard the leadership and governance of Syria as a matter entirely for the Syrian people, and therefore to ignore the calls for President Assad's removal as a precondition for negotiations that one occasionally hears from Saudi Arabia, and indeed to some extent the United States, just as one hears opposition to that from Iran and the Soviet Union.

Baroness Goldie: United Kingdom policy in Syria is to support a political transition away from the Assad regime. The UK considers that that is the only way to bring peace to Syria and establish a stable and inclusive Government, with whom we as a Government can work to combat terrorism. That movement towards a change of regime is further down the line, and very important steps have to be both taken and implemented in the interim.

Lord Alton of Liverpool (CB): My Lords, as the Minister has confirmed that the ceasefire will not extend to Daesh, what contingency planning is in place for the liberation for Mosul in Iraq and Raqqa in Syria for when they fall and the diverse communities that populated them previously, who have been ethnically cleansed and subjected to genocide, have the opportunity to return to their homes? What plans have been made for the restitution of their property, the places where they lived and their businesses, and for the re-creation of those diverse communities in places that have fallen to sectarian violence?

Baroness Goldie: The noble Lord asks a broad question—broader, I think, than envisaged in the original Question from the noble Lord, Lord Wallace. What I can say is that tackling terrorist groups operating in Syria remains a priority for the Government. If the cessation of hostilities endures for seven consecutive days, it is intended that a US-Russia joint implementation centre will be established to co-ordinate strikes against the al-Nusra Front and Daesh. For the moment, we must focus on our unanimous desire for the ceasefire to work and a cessation of hostilities. Something meaningful can then be constructed on the basis of that.

Lord Campbell of Pittenweem (LD): My Lords, in considering a possible role for President Assad, will Her Majesty's Government take account of the fact that he has presided over the use of barrel bombs and chemical weapons—weapons which are essentially of indiscriminate destruction? In those circumstances, I hope that Her Majesty's Government will give careful attention to the extent to which he may be thought to be a suitable part of any lasting peace settlement.

Baroness Goldie: I say to the noble Lord that the Assad regime is responsible for the crisis in Syria. More than 400,000 Syrians have died so that Assad can hold on to power. The tactics of his regime include, in my opinion, appalling conduct: sieges, chemical attacks and indiscriminate attacks on civilian areas. That is why the United Kingdom Government consider that President Assad cannot be part of the long-term future of Syria. He must step down to enable a credible political transition.

Lord Anderson of Swansea (Lab): Does the noble Baroness agree that only time will tell whether this is indeed a positive turning of the page, with humanitarian access, as she said? Rather, it may be seen as the consolidation of the Assad regime and an indication that Russia has achieved its long-term aim of being a power broker in the Middle East.

Baroness Goldie: All I can say in response to the noble Lord's question is that this deal, this agreement, has been universally welcomed. It is a start to what we hope is something better. We have all observed with desperate concern the appalling plight of hundreds of thousands of people in Syria. All I can say to the noble Lord is that it is a start and, as I said in response to an earlier question, it is a foundation on which, if enduring, we can build. The future we want is a transformation of Syria into a modernised, peaceful, stable country where citizens feel safe and free.

Lord Hain (Lab): I challenge the noble Baroness's statement that Assad must stand down, stated in advance. There is no question but that he is a barbaric dictator, one who has acted unspeakably, but Northern Ireland, among other experiences, shows that you do not set preconditions for negotiations: if you do, they never occur. Why would the Government of Syria come to the negotiating table if a precondition from the UK and others was that their president could not continue?

Baroness Goldie: I did not say he should stand down now; I said that the United Kingdom Government's view has been consistent: we do not consider that he can be part of the long-term future in Syria. It is important that he contemplates stepping down to create a credible political transition. With his presence, there is a distracting and potentially divisive influence that will hardly be conducive to achieving the peace and stability which everyone wants for the citizens of Syria.

Baroness Hodgson of Abinger (Con): My Lords, we all recognise that the humanitarian situation in Syria is absolutely desperate and that people are starving. Can my noble friend reassure us that plans are being put in place for aid to get into the grass roots—the women and children who are holed up in various places—as soon as possible? Do they include sending aid and relief up to the Kurdish areas, which are also suffering terribly? Many IDPs have fled up there, and I understand that they have had little relief in those areas.

Baroness Goldie: I can only repeat to my noble friend that the enduring part of the agreement which has just been reached between Russia and the United States involves access for humanitarian purposes, and that is essential.

Wales Bill
First Reading

3.30 pm

The Bill was brought from the Commons, read a first time and ordered to be printed.

Communications Committee
Membership Motion

3.30 pm

Moved by ***The Senior Deputy Speaker***

That Lord Gilbert of Panteg be appointed a member of the Select Committee in place of Baroness Goldie, resigned.

Motion agreed.

Licensing Act 2003 Committee
Membership Motion

3.30 pm

Moved by ***The Senior Deputy Speaker***

That Baroness Eaton be appointed a member of the Select Committee in place of Lord Hayward, resigned.

Motion agreed.

European Union Committee
Membership Motion

3.30 pm

Moved by ***The Senior Deputy Speaker***

That Baroness Verma be appointed a member of the Select Committee in place of Baroness Morris of Bolton, resigned.

Motion agreed.

Privileges and Conduct Committee
Membership Motion

3.30 pm

Moved by ***The Senior Deputy Speaker***

That Earl Cathcart be appointed a member of the Select Committee in place of Lord Young of Cookham, resigned.

Motion agreed.

Intellectual Property (Unjustified Threats) Bill [HL] Committee
Membership Motion

3.31 pm

Moved by ***The Senior Deputy Speaker***

That, as proposed by the Committee of Selection, the following Lords be appointed to the Special Public Bill Committee on the Intellectual Property (Unjustified Threats) Bill [HL]:

B Bowles of Berkhamsted, V Hanworth, L Lucas, B Mobarik, B Neville-Rolfe, L Plant of Highfield, L Saville of Newdigate (Chairman), E Shrewsbury, L Stevenson of Balmacara, B Wilcox;

That the Committee have power to send for persons, papers and records;

That the evidence taken by the Committee be published, if the Committee so wishes.

Motion agreed.

Cultural Property (Armed Conflicts) Bill [HL]
Third Reading

3.31 pm

Lord Taylor of Holbeach (Con): My Lords, I have it in command from Her Majesty the Queen to acquaint the House that Her Majesty, having been informed of the purport of the Cultural Property (Armed Conflicts)

[Lord Taylor of Holbeach]
Bill, has consented to place Her interests, so far as they are affected by the Bill, at the disposal of Parliament for the purposes of the Bill.

Bill passed and sent to the Commons.

Finance Bill

Second Reading (and remaining stages)

3.32 pm

Moved by ***Lord O'Neill of Gatley***

That the Bill be read a second time.

The Commercial Secretary to the Treasury (Lord O'Neill of Gatley) (Con): My Lords, the Finance Bill before us today covers a range of measures of real importance to the strength and growth of our economy. Broadly, they fall into three main categories: our work to help more people to save; our support for businesses; and the additional action we will take against those who avoid or evade taxes.

We consider the Bill against a very sound record of the Government's economic achievement. The economy is now 7.7% larger than at its peak before the financial crisis. Employment has risen remarkably, up by 2.7 million since 2010, and the fiscal deficit as a share of GDP has been reduced by almost two-thirds.

The Bill was introduced in the other place before the referendum on our membership of the European Union. It is still too early to tell what the economic impact will be. While we are well-placed to take advantage of the opportunities that Brexit creates, there will be some difficult times ahead. Undoubtedly the consequences of the referendum will influence the context for economic policy in future years. I am sure that the Chancellor will take this into account in the Autumn Statement on 23 November, taking decisions in the light of the information that will be available at that point.

Before outlining the main measures in the Bill, I thank the Finance Bill Sub-Committee of the Economic Affairs Committee of this House. The sub-committee scrutinised the draft Finance Bill that the Government published in December, and its findings have been very helpful in a number of areas. I turn to some of the specific issues that the report raised. Noble Lords on the sub-committee may well wish to discuss these or others further, and I may return to some of these points at the end of the debate.

First, the report noted some concern over the consistency of the consultation processes. It is entirely appropriate and right that we are held to account for how the Government develop tax policy, but I note that the Government's overall record here is actually quite positive. In 2010, we introduced the new tax policy-making process, which includes a cycle of consultation following Budget announcements and the publication of a draft Finance Bill following the Autumn Statement, before final legislation is brought forward. This has very much become the norm for most measures. It will never cover all measures—for example, when action against evasion necessitates announcements with immediate effect, or when government is responding rapidly to the fiscal and economic situation. None the less, I reassure the House that we share a belief in the benefits both to government and to practitioners in enabling better tax law.

The sub-committee also put forward the case for a road map for personal and savings tax. Officials noted in their evidence the constraints on this specific proposal. However, I hope that the business tax road map published at the last Budget, the approach taken to communications for the Making Tax Digital programme and the commitments on the headline rates of taxation all demonstrate the Government's desire to provide clarity where feasible.

Finally, I note the sub-committee's support for the Office of Tax Simplification and interest in its resourcing and arrangements. Since its introduction, there have been further discussions on these issues, and the Financial Secretary noted in the other place that agreement had been reached with the Treasury Select Committee on new arrangements for appointing future chairs. Therefore, I hope noble Lords will be reassured that we consider very seriously the points that were highlighted through their scrutiny.

Turning to the issue of personal tax, the Finance Bill takes another major step to reduce tax burdens on those in employment by raising the personal allowance to £11,500 in 2017-18. As a result, 1.3 million individuals will have been taken out of income tax altogether since 2015-16. The Finance Bill goes further by increasing the higher-rate threshold by £2,000 to £45,000 in 2017-18. By that date, a typical higher-rate taxpayer will pay over £1,000 less tax than they did in 2010-11.

Alongside supporting workers through lower taxes, the Government also want to reward savers. In the 2016 Budget, we announced a new lifetime ISA to give savers the flexibility to save towards a first home and retirement at the same time. This Finance Bill introduces a new personal savings allowance from April 2016 so that a basic-rate taxpayer will pay no tax on their savings income of up to £1,000 and higher-rate payers on up to £500. As a result, 95% of taxpayers will pay no income tax on savings. To ensure that support for savers remains well targeted, the Finance Bill reduces the lifetime allowance for the wealthiest pension savers to £1 million from April 2016. Taken together with the changes to the annual allowance and lifetime allowance over the last two Parliaments, the Government will save over £6 billion a year, while delivering a fair and sustainable system.

As part of the Government's commitment to supporting home ownership and first-time buyers, higher rates of stamp duty land tax will be introduced on purchases of additional residential properties and £60 million of additional receipts will be provided to enable community-led housing developments where the impact of second homes is particularly acute.

Let us also look at how the Bill will support our businesses. It now well known that improving the UK's productivity is a long-standing interest of mine, and one I am in a position to pursue in government as Commercial Secretary. Of course, a range of measures are needed to support productivity. A tax system that encourages business investment and growth is one, and the Finance Bill takes a number of important steps to secure this. Between 2010 and 2015, the

Government cut the main rate of corporation tax from 28% to 20%. The Bill goes even further by cutting corporation tax to 17% in 2020, giving the UK the lowest rate of corporation tax in the G20. A decreasing corporation tax rate means that the Government must address the growing incentive for some people to set themselves up as a company to lower their tax bill. The Government are therefore modernising and simplifying the tax system by abolishing the dividend tax credit and replacing it with a new £5,000 tax-free dividend allowance. They will set the dividend tax rates at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers. These changes will reform an outdated and complex system, while ensuring that 95% of all taxpayers will either gain from, or be unaffected by, the changes.

Supporting business also means encouraging investment into companies to help them access the capital they need to grow and create jobs. That is why the Bill cuts the higher rate of capital gains tax from 28% to 20% and the basic rate from 18% to 10%. It also extends entrepreneurs' relief to longer-term external investors in unlisted companies.

An apprenticeship system which equips people with the quality of training that they and business need can make an important contribution to improving productivity, and addresses an area where the UK has historically underperformed, perhaps significantly. The Bill introduces an apprenticeship levy of 0.5% of an employer's pay bill, where it exceeds £3 million from April 2017, to deliver 3 million apprenticeship starts by 2020. Employers will receive a 10% top-up to their monthly levy contributions in England for them to spend on apprenticeship training. In England, funding will be ring-fenced and put in the hands of employers to ensure that it delivers the training they need.

The Finance Bill delivers a radical package of reforms to provide £1 billion of support to the oil and gas industry. This sector supports around 375,000 jobs and has paid over £330 billion in production taxes to date. To ensure that the UK has one of the most competitive global oil and gas tax regimes, and to safeguard jobs and investment, the Finance Bill zero-rates petroleum revenue tax, halves the supplementary charge, and extends the investment and cluster area allowances.

Lastly, I will comment on the number of measures the Finance Bill contains to tackle tax evasion and avoidance—a priority for this Government that is rightly shared by many noble Lords, as well as the general public as a whole. First, the Government are stopping multinationals avoiding paying their fair share of UK tax. This Bill will introduce new rules to address hybrid mismatch arrangements whereby cross-border business structures are used to avoid tax or gain multiple tax deductions for the same expense. It will also tackle contrived arrangements relating to payments of royalties from the UK to countries with no tax treaties.

Secondly, the Finance Bill targets key areas of rapidly growing online VAT evasion by overseas sellers, online marketplaces and UK warehouses, which, alongside other measures in this area, will raise £875 million in tax over the next five years.

Thirdly, the Bill legislates to ensure that profits from the development of UK property are always subject to UK tax. This ensures that UK and overseas developers are on the same footing, and will raise £2.2 billion over the next five years.

Finally, the Bill introduces a new, tougher anti-offshore tax evasion regime. This includes a new criminal offence for tax evasion, new civil penalties for offshore tax evaders and new civil penalties for those who enable offshore tax evasion.

In conclusion, the Finance Bill before us will help more people to save, support businesses and take action against those who avoid or evade taxes. I beg to move.

3.46 pm

Lord Hollick (Lab): My Lords, I am pleased to introduce the report of the sub-committee of the Economic Affairs Committee on the draft Finance Bill 2016. I particularly acknowledge the tremendous contribution made to the committee's work by our specialist advisers, Tony Orhnial and Elspeth Orcharton, and the work of Ayeesha Waller, the clerk to our committee. I thank the Minister for his kind remarks about the committee's work and for responding to a number of the issues that we raised.

The committee had two overriding concerns: would the measures simplify the personal tax system; and would they reduce the compliance burden imposed on taxpayers? We looked at three separate proposals in the Bill: the reform of taxation on personal savings and dividend income; the new powers for HMRC to issue simple assessments of an individual's tax liability; and the establishment of a permanent Office of Tax Simplification.

We generally welcome the changes proposed and acknowledge that they have the potential to simplify the tax affairs of many individuals and to consolidate the role of the Office of Tax Simplification. We recommended, for instance, that taxpayers should be given more time than the 30 days proposed to dispute a simple assessment, and to expand the Office of Tax Simplification's statutory remit to give it an integral role in the future strategy of tax policy. We are pleased to see that the 30-day limit has been extended to 60 days, but were disappointed that the statutory role of the Office of Tax Simplification has not been extended to cover its role in tax policy.

We were very critical of the way these proposals had been developed and of HMRC's plans for implementing the changes. The Government have trumpeted their new approach to tax policy but often fall far short of what is needed. There was no significant consultation on the taxation of savings income and dividends, which, if it had taken place, could have significantly reduced the complexity of the changes. HMRC's own research shows that taxpayers are hardly aware of how the current tax system works, let alone the changes. HMRC's communications strategy continues to rely far too heavily on the website GOV.UK, and on the efforts of banks, building societies and other intermediaries. HMRC simply cannot, and should not try to, subcontract responsibility to third parties for explaining important tax changes.

[LORD HOLLICK]

We were concerned that not all savings instruments will have interest paid without the deduction of tax, but are pleased to note that this will be covered in the 2017 Finance Bill.

We urged the Government to reconsider their decision not to publish route maps outlining their longer-term plans for those areas of the tax system they were proposing to change. Far too often, taxpayers are blindsided by sudden and dramatic changes to tax arrangements which can undermine years of personal tax planning. This is particularly evident in the tax arrangements for personal savings and pensions, which often vary on an annual basis and are now subject to an overall review that could lead to far-reaching changes. Taxpayers need to be supported in making longer-term plans and taking personal financial responsibility. It is the role of government to set a framework that will encourage people to make the appropriate long-term provision for their pension, confident that the Government will resist the temptation to tinker endlessly with the rules.

On 15 August, some five months later than expected, HMRC published its consultation document, *Making Tax Digital: Bringing Business Tax into the Digital Age*. The document, which totals nearly 250 pages and asks 129 questions, is probably the largest consultation exercise ever undertaken by HMRC and calls for responses by 7 November, just a fortnight before the Autumn Statement.

There is no doubt that, over time, digital returns will simplify the filing process. There are two challenges: first, to make them work for all, and, secondly, not to use the quarterly filings proposed for business as a Trojan horse to disrupt and pressure the cash flow of small businesses by introducing a requirement to make quarterly payments.

Many questions remain. How will elderly people, who are not particularly competent at using online services, manage their tax affairs? How will rural businesses with poor broadband access be able to meet their obligations under the digital system? What help will be available to small businesses to transition to meet the digital filing requirements? We were told by HMRC's director of process transformation, Emma Churchill, that free software would be made available to small businesses. Subsequently, HMRC announced that it would not make available free software and had agreed to leave it to the commercial sector to deliver the software while support for the transition to digital was being considered. This falls far short of the commitment to provide small businesses with the tools to transition to digital, and it should be reconsidered.

The Government continue to ignore our recommendation, also made in prior years, to introduce robust post-implementation reviews of all major tax reforms and to publish the findings. There is no case for leaving the effectiveness of new tax measures—and of HMRC itself—shrouded in mystery. Will the Government consider this recommendation anew?

The Finance Bill is the last hurrah of George Osborne's tenure as Chancellor. During his six years as Chancellor he offered great consistency: consistently making the reduction of public sector debt the totemic goal of his economic management plan; consistently failing to meet his debt reduction targets; consistently overestimating the level of corporate investment; and consistently failing to improve—as the Minister acknowledged—Britain's unacceptable and disappointingly low level of productivity.

By prioritising the reduction in public debt over growing the economy, he squandered the inheritance left by his wise predecessor, my noble friend Lord Darling, who recognised that growth would have to make a significant contribution to debt reduction and sought to achieve a sensible balance in his economic plan between growth and debt reduction. Fortunately, George Osborne's consistent failure to hit his debt reduction targets proved to be a blessing in disguise, as it helped prevent the economy deteriorating further.

George Osborne also missed an historic opportunity when he failed to take advantage of ultra-low long-term interest rates to use government debt to fund much-needed investment in new and existing infrastructure in the UK. Larry Summers noted in yesterday's *FT* that,

"infrastructure investment … can create quality jobs and provide economic stimulus without posing the risks of easy-money policies in the short run".

Infrastructure spending will also help address our poor productivity.

His successor, when he appeared before the Economic Affairs Committee last Thursday, struck a more nuanced note. Yes, the Government will continue to target the reduction of public sector debt—but over a longer period, and as part of a package that will include an increase in investment in infrastructure and measures to improve productivity. The Minister is clearly having considerable influence. We look forward to seeing his proposals to achieve all this in the Autumn Statement.

Significantly boosting housebuilding, which our committee recommended in its report *Building More Homes*, is a priority of the new Government. However, it remains to be seen whether the Government have the will to provide the funding to local authorities, which will be an essential part of meeting current demand, particularly for social housing.

Philip Hammond made an important distinction between "grande infrastructure projets", such as Hinkley Point and HS2, and a range of smaller and medium-scale road and rail improvements which could be implemented quickly and generate benefit over the next few years. It was disappointing to see that one of George Osborne's important initiatives—the establishment of an infrastructure commission with statutory backing—has been downgraded to a far more modest initiative without any statutory backing. It is unfortunate that the Government are backing off from the commitment to have a strong, independent body to scrutinise infrastructure investment and other major government or taxpayer-financed projects before they are green lit. Can the Minister confirm that the commission will no longer be on a statutory basis and explain how the Government propose to subject future projects like Hinkley Point B and HS2 to robust, independent and transparent scrutiny?

A talented and skilled workforce is a key ingredient to improving productivity. Philip Hammond told us last week that he envisaged that in a post-Brexit world he expects control over the movement of people to be used in a sensible way to facilitate the movement of highly skilled people between financial institutions and businesses to support investment in the UK economy. This was welcome news in the City. Can the Minister confirm that this approach will apply to other sectors of the UK economy, such as manufacturing, the creative economy, the professional services sector and academia?

3.57 pm

Lord Darling of Roulanish (Lab): My Lords, it is a pleasure to follow my noble friend Lord Hollick. I am currently a member of the Economic Affairs Committee but I was not a member when the examination of the tax proposals was carried out, so I do not propose to comment on that. I thank him for his kind remarks on the reduction of the deficit, which only goes to show how difficult forecasting can be, even in the comparatively tranquil times of 2010, never mind where we are just now. Before proceeding further I refer the House to my entry in the *Register of Lords' Interests*; in particular, I am a director of Morgan Stanley.

I will start where the Minister started in his speech, by pointing out the obvious—we are debating a Finance Bill which comes from a Budget that was announced six months ago; in many ways it might have been six light years away. It is a long time ago and a lot has changed. The then Chancellor has now gone, although on a personal basis I always found George Osborne to be extremely courteous and helpful, both in government and in opposition. I am sorry that he has gone, but these things happen in politics, and maybe he will return one day. Of course, the economic circumstances in which we consider this Finance Bill are completely different to the ones that prevailed in March, when I guess a majority of people did not think that we would leave the European Union. Some of us saw the warning signs throughout the beginning of this year, but it is fair to say, and blindingly obvious today, that many of the people who campaigned to come out of Europe had no idea that they would win and still less idea of what might happen if they won. That presents a major difficulty.

Every day we hear, especially from those who campaigned to leave the European Union, "Things aren't quite as bad as everybody thought they'd be". There is a perfectly obvious reason for that. Nobody said that the day after the referendum the world would come to an end. Now we are in a classic phoney war where nothing is happening. People are not sure about what form these negotiations will take or what position the rest of the European Union will take. Therefore people continue with business as usual; of course they need to buy houses and spend money. No one suggested that they would immediately stop all that. The time we should be apprehensive about is during the course of the next 12 months or two years, when what our options are and what is likely to happen will become clear. I understand why it happened, but there is one thing that I find increasingly frustrating. I listened to the Chancellor last week, who was very clear about where he stood on the single market and was encouraging in many respects. However, when I compare what he said to what the Secretary of State with responsibility for leaving Europe had to say two days earlier, I am none the wiser as to where the Government currently stand.

The Chancellor said something else that was interesting: that we could not be expected to have a running commentary—although we are getting something of that nature from Ministers on a daily basis. He said that the Government would work out their position, negotiate and then come back and show us what they had. But as people have pointed out, you cannot negotiate with 27 other member states and expect to have complete silence and confidentiality while these difficult matters are sorted out. We in this country need to know where the Government stand on key issues such as the single market. We need to know what they intend to do in relation to the vast bulk of European law that applies one way or another in this country, on immigration and other issues. Unless and until we have some idea of where the Government want to be, it will be very difficult for people to take long-term economic decisions.

As the House will know, tax policy has to be seen in the context of the economic and political environment against which people are expected to go about their business and businesses are expected to take decisions. We simply do not have that from the Government. I understand why, in the aftermath of the election of the new leader of the Conservative Party and the Prime Minister, it may be thought that a period of silence would be welcome. However, there will come a point this autumn when the Prime Minister will have to spell out where she stands on all these issues. People will want to know so that we can start to form a view as to what is likely to happen so far as this country is concerned.

I have heard another view expressed on the other side of the channel: all that will happen is that Europe will refuse to talk to us until after we engage Article 50, and then we will have two years, up against the clock. The default option will be that we just leave with nothing. That is not a satisfactory position for the fifth or sixth biggest economy in the world to be in. We need to see some leadership from the Government and some indication as to where and how they intend to proceed, so that we can all make up our minds as to whether we support them or want to see any changes to that. Critically, people in this country, whether in business or as individuals, will want to know where the Government stand.

That brings me to my next point. Obviously the Chancellor is now very much focusing on his Autumn Statement on 23 November. However, for the past six years, not just in this country but in Europe—and, to a certain extent, in the United States; although the US followed a policy very similar to the one that the Government of which I was a member were following up until 2010, and that is perhaps why its economy has been growing rather more strongly than the European economies—monetary policy has been expected to take the strain of our economic recovery. All central banks are either at zero, nearing zero or, in some cases, going into negative territory. On the latter, I am bound to say that I cannot understand how, if the Government are trying to encourage people to be confident and to

[Lord Darling of Roulanish]
go out and spend, they can tell them that things are so good we have negative interest rates—that does not seem to be a great way of going about it. Therefore, the Chancellor will have to consider in the Autumn Statement where fiscal policy comes in.

I was encouraged when, as my noble friend Lord Hollick said, Phillip Hammond spoke to us last week in relation to infrastructure projects. I know that that is something dear to the heart of the noble Lord who speaks for the Government today. I hope that the Government will consider some sizeable, but not vast, infrastructure projects in different parts of the country and not just in the south-east of England, that will help boost the economy.

I have said on many occasions that I have never been convinced of the case for HS2. If nothing else, it is likely to absorb resources that need to be spent on other parts of the railway network. I spent some four years in the Department for Transport, so I am aware of what can happen if you start running down the basic lines on which you depend, day to day. Equally, there is the case of Hinkley Point. Look at the costs that will be imposed on consumers. How on earth can that be justified given that, in building a nuclear power station, the risk will never, ever go wholly to the private sector? I have never understood why it makes sense to ask the French Government, which is what EDF is, or the Chinese Government, who are involved in the lending arrangements, to take this on when we could actually do it ourselves. Who knows? We may be able to benefit British industry in the course of doing that.

As we have a new Prime Minister who has indicated that she is willing to junk an awful lot—she does not now have the embarrassment of her predecessor sitting behind her on the Benches in the House of Commons—perhaps the Government will take a sensible look at how investment in infrastructure could do more to ensure that fiscal policy is supporting monetary policy. I do not think that monetary policy can do this on its own, here or in continental Europe any more than it can in the United States or anywhere else. We need only to look at Japan to see what happens when you give up on fiscal policy. Everything that they seem to try seems to struggle somewhat.

There are many measures in this Bill that are welcome and will benefit people in this country, but we have to accept that the world has moved on and we are kidding ourselves. It may be sunny outside today and the economic conditions may be better than some people thought, but we are about to go into a period where some very difficult decisions will have to be taken. This could be something that we are in for the long haul, at the very time we are still living in the backwash, both political and economic, of the banking crash of 2008. I always thought that it would take a long time to recover from that and unfortunately so it has proved. We are now going into an extremely tricky period and I hope that when the Chancellor comes to his Autumn Statement, his Budget next year and we debate next year's Finance Bill, we will have a clearer view of where we stand. We are certainly entitled to that and we expect no less of the Government.

4.06 pm

Lord Hain (Lab): My Lords, I continue with the theme excellently elaborated by my noble friend. Treasury Ministers are often said to be like drivers who have to steer the economy by looking in the rear-view mirror, reacting after the event to data that are slow to emerge, to developments that take time to assess and signals that are difficult to distinguish. Those data are contradictory, developments are inconsistent and signals blend in with the background, like closet speed cameras set up to catch unwary motorists. Some say that the situation today is made doubly difficult by the fog of uncertainty in which we are shrouded by the result of the European Union referendum. They say that Britain's new Prime Minister is not only First Lord of the Treasury, she is also a lady in waiting—waiting for the smoke to clear from the Brexit battlefield. Only then, they argue, will the Government be able to judge just how much damage the referendum result has done to Britain's economic prospects and how Ministers should respond.

Yes, we face unusual uncertainty today because of Brexit, and many people warned about that; but we are far from flying blind. After all, it was the Prime Minister who was the first to acknowledge that the economy was in trouble and way off the course charted for it by the outgoing Chancellor. Even before taking over at No. 10, she declared that the Government's target of a budget surplus in 2020 was a dead duck. When talking about the Cameron Government's budget strategy, she sounded like Cinderella's stepmother contemplating a child to whom she feels no commitment and for whom she feels no affection. She was clearly fed up with failure.

The reason why the Government have had to abandon their 2020 budget surplus is obvious. It is the same thing that has made them miss every such target since 2010—poor economic growth brought on by the tightest fiscal squeeze among the advanced economies. It is a budget squeeze that the former Chancellor used to boast about and that he planned to continue for the next four years. That was in the days before he swapped the hard hat and high-visibility jacket for a Harry Potter invisibility cloak—presumably it was either that or "Strictly" for him. His squeeze is one that means you fall short of your growth targets causing tax revenue to drop and your debt and deficit targets to go for a burton. Then you demand more spending cuts to reduce the role of the state and bring down government borrowing, so the downward spiral continues on and on. Surely, it was completely clear well before the referendum result that the UK economy was running out of steam. It grew slower last year in 2015 than the year before. It is growing slower still this year and the referendum result means even slower growth next year. The economy has become like the farmer who is always doing worse than last year but better than next year.

Last November, the Bank of England expected the economy to grow by 2.6% in 2017. In February, it cut that forecast to 2.3% and in August, it was cut again to only 0.8%. Independent economists agree that the Treasury's most recent survey of independent forecasts for GDP growth showed an average forecast for 2017 of only 0.7%. Most of those forecasts were made after the EU referendum. The National Institute for Economic and Social Research reckons there is a 50:50 chance of recession and that Britain is,

"in the midst of a slowdown".

The Bank of England Monetary Policy Committee was admirably quick to take action to forestall such a slowdown from turning into a slump, but as my noble friend Lord Darling said, there are limits to the effectiveness of monetary action alone when interest rates are already so close to zero. What is needed is complementary action on the fiscal front to give the economy a sharp boost, ratchet up Britain's growth rate, and bring the public finances back into balance by doing so.

The IMF is calling on Governments to use fiscal policy to stimulate their economies and not rely on monetary measures alone, and so is the US Treasury. Japan has shown the way. The Japanese Government have launched a £33 billion fiscal boost that includes extra infrastructure investment, help for small and medium-sized businesses hit by uncertainty due to Brexit, and higher welfare spending, notably childcare subsidies and cash payments to 22 million low-income households. That is the kind of action that this Government need to take for Britain too. The need is pressing, yet we are not even half way from the EU referendum in June to the new Chancellor's Autumn Statement when he says he may reset fiscal policy. His decision to delay that Statement until 23 November shows what I think is a reckless lack of urgency in tackling the slowdown.

Abandoning the budget surplus target for 2020 says nothing about easing the squeeze between 2017 and 2019. Paul Johnson of the Institute for Fiscal Studies has pointed out that simply dropping the 2020 surplus target will not mean the end of austerity. It just means that it will go on for longer, potentially until well into the 2020s. The economy is running out of momentum now. Productivity gains have come close to a dead stop. The longer the Chancellor waits, the harder it will become to break out of the vicious circle and breathe fresh life back into an economy that is in dire need of the help that only he can provide.

Britain urgently needs a public investment boost from the Government, otherwise the UK economy will remain trapped in a slow growth/no growth equilibrium that could last for years. The truth is that far from being a successful Chancellor, George Osborne fell behind schedule on his debt targets and went significantly over budget on borrowing, where he became a serial offender. In this past financial year, 2015-16, he delivered a £76 billion borrowing figure, exceeding the figure forecast by my noble friend Lord Darling in his final Labour Budget in March 2010 when he planned to bring down Britain's budget deficit over the following Parliament to £74 billion in 2014-15.

Yet it was precisely Labour's £74 billion level of planned borrowing that the new Tory Chancellor condemned when he took over at the Treasury. It would take Britain close to "the brink of bankruptcy", he fulminated, insisting that Labour could not be trusted. Instead he replaced it in June 2010 with new, tougher targets, halving Labour's planned borrowing in 2014-15 from £74 billion to £37 billion and setting himself a tight borrowing target of £20 billion for 2015-16. Both of those targets were missed by a mile. By March 2016, debt was £275 billion above George Osborne's target and the 2015-16 budget deficit was £56 billion higher than he had planned in 2010. So much for the credibility of his "long-term economic plan".

All his scaremongering about Britain becoming another Greece also proved to be nonsense. Just like under the last Labour Chancellor, my noble friend Lord Darling, even during the banking crisis Britain had no problem financing its budget deficit and the yield on UK government debt dropped to an all-time low of 1.22% in February this year. The Chancellor kept crying wolf while the bond market kept behaving more like Britain's best friend.

The rate of deficit reduction should be linked to the pace of economic recovery and the Government need to take vigorous fiscal action to promote faster growth with an immediate boost to public investment aimed at housebuilding, infrastructure, education and skills, and low-carbon investment. Looking further ahead, longer life expectancy and increasing demand for what the American management writer Peter Drucker termed "knowledge workers" mean an expanding role for the state in education, pensions and health services, especially elderly care. The Government's determination to shrink the role of the state is taking our society in entirely the wrong direction. We need to renew the case for a balance between private enterprise and public provision. Jacob Hacker and Paul Pierson say in their 2016 study of the part played by government in helping advanced societies to flourish that:

"The mixed economy remains a spectacular achievement … By combining the power of markets with a strong dose of public authority, we achieved unprecedented prosperity".

Growing inequality must also be reversed because the real incomes of not only working-class but also middle-class Britons have fallen badly behind, with only the top 10% benefiting from the neoliberal economic era.

Centrist US economic commentator Rana Foroohar's 2016 book, *Makers and Takers*, argued that Adam Smith's vision of market capitalism had broken. Markets, she showed, no longer supported the economy and had delivered only divisive and slower than normal growth, where the very rich got richer and the rest trailed behind. She said:

"Market capitalism was set up to funnel worker savings into new businesses via the financial system. But only 15 per cent of the capital in financial institutions today goes toward that goal—the rest exists in a closed loop of trading and speculation … In the US, finance doubled in size since the 1970s, and now makes up 7 per cent of the economy and takes a quarter of all corporate profits, more than double what it did back then. Yet it creates only 4 per cent of all jobs. Similar figures hold true for the UK".

Where both a fast-ageing society and a chronic housing shortage demand more not less government, the British state continues to be shrunk by this dogmatic Government's policy. Our public services are being cut and outsourced. Job insecurity, zero-hours contracts and low pay are rife. Occupational pensions are expiring. Skills lag abysmally. Productivity is embarrassingly low and the trade deficit both embarrassingly and historically high. Frankly, this Finance Bill is at best irrelevant and at worst totally counterproductive to

[LORD HAIN]
addressing Britain's deep-seated problems. The Government must radically change course and offer an alternative to such systemic failure.

4.17 pm

Lord Turnbull (CB): My Lords, let me return to the report on the Finance Bill by the Economic Affairs Sub-Committee, of which I was a member. That highlighted a number of general concerns about the way in which the tax system is developing that go beyond the specific measures on the taxation of savings. I will focus on the following themes: complexity; destination; compliance; and communication.

I first started working on tax in the Treasury in 1971. In theory, the system worked by adding up all the sources of income, deducting an allowance and then applying a series of rate bands. This rather simple system reached its apotheosis in the late 1980s, when the noble Lord, Lord Lawson, was Chancellor of the Exchequer. Since then, the system has grown progressively more complicated, with a proliferation of separate regimes for different sources of income, each with their own allowances and rate bands.

I start with dividends. We must first acknowledge and welcome an important area of simplification. For the last 44 years, since the Labour Government's classic corporation tax system was abandoned, part of the tax imposed at the company level has served as a credit or offset for tax at the personal level. I must confess that, despite working on this system and being a taxpayer myself, I never succeeded in mastering this. We should welcome the end of the tax credit and welcome the payment of dividends gross, with the personal tax collected as part of personal tax returns. But instead of just adding dividend income into other sources of income, it will now have its own £5,000 allowance, with a separate set of rate bands: 7.5%, 32.5% and 38.1%. I have not the faintest idea why those numbers were chosen or how they relate to the other numbers in the system.

The same process of fragmentation can be seen in the new regime for the taxation of interest. Again, there are benefits, particularly for the majority of people who earn small amounts of interest—these days, you certainly do earn a small amount of interest—but for the minority who pay the majority of tax things are rather different. Again, there is a separate regime—a £1,000 allowance, which is reduced to £500 for higher-rate taxpayers and abolished altogether for top-rate taxpayers—but this system, as the noble Lord, Lord Hollick, pointed out, does not currently apply to a number of important interest sources, such as bond and collective investments, but only to banks and building societies.

Then there is the growing use of another device by restricting the allowance as income rises—for example, to limit the benefit to higher-rate taxpayers of child benefit or to confine the benefit to basic rate taxpayers. The downside of this device is that cliff edges are created, as well as exceptionally high marginal rates. A further complication is that, having introduced the principle of separate taxation—albeit with some transferability of allowances between spouses—the Revenue has introduced a household basis of assessment for operating child benefit and clawing it back. How HMRC distinguishes between the household that created a child and the household that might now be looking after it, I have no idea. There are also separate regimes for capital gains, with their own allowances and rates.

While this proliferation of treatments is growing, HMRC is pursuing a different agenda: giving individuals their own digital tax accounts. Much of the information in such accounts is to be provided by third parties, such as employers, companies or banks. The aim is for the taxpayer to be able to manage their own accounts. But the bottom line is that the individual still has to sign off the account as complete and accurate and be accountable for any errors. This gets more difficult the more complex the system is. The result is that HMRC will save itself a great deal of money, but anyone in the higher-rate bands or with a range of income sources is forced to incur the cost of professional advisers to get the figures right.

Therefore, it is essential that, as well as pursuing greater simplification, HMRC consults fully with taxpayers and communicates the details of the various schemes. In the two proposals that we looked at for the taxation of savings, the level of communication was inadequate. HMRC was lazy, in my view, and relied heavily on companies and banks to explain the changes in dividends and interest. In my view, this is not good enough. It has a responsibility to ensure that people can actually comply.

Finally, there is the question of where all this is going. Twice a year now, the Chancellor of the Exchequer makes a Statement to Parliament. These have become occasions on which to add a few more piecemeal measures. What is missing is any sense of an underlying philosophy, of a destination and a route map to it. Nowhere is this more apparent than in the taxation of pensions, where a decade ago a regime of caps was introduced. That had a logic to it—to limit tax relief for the higher paid—but it has been progressively whittled down to the point where it now barely exists.

For many years the dominant model was known to the cognoscenti as EET: contributions were exempt from tax; the accrual was exempt; but you paid the tax when you withdrew. We seem to be moving progressively towards what might be called TEE: you pay pension contributions out of taxed income; it accrues without tax; and when you withdraw it, you do not pay tax. At present we are stuck in a no man's land, with features of both systems, such as ISAs and the lifetime ISA. We wondered whether LISAs were a Trojan horse for a full-scale move towards the TEE system. That would be jolly nice for the Chancellor, who would get his tax receipts up front, but precarious for the rest of us, who will have to assume that when we make the withdrawals one or two decades hence he will keep his side of the bargain.

Over the years, a number of studies have been made into the optimal shape of the tax system, by eminent people such as Professor James Meade and Professor James Mirrlees. The noble Baroness, Lady Altmann, has championed a much simpler pensions regime with payment by government to match the contributions made by a taxpayer. This has the merit of being simple, providing the right incentives and being fair to all taxpayers.

It would be a bit much to expect the Chancellor of the Exchequer to come up with the answer to all this by the time of his Autumn Statement on 23 November, but by the time of the Budget we can reasonably expect not further complication but further clarification.

On simplification, I, too, welcome putting the Office of Tax Simplification on a statutory basis but the benefit would be limited if it was there only to clear up the mess. It is important that it gets drawn into the policy formulation phase. I am confident that all these issues about budget secrecy and so on can be properly handled.

Finally, I will make a brief comment on fiscal policy in general. I welcome the abandonment of the idea of a surplus by 2020, but we are told by the Prime Minister that this is simply a matter of timing. The objective of achieving a surplus is retained; we are just to do it at a later date. I do not see the logic of this when such a huge range of infrastructure requirements are unmet in this country. I do not see that it is necessarily wrong to have a deficit, provided that it is small enough that the debt to GDP ratio continues to decline.

4.27 pm

Lord Desai (Lab): My Lords, until about five minutes ago I was very worried for the noble Lord, Lord O'Neill of Gatley, because there was hardly anybody behind him on the Back Benches. When I counted, there was often only one person— probably assigned for that duty—and when they went off, somebody else came in rather morosely. I was thinking of when somebody was to be sacked from the politburo in the old Stalinist days, and that maybe this is the notice the Minister has been given. But now the word has gone out and the troops have come to back him up, although I see that none of them will speak.

As my noble friend Lord Darling said, we are discussing a Budget from so long ago that is not just déjà vu but déjà passé. The issues we have to consider are not so much those in the Finance Bill before us, and on which my noble friend Lord Hollick and his committee have made some useful comments. In the new situation we face of Brexit and its unknown and unestimated effects, however, in which new direction will the economy go?

Let me first take up the issue of monetary policy. Many people have mentioned that we—the Federal Reserve, ourselves and the European Central Bank—have been relying on QE for many years. Monetary policy has now come to the end of its usefulness and there is nothing much that policy can do. Obviously, everyone would now like to have more of a fiscal policy boost. The question then is: does that mean abandoning the strategy that George Osborne set of continually lowering the debt and trying to manage the deficit? Happily, the goal of a surplus by 2020, which I thought was foolish, has been abandoned.

There has been a lot of debate in the blogs about helicopter money. As some noble Lords may be aware, this is being debated among economists: if money has an effect on the economy, how does it transfer itself to the economy? What QE has told us is that money does not transfer to the economy. You can print away and buy as many bonds as you like, but money does not move out of the banks and the corporate cash reserves. Not much investment has taken place, even at very low interest rates. All we have is merger and acquisition activity, buying and selling old capital. No new capital is being generated.

One proposal is that we should have an active spending policy—perhaps for infrastructure, perhaps for other things—that should be financed purely by printing money, so that debt will not go up. There are learned articles that I can refer the noble Lord to. The idea is that if you run a deficit, but finance it purely by printing money, the debt does not go up. Of course, we were told by Milton Friedman and others that the danger was inflation. If there is inflation, every central banker will be relieved because they are hankering for it. In Britain, the figure is down to 0.6%, so if there were to be inflation, which I doubt, it would be welcome. One of the things the new Chancellor may consider between now and the Autumn Statement is some form of helicopter money.

The noble Lord, Lord Skidelsky, and I have been advocating another kind of helicopter money, which is not to waste it on infrastructure and things like that but to give it directly to every person on the electoral roll. Just give everybody £1,000 and see what happens. That would definitely boost the economy. After all, we are giving so much money to the banks and the corporates; we may as well give some money to the punters who have to pay for bank failures. That is not monetary policy or fiscal policy; it is fiscal policy with certain unorthodox aspects of monetary policy. Therefore, it can keep the debt at its current level, or maybe lower, but finance government spending. I know it sounds surprising, but it used to happen all the time before monetary orthodoxy took over.

Turning to productivity, the noble Lord knows that I have grave doubts about the statistical measurement of productivity. I read Robert Gordon's massive work on why US productivity has gone down and why it is difficult to revive. It struck me that all the notions we have in the economics of productivity, such as total factor productivity, come from a time when manufacturing was dominant: from 1945 to 1975. When manufacturing is dominant and production is in solid commodities, productivity is very easy to measure. We do not have that economy any more. We have a highly service-oriented economy in which one of the ways quality shows itself is by a continuous fall in the price of new products. Every time a new gadget comes out, it is priced lower than the previous edition. We need to think much more radically about what it is we want to achieve when we are trying to measure productivity. Productivity cannot be an aim in itself; it has to be about enhancing welfare. If something is enhancing welfare by improving quality and getting prices down, we are missing something if we go on thinking that productivity is not going up. Some radical thinking is required. Perhaps one of the sacked former Ministers could be employed to think about this; maybe the ex-Chancellor himself, because he is a very thoughtful man.

Finally, I shall say one thing about Brexit negotiations. Obviously, the priority of the people who voted to exit is migration but, as many of my noble friends have

[Lord Desai]
said, the complexity of the negotiations on all the other aspects have to be borne in mind, especially financial services. Financial services are obviously a major part of our economy, and we should try our best to preserve as much as possible of the current portfolio—our passport rights and whatever else we can get.

However, one has to be careful politically, because the City is not popular among people who voted for Brexit. We should remember that. A lot of people are still very angry about the rescue of 2008 and about the bonus culture, to say nothing about LIBOR and all those criminal activities. My advice to the Government and to the City would be: if you are going to defend the City—as you should—prepare the political ground carefully, otherwise the Back Benches in the other place will revolt.

4.35 pm

Lord Davies of Stamford (Lab): My Lords, I thoroughly agree with the extremely sensible advice which my noble friend has just given to the Government and his very perceptive view of the state of the City's status and reputation—sadly, because it is after all our leading industry in this country—among the public at large.

I want to make four points. First, I agree with the Minister that it is too early to assess the economic results of the Brexit referendum outcome. There has been some evidence that, as one would expect, the international trading sector has been stimulated by devaluation, particularly parts of the sector which do not require lead time, such as tourism. I have bought quite a lot of wine, knowing that the next time I see a sterling price list, the prices will be 18% to 20% higher. I imagine anybody who is thinking of buying a BMW or Mercedes has brought that forward, for the same reason. I have no idea at all whether anticipatory purchases of that kind are statistically significant in aggregate, but I expect the Minister knows the answer. However, it is far too early, of course, to have any perception at all of the impact on what is really significant, which, as we have always known, is investment. You can never calculate exactly what is happening when you are talking about opportunity costs, but in my view it will not be for five or 10 years that we will be able to look back and see what impact this will have had on our rate of growth over the relevant period compared with the preceding period. It is then that we will begin to realise some of the damage that has been done.

Secondly, of course, the great economic fact since the Brexit referendum has been that devaluation. Nothing surprises me any longer about the British capacity for self-delusion in these matters and for Panglossian optimism. I do not know whether just to be amused or to be amused and deeply concerned when I hear people say or I read in the Eurosceptic press, "Oh, it's wonderful, the markets have recovered now from Brexit; the FTSE 250 is back to where it was before the referendum vote". However, it is not, of course: it is back to where it was in sterling terms, but it is 18% to 20% below where it was in terms of real purchasing power. Being old enough, I have often had occasion in the last few months to remember the words of Harold Wilson about the "pound in your pocket" not being devalued. The same spirit has prevailed over the last few months. I am sorry to have to say that the same final recognition of reality will hit the British people at some point.

My third point is that the Government's response to all this has been rather confused and regrettable, because for all its evils, devaluation could be a basis for attacking what I think is—after productivity, to which it is related—our major national weakness. That is our balance of payments deficit; it has for some time been at very alarming levels of 5% to 6%, which makes us particularly vulnerable to international investor sentiment and should be a great worry to the Government. Devaluation might, in theory, provide the basis for a greater volume of exports and for greater domestic market share for import substitution industries and services in this country. But we are operating quite close to capacity—the unemployment figures which the Minister quoted show that to be the case—and we are clearly not going to have a revolution overnight in productivity. It is a mathematical impossibility for that to happen unless there is some reduction in domestic consumption or investment—and one hopes it will be consumption.

However, the Government are going in completely the opposite direction by stimulating the economy. The Bank of England is relaxing monetary policy and the Government are relaxing fiscal policy at the same time. The Government have abandoned their programme to restore fiscal balance and go into fiscal surplus before the end of the decade. The statement of policy seems extremely perverse for two reasons: first, it will prevent us achieving the full effect of devaluation on that current account payments deficit, and, secondly, the monetary expansion in particular will mean that the raising of import prices following devaluation will be accommodated, and therefore we will have inflation. When inflation picks up, the Bank of England will have to intervene again—probably in the second half of next year—and put up interest rates to prevent inflation going up beyond the 2% level and higher, which would be contrary to the guidelines by which the Bank is working. We then find ourselves with the prospect of rather volatile monetary policy over the coming period, and that is not a good thing. Above all, it is not good for confidence.

That brings me to my final point. The Minister said that the important thing was investment and I totally agree with him. I do not think he knows what I am saying because he is paying attention to something completely different, so I shall not be able to refer to this in subsequent debates. I am saying to the Minister that I actually agree with him in the emphasis that he is putting on investment, but investment depends upon confidence. Confidence is undermined by volatility of policy and will be particularly undermined by the tremendous instability that the Government are presiding over at the moment in relation to our post-Brexit prospects. It looks as though it will take not just months but perhaps years of negotiation before we know what our relationship will be with the rest of the EU and the European single market. In my view, that is an unforgivable state in which a Government should never leave a nation for whose fortunes they are temporarily responsible. It would be so easy to completely remove that instability and source of uncertainty. I hardly need to remind the Minister that uncertainty is risk, and risk is a cost—it increases the cost of capital, which increases the threshold rate for investment, so it is an automatic response to uncertainty that there will be less investment.

After that enormous uncertainty has been created, the Government are doing nothing at all about reducing it. The Government could do something now—literally this afternoon—to make an enormous contribution to reducing that uncertainty and risk and boosting investment, by saying that whatever happens as a result of these negotiations with the rest of the EU we will remain in the single market. It would be perfectly possible and responsible to say that, because one avenue that will always be open to us is the European Economic Area option that, for example, Norway and Iceland have. Maybe the Government will be able to negotiate something better than that—better in their view, anyway. Personally I am not sure about that at all.

If I were one of our continental partners, I would not want to get involved at all in the negotiating of a bespoke special deal with the UK, for a whole host of reasons. One is that as soon as you start talking about bespoke deals, other members of the existing EU may want a bit of a bespoke arrangement. Secondly, other people with whom the single market already has a structural relationship—EEA members, Switzerland or whoever—may want to renegotiate that to make their own position more equal or more fair in light of what has been agreed with the British. Thirdly, and very importantly for them as for us, the whole thing would go on for years and years. It would be one of those negotiations where nothing was agreed until everything was agreed. That would take the sort of time it normally takes to negotiate an accession agreement to the EU or an international trade or financial agreement—typically, between five and seven years. That would be a complete nightmare for all concerned.

Personally, I doubt whether the continentals would want to get involved in that sort of bespoke negotiation anyway. But even if they did, it would be perfectly possible to go into that sort of negotiation having said at the outset that whatever happens, we will end up still in the single market. That would be the best possible day's work that the Minister could do for this country, for British industry, for investment in this country and for the future of our prospects for growth, employment and prosperity. I see him smiling. I hope he agrees with me and that he will do it.

4.44 pm

Lord Kerr of Kinlochard (CB): I agree with the noble Lord, Lord Davies, about uncertainty, just as I agree with the Minister that this Finance Bill comes to us from a different world, the pre-referendum world. We now know that we face a decade of uncertainty, with growth consequently lower and recession, if there is one, deeper than it would otherwise have been.

I say a decade, as did the noble Lord, Lord Davies, because there are several stages to go through. Unlike the noble Lords, Lord Darling and Lord Davies, I think there will be an Article 50 deal. I think there will also be a framework deal—that is a precondition of the Article 50 deal—and a trade agreement deal. I think all three baskets are perfectly doable; it may take longer than two years, but I do not think anybody would want the default option of the noble Lord, Lord Darling. That is not in the interest of our continental partners any more than it is in ours, so I think a deal will be struck, but it will take two or three years. There will then be another year of uncertainty while it is ratified in the other 27 capitals and here. We need to remember that the trade deal with Ukraine came unstuck in Holland in a referendum, which was fought not over the merits of trade relations with Ukraine but to do with Dutch domestic politics, so there are many hazards on the way.

It is only when the content of our trade agreement with the EU and its status becomes clear that our position in the WTO can be established. We cannot be members in our own right until we have proposed our own MFN schedule of commitments, and that must be accepted by 164 members of the WTO, with plenty of room for mischief-making. Only when we have put forward our baseline MFN offer and it has been accepted can we realistically expect to strike trade deals with third countries. Why should they envisage a concession to us in trade negotiations when they do not know whether it is something we will offer anyway in our schedule for the world? Trade negotiation is a mercantilist arm-wrestling business, where people are looking for national advantage and concessions are hard to win.

So I do not know why Dr Fox is currently out recruiting negotiators, because I think they will have nothing to do for at least five years. We need to go through the extraction process with the EU. That trade deal we can strike, because it is a comprehensive agreement. We then need to become WTO members and have our membership terms approved by 164 members before we will find that even our Antipodean friends are willing and able to negotiate a trade agreement.

So a long period stretches ahead and, in the interim, inward investors will, in my view, tend to look elsewhere. The attractions of the gateway into the market of 550 million will be seen to be going, possibly gone. If Dr Fox is right—and I am sure he is—that we shall be leaving the customs union, British manufacturers, when their goods cross the Irish border or the channel, will be subjected to the rules-of-origin tests, the paperwork, bureaucracy, checks and transaction costs which Mrs Thatcher's Government rightly took such pride in getting rid of in the 1980s, thanks to the single market programme and Lord Cockfield. All this points to a decade of uncertainty and growth lower than it would otherwise have been. I do not predict a recession; I simply say that that uncertainty must, as the noble Lord, Lord Davies, said, have an effect on the economy as a whole.

So this Finance Bill is pretty irrelevant to the real problems we face, and I agree with those who say that the Autumn Statement is likely to be rather more relevant. Speaking as a member of the committee chaired by the noble Lord, Lord Hollick, I support all that he said about what we would hope for in the Autumn Statement. In particular, I hope that the

[LORD KERR OF KINLOCHARD]
Chancellor means it when he talks about the importance of investment in infrastructure and encouraging investment in housing—particularly, as the committee emphasised to him, assisting local authorities to invest more in housing than they have been able to do.

That seems to me to be much more important than tax. I noted the Minister taking great credit for the fact that the plan is to have the lowest corporation tax rate in the G20 by 2020. I am much more encouraged by the fact that the current Chancellor has decided that he does not want to implement the faster and deeper cut that his predecessor was proposing after the referendum.

I think that Mrs May's thinking will probably be slightly different from that of Dr Fox and Mr Davis, and what we read from the noble Lord, Lord Lawson of Blaby. Dr Fox does not want to protect any bits of our industry:

> "We must be unreconstructed, unapologetic free traders".

His schedule of MFN commitments might be quite easy to draft, but it seems to me that, politically, it would be quite difficult to sell in this country: difficult to sell to manufacturers; difficult to sell to farmers; difficult to sell all round. I suspect that Mrs May will prove rather more like Mrs Thatcher, who used to enjoy teasing her Chancellors by talking the Minford talk or the Alan Walters talk, but when it came to the walk she was much more pragmatic and shrewd in her judgment of what the country needed and what the country would take. I suspect that something similar will be seen with Mrs May.

And that makes it to me tragic that Mrs May is not going to Bratislava for the European Council this week. I simply do not understand that. We are members of this club until we leave it, and the empty chair is always a very bad policy. Mrs May should be there. I am told that the decision was taken in the last days of Mr Cameron. If so, that is another example of the disastrous consequences of the casual approach to diplomacy. If Mrs May were in Bratislava and were able—perhaps she is not—to explain how she envisages the Brexit process working, I think that our chances of getting a decent trade deal with our partners would be enhanced. They read the British press and believe that Dr Fox and Mr Davis, and the noble Lord, Lord Lawson of Blaby, are speaking for Britain. They believe we are heading for another big round of deregulation, for much less social protection, for a low-tax, low-wage economy—an offshore Singapore. If that is the kind of competition that they will face, that will colour their approach to trade negotiations with us.

As I say, I do not believe that that is where Mrs May is. If one believes Mrs May on the steps of Downing Street talking about reducing inequality, you do not reduce inequality by reducing wages and jobs. I should think they would find her presentation rather reassuring, and I am sorry that they will have to wait. Once she has decided how she will play this Brexit thing, it is very important that she should at an early stage give us a full explanation not just in this Parliament but in the European Parliament and to the European Council.

I ought to speak to the report of the noble Lord, Lord Hollick. I commend it. It is excellent and he has drawn our attention to all its merits, including the merits of our special advisers who are wonderful. I should add just one footnote to it. He did not mention what we said about the Office of Tax Simplification, which the Finance Bill puts on a statutory footing. Some might think it is a major change; I believe that it is a nugatory change.

My approach to tax simplification is coloured by working as private secretary for the noble Lord, Lord Lawson of Blaby, who shocked the Treasury on arrival by announcing that he wished to abolish one tax in every Budget—and he did. It was not a gimmick; the salutary effect on the Treasury of making it go through the exercise of looking at candidates for abolition was extremely good, and I commend the idea to Chancellor Hammond.

I also remember the Treasury's great shock when, as he prepared his first Budget, Chancellor Lawson said that he intended to abolish all corporation tax reliefs, to make an instant reduction in the corporation tax rate and—this was the bit that really shocked the Treasury—pledged himself to five successive annual future reductions in the rate. He did so, and it was extraordinarily successful; the effect on certainty and confidence was considerable. That is the challenge for Chancellor Hammond. Can he emulate Chancellor Lawson as a simplifier?

On the need for him to do so, I quote three paragraphs from the excellent report of the committee led by the noble Lord, Lord Hollick. First, I quote from paragraph 228, which says that the first report from the Office of Tax Simplification,

> "in November 2010 identified 1,042 tax reliefs in the UK tax system".

By 2015, 53 had been abolished, but new reliefs had been introduced, making a total of,

> "1,156 tax reliefs in statute as at March 2015 … a net increase of 114".

Secondly, I quote from paragraph 229, which highlights that the Institute of Chartered Accountants pointed out that, in the same period, 2010 to 2015,

> "the fact is we have had almost 3,000 pages added to the UK tax code, and that was on top of, I think, 9,000 when we started. It is very difficult to simplify a tax system meaningfully when you are faced with that level of extra legislation".

Finally, I quote from paragraph 230, which highlights the evidence from the Federation of Small Businesses:

> "Despite the laudable efforts of the OTS … We see neither the flow of new legislation abating, nor are we convinced that the administrative impact of tax measures undergo the same level of scrutiny as regulation more generally".

Noble Lords will, I am sure, agree that one reason why there is inadequate scrutiny of tax regulation is that we do not get our hands on it here—we are made to keep off that grass.

There is a major job to be done in trying to reduce the size of the tax code, and I think that putting the Office of Tax Simplification on a statutory basis will not achieve anything. There are two routes you could go down: you could either follow the OBR route and make it genuinely independent and a power in the land, or you could keep it as it is now, or as it will be, on a statutory footing, inside the Treasury and dependent on the Treasury for pay and rations, but allow it—as it is not allowed now—to see tax measures in advance, and allowed in on the Budget process. As it is, it will remain neither one thing nor the other, as Churchill is said to have said of Alfred Bossom. It is neither going to be genuinely independent nor will it be up-stream. I would have gone for it staying in-house but being up-stream, which is something that the Chancellor could achieve by a flick of the pen, without any further legislation—and I very much hope that he will, as he rises to the dual challenge of reducing the size of the tax code during his time in office and abolishing one tax per Budget.

4.58 pm

Lord Liddle (Lab): As several noble Lords have said, this Finance Bill belongs to a previous era—not just the era of George Osborne's chancellorship but also a past era in a more historical sense, one that began with our membership of the Common Market in the 1970s, was shaped largely by the Thatcher Government and ended with the vote for Brexit in June this year. With our exit from the European Union, Britain has to devise a new political economy from the European one that has shaped our destiny since the 1970s. I will talk about this and develop four or five brief themes. I am afraid I am not going to talk much about my noble friend Lord Hollick's excellent report.

The first theme is the one referred to by my noble friend Lord Darling. It really is time to end the phoney war about where we are on the consequences of Brexit and what the Government's policy now is. The Government have got to make some hard choices. They have to decide how much priority they give to the single market. They have to say whether they are prepared to contribute financially in order to get access to European markets and to common policies that are in our interests, such as those for research in our universities. They have to be clear whether they are prepared to accept being members of a market where the regulations are not going to be determined in Britain, because that will be the position. I hope that Mrs May will try to resolve some of these uncertainties in her speech at the Conservative Party conference. In the national interest, I hope that she makes clear that the overriding goal of the Brexit negotiations has to be to retain the maximum economic openness that our economy enjoys as a result of its membership of the European single market.

However, we have to do more than that. We have to try to explain better to people how the benefits of that openness can be shared in a fair and transparent way. I do not know whether something could be made of this in policy terms, but I have just been thinking of the many young people who come to work in Britain from the continent. It is clearly evident, as many economic studies have shown, that they make a very positive contribution to the Exchequer. Could the Government find a way of identifying and hypothecating that tax contribution in order to establish a migration impact fund which dealt with some of the social consequences and tensions that have resulted from free movement?

My second theme is that the Chancellor should launch, in his Autumn Statement, an ambitious public investment programme to address the loss of economic potential as a result of Brexit and the tail-off in economic growth as a result of falling private investment. This should be targeted at new sources of growth and designed to correct the regional imbalances in the economy. We should set up a kind of office of public investment which verifies projects on the basis of their value for money. That would reassure people that borrowing money for these purposes was not wasteful spending, but would actually increase economic growth and, as a result, reduce the burden of our debt in the long term. We have to do something about public investment. In the last days of the Labour Government, under my noble friend Lord Darling, it was running at 3% of GDP. It is now well below 2%. It has got to go up: that has to be done.

My third theme is that this new investment programme needs to be part of a coherent, long-term economic plan. Yes, I use the word "plan", which the Conservatives used so much in the general election campaign. We have to have a plan and a new industrial strategy, which the new Prime Minister has said she is committed to by changing the name of the BIS department. As I say, we have to have a plan and an industrial strategy. I do not think that that is too difficult to do. In fact, it is a logical fit with Brexit, because the Government have already committed themselves to examine the trading position of the British economy sector by sector. It is a relatively short step from that analysis for the Government to work with business sector by sector to identify strengths and weaknesses and threats and opportunities, and examine what positive help a Government can give to industry's success. Therefore, I welcome the return of an industrial strategy and hope that it will be taken very seriously. I also hope that it will be backed up by resources and that the EU resources currently available for this purpose through the structural funds will not be abandoned but will actually be amplified by the new Government.

Fourthly, the Brexit vote was clearly a cry of pain from the left-behind in our society and a rejection of the elites. Business has to listen very carefully to that message. We have to find ways of re-legitimising the market economy and capitalism. In the post-war era, we thought that the worst excesses of capitalism had been tamed. Today, they have returned. It is terrible that the models of business that people think about in Britain are people such as Sir Philip Green at BHS and Mike Ashley of Sports Direct. What an example they set. Mrs May is very right to stress the need for better corporate governance. I certainly look forward to those proposals and hope that they have real substance.

We must also think about labour market flexibility. I have always been strongly in favour of labour market flexibility, but has it gone too far in Britain? The noble Lord, Lord O'Neill, mentioned the Government's new skills funding approach. Surely, this is an opportunity to try to raise standards in areas such as hospitality, catering and social care, where one would hope that, by training people better and paying them higher wages, one could deal with some of the abuses—as I see it—of labour market flexibility, and the dependence of some employers and business models on the ready availability of low-skilled migrant labour.

My final point concerns our policy for sterling. I am not sure what I think about this, but we need a national debate on it. One of the clear consequences

[LORD LIDDLE]

of Brexit has been a fairly sizeable devaluation. This, of course, will represent in time a significant squeeze on real wages and living standards. Do the Government think that a fall in sterling is an inevitable consequence of Brexit? Do the authorities see a lower rate for sterling as a desirable thing in these circumstances? Should it go further? Should the exchange rate return in some way as an objective of government and Bank of England policy? The governor of the Bank has pointed out that, with our massive balance of payments deficit, we are dependent on the "kindness of strangers", as he put it. However, one could ask legitimate questions about some of these foreign inflows. Of course, we welcome—everybody should do so—overseas direct investment. But are the flows that are coming in to finance M&A and property investment, particularly in London, desirable—and could we do something to throw grit in the wheels of those processes in order to make them less desirable? This is something that we need to think about.

There are many challenges with Brexit. As the noble Lord, Lord Kerr, said, the economy is entering a long period of grave uncertainty, and it is only through very bold government action that we can address this. I very much hope that the Government will prove up to the challenge.

5.10 pm

Baroness Kramer (LD): My Lords, I feel rather sorry for the Bill. In the number of fascinating speeches that we have heard, the only noble Lord who focused on the Bill to any significant extent was the noble Lord, Lord Turnbull. His description of the complexities of the taxation system—added to rather than diminished by the Bill—left us with our jaws dropping and terror in our eyes. But that has been almost the extent of the discussion of the Finance Bill.

I was in Alaska over the summer. There, when a mother bear is with her cubs, if a potential new papa bear comes along he slaughters the cubs. I rather think that we are in that situation now, with the Bill set for the slaughterhouse and unlikely to survive Brexit, the new Prime Minister and the new Chancellor.

Most noble Lords who spoke today covered broad issues, mainly Brexit-driven but with a very broad scope and range. I will extract two things from the speeches. The noble Lord, Lord Kerr, laid out the timetable according to which detachment from the EU has to progress. It is an exact timetable; it is not an issue but a series of representations of the actual fact of the timetable and the length of time it will take to go through Article 50, the negotiations, the WTO process and other stages. I hope that the Government will take on board that timetable. I have now had conversations with two government Ministers who seemed to have no idea that that is the timetable that we face and that has to be part of the thinking and decision-making of the Government.

The second issue is to say to the Government that the ongoing uncertainty is simply unacceptable. "Brexit is Brexit" three months after the referendum is not a satisfactory set of answers. I speak regularly with businesses, as do many noble Lords. We have gone from being asked questions about what we think the Government might be thinking to questions about whether the Government have any competence. That is dangerous territory to get into and I honestly think that we deserve to see the framework and the basic principles. One noble Lord said just now that it is possible that they will be told to the world at the Conservative Party conference. But this is Parliament and this is the place where those principles and frameworks should be brought before us. This is a big, important issue that goes far beyond the entertainment of a party conference.

I will talk a bit about the Bill. There are a few good measures that are worth saving, including raising the personal tax allowance to £11,500, which is a good Liberal Democrat policy, and cutting business rates for small businesses—a long-overdue relief for small businesses. But I hope that the Government will treat this just as a holding measure, because the framework for business taxes in this country is frankly unfit for purpose. I do not mind quick interim measures to tackle a problem, but we need something far more fundamental. Reforms of stamp duty must be right. Improvements to ISAs matter little with interest rates so low, but they go in the right direction. The whole issue around pensions, pension inequality and the structure of pensions was not tackled in the Bill—and it must be done.

The power of the Treasury to force companies to publish how much money they make and the tax they pay in each country where they operate, and the transparency amendment which the Government accepted, are both good as part of the programme to tackle tax avoidance. But again, this is a very timid and limited programme to tackle tax avoidance. On income tax relief for irrecoverable P2P loans—a small issue that pleased me greatly—if we are going to have challenges to the major banks, as surely we must, we have to make sure that issues like that are put on a level playing field.

However, there are serious problems and omissions in the Bill. First, it was predicated on a fiscal mandate that made no sense from the beginning: creating an overall budget surplus by 2019-20, and not just in the current account. You can argue about the date but quite frankly, the way it was defined, not as a surplus in the current account but including investment spending, was always daft. That target has had the impact of diminishing the Government's infrastructure ambitions. At a time when we need growth, that is not an acceptable way to treat investment spending, and is particularly misjudged, as other noble Lords have said, when borrowing is so cheap. We debated that to some degree in my Private Member's Bill on Friday. The Minister today will be aware, although I am sure that he will not admit it, of our lack of ambition in housing, broadband, energy—especially renewables—hospitals, schools and even transport outside London. Today some noble Lords have criticised HS2. I remain a backer of HS2, because quite frankly the Indian system of strapping people to the roofs of trains is not acceptable. I do not know how you will deal with the number of people trying to travel north out of London without a new line, and HS2 is the answer.

The Bill cuts corporate tax rates. The Government cannot make a coherent argument for such cuts, especially when they are financed by welfare cuts to poor working families, disabled people and young people. We already have among the lowest corporate tax rates in the OECD. However, it has evidently done us absolutely no good in persuading businesses to invest in new projects or in R&D: both are already at exceptionally low levels and major companies are sitting on a mountain of cash. Further cuts in corporate tax rates may please business but we have already learned that they will not motivate it. A race to the bottom in corporate tax rates is not a wise move for any major economy. It simply becomes beggar-my-neighbour.

Despite toughening the tax anti-avoidance rules in line with BEPS, which I totally support, it still looks as if the online giants will have plenty of scope in the UK to limit their tax payments. Action on tax avoidance is timid in the Bill, which still focuses on abuse, leaving plenty of grey areas where many companies stake out their tax minimisation strategy. I look forward to the debate in the House we will have later tonight which addresses that issue. As Liberal Democrats, we have commissioned Vince Cable and a panel of experts to look at business tax as a whole. The annual exercise of trying to catch the loopholes has become a nonsense. We need a new framework for business tax that recognises that value has shifted from hard assets to intellectual property, from local to global, and from employees to what is optimistically called the shared economy, in which the workforce carries the risk.

As for the cut in capital gains tax, which the Minister presented as such a positive, in the coalition years we raised capital gains tax to be close to income tax, which is a genuinely sound principle. Frankly, how the Government could think of cutting capital gains tax at a time like this, when so many people are still feeling austerity, is beyond me. It shows this ongoing focus on people who are much better off rather than on ordinary people.

In closing I challenge the Government on just three narrow but important issues. The first is to join the noble Lord, Lord Hollick, in calling for much more support for small businesses to go digital in their tax filings; and to be absolutely certain that they stand by their commitment to make quarterly tax reporting voluntary and not mandatory, which is an impossible burden for many small businesses.

The apprenticeship levy—essentially a payroll tax—is structured in such a way that an employee share ownership company pays more levy than a conventional company because of the way the dividend exclusion is defined. That is wrong; we need to embrace and encourage those shared ownership and mutual companies, which should not be deliberately disadvantaged.

Young people have received numerous blows from Conservative Budgets. In this Bill they are hard-hit again by the hike in tax on insurance premiums, because young people pay—I often suspect unfairly—higher insurance premiums for just about every insurance product. The Government did not think this through and acted as if they were not aware of it. They need to remedy this rapidly.

The Bill may soon become an Act, but shortly after that it really will be forgotten. I hope that the Government will take on board what has been discussed in this debate; it has brought up a wide range of general issues, including intergenerational fairness and the oncoming impact of artificial intelligence and machine learning, which will completely change job structures in the next five or more years. There are so many issues to be looked at and this is a great opportunity to do so. I hope that the Government, before they get to the Autumn Statement, will allow this House and the other place to engage in a much broader debate on many of the issues that were raised today.

5.20 pm

Lord Davies of Oldham (Lab): My Lords, it can sometimes seem a little lonely for a Minister addressing the House on issues such as the Finance Bill and the Budget. He sees before him a significant number of Members of the Opposition, some of whom have had experience in high office, including my noble friend Lord Darling as Chancellor, but he may not have too much support behind him. It was interesting today to see that the Minister had no support behind him: there has not been a single speaker from his Benches. Of course the House is reasonably full, reflecting the importance of this debate and the issues—

Lord Forsyth of Drumlean (Con): It is true that there have been no Conservative speakers, but that is because those in the Conservative Party are really enthusiastic about their leader, who addressed them at the start of this debate.

Lord Davies of Oldham: My Lords, that is a convenient excuse. I have no doubt that it is important to prioritise attending such meetings. However, the noble Lord will also recognise that a prime duty of Members of this House is to attend debates and actually engage in them, particularly in circumstances where the Opposition will have some trenchant things to say about the main subject of the debate. But there have been no speakers from the Minister's Benches. That may also be a reflection of the fact that the Government Benches have largely decided that the last Budget is wholly irrelevant to our present situation.

Several noble Lords have made that point quite explicitly. Even the noble Baroness, Lady Kramer, indicated that she had difficulty seeing the significance of the Finance Bill, which now belongs to the past and which was introduced by a previous Chancellor—a Chancellor who conspicuously failed in the significant tests that, had he been providing any supervision of the economy, he ought to have met. The deficit was postponed from 2015 to a putative surplus in 2019 and 2020. Growth, which he put forward in 2010, fell considerably below his optimistic forecasts. He even failed to match the growth levels that my noble friend Lord Darling presided over when he was Chancellor. Living standards for a very substantial section of our population have fallen. There have been no pay increases since 2010 and inflation has taken its toll. I imagine that, at this stage, members of the governing party are happy to see the back of the Finance Bill and its objectives.

Nevertheless, we have to recognise one absolutely critical aspect of the Finance Bill and I want to itemise that. The Government emphasised that cuts in corporation tax and capital gains tax would help investment in the

[LORD DAVIES OF OLDHAM]

economy and help to boost British industry and enterprise, but there was never a reference to any deleterious effects. This is a manifestly unfair Finance Bill. It is asking ordinary people to sustain the cost of cutbacks in crucial areas of government expenditure while tax breaks are given to those among the wealthiest in our society.

We are critical of the Bill. We were critical of it in the other place and we are critical of its general propositions here. But of course the debate has moved on in several respects. This House had the benefit of a report introduced today by the chair of the Economic Affairs Committee, my noble friend Lord Hollick, who emphasised the fact that the Government had discreet weaknesses in their position over the subject of that report. We can all see the advantages to the taxation system of modernising the receipt of taxes, but the digital economy clearly presents enormous challenges for ordinary people. It is not the case that everyone in this country is completely au fait with how the digital economy is meant to work and who have the confidence to respond in those terms. But there is no indication that the Government have any real awareness of that. In the report that my noble friend commented on, that point was emphasised.

The report also emphasised that the Government pay lip service to the concept of tax simplification. It says positive things about the Office of Tax Simplification, but not what the committee emphasised, which was any suggestion of adequate resources for that office to be able to carry out its role. We recognise that the Government have some regard for the Office of Tax Simplification. They certainly accepted amendments to place greater emphasis on the role of the Treasury Select Committee in the other place with regard to personnel. But the fundamental point remains that the report sought greater resources for the Office of Tax Simplification. It wanted much more consideration of the way in which the ordinary taxpayer will respond to the digital revolution and it wanted greater consultation about the development of tax law so that matters should be simpler for the ordinary taxpayer. I hope that the Minister will address those points because they are an important part of this debate so ably introduced by my noble friend Lord Hollick.

The Minister also needs to respond to points made by my noble friends Lord Darling and Lord Hain. They emphasised the extent to which it is essential for the Government to change their order of priorities and develop a strategy for growth that enables us to improve what I know the Minister is concerned about—levels of productivity. They will not increase while we are trailing at low levels of growth. It is important for the Minister to respond to the fundamental issue that for the last six years we have had a great weakness in the British economy that no amount of concentration on reduction of debt has done anything greatly to assuage. That is why the Minister needs to respond to these crucial issues raised in the debate.

Noble Lords who subsequently followed my noble friends largely regarded the issues of the Finance Bill as passé and not part of the crucial issues of the debate about our economy at the present time.

Of course, we have moved into the fog of Brexit. We are grateful to the noble Lord, Lord Kerr, who sought clarification on some of the issues, the first of which is an indication of the timescale for when certain aspects will need to be negotiated. I have seen nothing from the Government that remotely approaches anything as definitive as that. Nor have I seen any recognition on the part of the Government of the point made by the noble Lord, Lord Kerr, when he said that it is important that those who are involved in determining our negotiations with the European community should acknowledge that this is an entirely capitalist economy. It is an exercise in which they will expect to get the best deals they can for themselves as much as we will strive to do on behalf of our people. That is a tough agenda, but I have seen nothing yet to show that the Government are facing up to it, particularly when one of the key figures of Brexit, the Secretary of State Liam Fox, attacks British industry for being more interested in playing golf than improving its business record.

These are serious issues which the Government need to take hold of very rapidly indeed, yet thus far we have had nothing but evasion when challenges are presented, and indeed they have been presented today with great force in this House. We all recognise the primacy of the other place when it comes to financial issues, but occasionally we are given the chance to debate the nature of the challenges in our economy. Consideration of the Finance Bill gives us no chance to amend or challenge it because that is the responsibility of the elected House, but as I say, we have a chance to comment on the economy and to point the way forward to a more constructive position than what obtains at the moment.

What we have now is obvious. We have economic failure on the part of the Government in previous years now allied to a decision by the British people to throw a great deal of our trading position into hazard. It is important that the Government should take every opportunity to clarify how they are going to go about the Brexit process. That does not mean that they should give away their negotiating position, but they should reassure people that they understand what the approach will be and how long it will take. Thus far, we have had nothing.

5.33 pm

Lord O'Neill of Gatley: My Lords, not for the first time when discussing these matters, we have had an extremely interesting debate which has been conducted in a sporting manner with a number of noble Lords also providing us with great humour. I thank all noble Lords for their excellent and insightful contributions. I was going to start by highlighting the concern of the noble Lord, Lord Desai, for my well-being as a result of the situation behind me, but my noble friend Lord Forsyth came to the rescue and explained the competition that I was facing today, so I do not need to do so.

I apologise in advance because, as is always the case, I will not be able to respond to the considerable diversity of topics which have been raised, but I will try my hardest to do so. Debating the full sweep of a Finance Bill is pretty challenging, as is trying to respond to all the points that have been raised. I will try, as I often do, to answer by topic—I have highlighted eight which I will wade into shortly—rather than answering each noble Lord who offered specific remarks. Before I do so, I am particularly grateful to the noble Lord, Lord Hollick, and the members of his Finance Bill sub-committee for their substantial and insightful report on the draft Bill and, more broadly, for the superb work his committee does.

The first of the eight topics concerns the tax matters that the noble Lords, Lord Hollick, Lord Turnbull and Lord Kerr, and the noble Baroness, Lady Kramer, touched on probably more than most. Contrary to the flavour of some comments, the Office of Tax Simplification plays an important role in the tax policy-making process. Where its recommendations are taken forward, HMRC and HMT discuss them and their underlying rationale with the OTS and seek to involve it in developing their approach and some of the implementation. Many specific things were said by the noble Lords and the noble Baroness—particularly the noble Lords, Lord Kerr and Lord Hollick—but I do not really have the time to address those. However, the OTS is an important advisory body. I should highlight that we expanded the number of people supporting that important work. That remains the full intention.

Moving to some broader issues that virtually everybody talked about, the second topic is the economy. Obviously, there is my own background: as everybody knows, I have been immersed in the never-ending challenges of trying to guess where any economy is going—at that moment in time as well as in the future. It is fair to say that at this exact moment, so far, the evidence of economic performance has been a little better than one might have expected. As a number of noble Lords pointed out, it may be far too premature to make too permanent a judgment on that. The noble Lord, Lord Darling, highlighted his directorship with Morgan Stanley, and I cannot resist saying that it and my own previous organisation are among the few that revised upwards their forecasts for the UK economy in the past couple of weeks. Of course, as always, we do not really know why there was such an apparently robust rebound in many indicators in August; we have no idea whether those will remain. Many noble Lords outlined all the various reasons why that would not necessarily be the case, but that is the situation, certainly in the near term, and I would not be overly surprised if a number of other independent organisations also adopted a slightly less negative tone.

Linked to the many interesting ideas about fiscal policy and the framework going forward—I listened carefully and took note of virtually all those ideas—among those who, as always but particularly in this environment, will have to think carefully is the OBR. The noble Lord, Lord Darling, did not have to live with the structure we were presented with in the OBR. Its assessment of the short and particularly the medium-term consequences of Brexit and, in parallel, of long-term productivity will have, as always, a significant bearing on the circumstances in which the Chancellor will be able to make his Autumn Statement.

I turn to my fourth topic: the fiscal policy framework and debts, on which a considerable number of comments were made and advice was given. Of course, due to the extraordinary and ongoing low levels of bond yields here and elsewhere in the world, it is always tempting to undertake whatever form of infrastructure spending one might think of, be it big projects, small projects or otherwise. But one also has to think carefully about what sort of infrastructure spending is going to give cyclical boosts and what might give a more permanent boost to productivity.

I still do not have the answer to this and I have not been persuaded by others. We do not entirely know, even if the data were accurate—notwithstanding the very important comments of the noble Lord, Lord Desai—quite why productivity is apparently weak here and in many other parts of the world. But it is not entirely impossible that one consequence might be that the private sector is worried about the very large levels of public sector debt in many developed countries, and at some point there may be considerably higher taxes as a consequence of that—who knows?

I will come on to this more specifically in a moment but as we have seen from the comments of both the Prime Minister and the Chancellor about the fiscal policy framework, one should be careful of anything that seems like a free lunch. The example of Japan is often discussed by continental European economies and many others—the indirect effect on productivity of the overhang of a long-term problem of high debt should not be dismissed entirely.

When it comes to the specific infrastructure goals, as I have said, both the Chancellor and the Prime Minister have made it reasonably clear that they see some scope for different ways of thinking about some of these issues. I suspect that in the Autumn Statement we will get a flavour of that. Obviously, given my own interests, I am heavily involved in trying to think through some of these things and how they may indeed help overall productivity and sustain growth, particularly with respect to some of our regional challenges.

I will touch quickly on two other issues before I sum up. A lot was said, not surprisingly, about trade and the single market. I am pretty sure that we will find out at the appropriate time—when the Prime Minister chooses—what our stance is on the single market and, indeed, many other complex related issues. We will all just have to be patient and wait for that to appear. But I would like to add something that reflects my own very considerable experience of thinking about international trade. As important as free trade deals are, one should not forget that the biggest drivers of trade between different countries and regions of the world are virtually always the levels and rates of change of domestic demand in one place relative to another. It is no surprise that the largest rates of growth of trade over the short, medium and long term are generally with those places that have the largest rates of domestic demand. That is not to diminish the scale of the challenge, but we should neither overly exaggerate nor ignore other factors that are very important for international trade.

I will briefly comment on sterling and monetary policy, which many people referred to. I am sure I do not need to remind your Lordships, but in so far as the Bank of England is given a mandate to achieve an inflation target, it is its independent role to choose what it does on monetary policy. Of course, it has to

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give some kind of consideration to fiscal policy, but it is its job to do what it thinks is right to achieve an inflation target of 2% over the medium term, unless that mandate is changed. Of course, the Government do not have a stance on sterling because we do not have a policy on it. It is typically a consequence of many factors, including particularly the policies that the Bank of England chooses.

Lastly, on productivity, I always welcome picking up on the experience and wisdom in our debates. There may continue to be considerable problems with measuring productivity; the noble Lord, Lord Desai, emphasised this and a couple of others touched on it. I do not have the time to go into this issue today, but considerable problems remain here and in many other places around the developed world in this regard. Notwithstanding the fact that we have seen a reasonably significant decline in the pound—when people talk about the scale of the decline, that is from where the pound was trading at midnight on the day of the referendum to where it is today; compared to where it was trading in the preceding weeks, the decline is not quite as big as people often say—it is important to look at a range of broader financial indicators. Interestingly, then, there are no signs that the financial markets seem to believe or be concerned that the UK's productivity performance is as weak as the data appear to show, relative to the rest of the G7 countries. That could of course change within one minute of my saying that, but it continues to be the case and has been for many years.

That said, it may well be that, as important as productivity is, it should not be a goal in itself. A couple of noble Lords made some very interesting comments about this; again, the noble Lord, Lord Desai, highlighted this point. One thing that sometimes gets overlooked is that our productivity performance may seem as weak as the indicators show partly, if not largely, because of the remarkable flexibility that has come about in our labour market. It should not be forgotten—I have mentioned this before in debates—that the big surprise going back over the past six years is just how much job creation has occurred in this country. The way productivity is calculated perhaps explains in part why our productivity rates seem so weak. The way to deal with that, as a couple of your Lordships hinted at, is to act directly to make the labour market less flexible. However, there would of course be a consequence from doing that.

Let me quickly come to a close because I know that some of your Lordships are awaiting a further debate. I thank all noble Lords again for the quality of the debate, and the ideas and food for thought that many have provided in a number of areas. Despite what a couple of people said, I believe that, in time, we will be able to look back on the central measures in the Bill with some confidence, as being widely beneficial to helping sustain our economic performance, and allowing people and households to see that benefit. In that regard, I commend the Bill to the House.

Bill read a second time. Committee negatived. Standing Order 46 having been dispensed with, the Bill was read a third time, and passed.

Draft Finance Bill 2016 (EAC Report)

Motion to Take Note

5.49 pm

Moved by ***Lord Hollick***

That this House takes note of the Report from the Economic Affairs Committee, *The Draft Finance Bill 2016* (2nd Report, Session 2015–16, HL Paper 108).

Motion agreed.

Welfare Reform and Work (Northern Ireland) Order 2016

Motion to Approve

5.50 pm

Moved by ***Lord Freud***

That the draft Order laid before the House on 6 July be approved.

The Minister of State, Department for Work and Pensions (Lord Freud) (Con): My Lords, the order will ensure that the welfare reforms enabled by the Welfare Reform and Work Act 2016 in Great Britain are delivered in Northern Ireland, while also ensuring that the Northern Ireland Executive have a workable budget. This order is an important part of delivering the fresh start agreement and enables the Northern Ireland Executive to provide for supplementary welfare payments from within their own budget.

Before I turn to the specifics of the order, I remind the House of why we are implementing welfare reform in Northern Ireland. This order marks an essential step towards bringing Northern Ireland social security back into parity with the rest of the UK, as agreed in the fresh start agreement last year. Before that agreement, the impasse on agreeing the implementation of welfare reform meant that the Northern Ireland Executive had been operating on an unworkable budget. This had created significant political instability, and it risked collapsing the devolution settlement. This order brings changes which will help to ensure that the budget of the Northern Ireland Executive is placed on a stable footing.

This Government's goals for Northern Ireland are clear. We want to work with the Northern Ireland Executive to support a Northern Ireland where politics works, and a Northern Ireland with a stronger economy and a stronger, secure and united society. It was in the light of these goals that the Government agreed to legislate on behalf of the Northern Ireland Executive to enable the welfare reform changes in the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016, such as the introduction of universal credit, personal independence payment and the benefit cap. This formed an integral part of the fresh start agreement in November last year.

To make the changes set out in the 2012 and 2016 Acts a reality in Northern Ireland, UK government and Northern Ireland executive officials have worked closely together on the legislation required. The Welfare Reform (Northern Ireland) Order, passed in December last year, has enabled the making of more than 30 sets of regulations, replicating in Northern Ireland welfare reforms from the 2012 Act.

The order before the House today is the next step in that process. It has been drafted with the full consent and collaboration of the Northern Ireland Executive to bring social security in Northern Ireland back to a position of parity, thereby helping to rebalance and strengthen the finances of the Executive.

Allow me to remind the House of why we have been reforming welfare in Great Britain and Northern Ireland since 2010. Our welfare reforms are focused on supporting people to find and keep work, with a focus on employment, fairness and affordability while supporting the vulnerable and making sure people on benefits face the same choices as those who are not on benefits and are in work. We believe that more people should have access to the dignity of a job and all the wider advantages that come with employment.

Over the past six years we have stuck to our economic plan, delivered welfare reform and seen great progress: employment is up by more than 2 million; there are more than 680,000 fewer workless households, a record low; there are 2.3 million more apprenticeships; and the number of people claiming the main out-of-work benefits has fallen by 1 million.

Helping people's life chances is a central part of this Government's plans. By raising tax thresholds, we are helping to take the poorest out of income tax. In Northern Ireland, this will mean that 110,000 of the lowest-paid will be taken out of tax altogether and 700,000 people will benefit from reduced taxes. It is projected that, with the new national living wage, 100,000 people in Northern Ireland will be taking home more money by 2020. The new rate of £7.20 will mean a £900 increase in the annual earnings of a full-time worker. The Government's support to working people goes hand in hand with their welfare reform programme by encouraging people into work. Increases to the minimum wage and the national living wage and changes to income tax mean that people can take home more money.

We have also invested in Northern Ireland. The Stormont House and fresh start agreements include financial packages of £2.5 billion to support investment and reform. This includes £350 million of additional capital borrowing explicitly for economic development projects.

By working together, the Government and the Executive have achieved significant success from the economic pact, including bringing £60 million in additional finance to Northern Ireland businesses, providing additional borrowing for shared education projects and boosting green investment by £70 million.

Alongside strengthening our economy, welfare reform is helping people out of dependency and into work. In Northern Ireland, there have been improvements in the labour market, with 55,000 more people in employment since 2010. The Welfare Reform (Northern Ireland) Order 2015 introduced changes to social security, but there is still much more to be done: the most recent Northern Ireland unemployment rate, at 5.9%, is above the overall UK average rate of 4.9% and is the third-highest rate among the 12 UK regions; the long-term unemployment rate of 48.3% is markedly higher than the UK average of 27.6%; and 22% of working-age households in Northern Ireland are workless, compared to 15% in the UK.

Lord Kirkwood of Kirkhope (LD): The Minister is right to point to the differences that apply in the different jurisdictions throughout the United Kingdom, but would he agree with me that the excellent work that Professor Eileen Evason did in identifying the mitigating factors has helped bring forward this set of proposals, with which I agree? After a four-year period, taking this together with what is happening in other parts of the United Kingdom such as Scotland, it should be possible for the DWP centrally to look at best practice and at whether some of these mitigating measures are having a beneficial effect that could be applied in other parts of the country.

Lord Freud: The DWP has embedded a "test and learn" approach, and really does look at things. Clearly, where you have different strategies in the different countries of the United Kingdom, one can look at what differential impact those policies have had. I am sure that the DWP will take the opportunity to assess that.

The Welfare Reform and Work Act built on the 2012 reforms. This order provides the legislative framework to replicate some of the most important aspects, with changes such as improving fairness in the welfare system by changing the benefit cap level. This order will bring the level of the benefit cap in Northern Ireland alongside that in Great Britain, ensuring parity, through changes such as providing new funding for additional support to help ESA and UC claimants with health conditions and disabilities into work, as well as reforming the ESA work-related activity component, so that the right support and the right incentives are in place for those capable of taking steps back to work. Then there are changes such as correcting the unsustainable rise in benefits compared to earnings by freezing most working-age benefits. Importantly, these changes will help to ensure that the budget of the Northern Ireland Executive is placed on a stable footing.

It was agreed in the fresh start agreement that the Executive could supplement benefits from within their own budget. The agreement allocated up to £585 million of the Executive's block grant over four years to provide supplementary welfare payments in Northern Ireland, which would be reviewed in three years. Under the 2015 order, the Assembly has already passed some regulations for supplementary welfare payments relating to the 2012 reforms. The provisions of this order will give the Assembly the ability to design and pass further such regulations, including a cost-of-work allowance, and supplementary payments to those affected by the removal of the spare room subsidy. These time-limited payments follow the recommendations of the Evason report, which flowed from a commitment in the fresh start agreement.

This order is about delivering the fresh start agreement and returning Northern Ireland to a position of legislative parity and financial stability. It is about supporting hard work and creating the right incentives for people to find work and create a self-sufficient life, supported by but independent from the state. It is about making sure that spending on welfare is sustainable and fair to the taxpayer, while protecting the most vulnerable. Building an economy based on higher pay, lower taxes and lower welfare is right for the UK, and right for Northern Ireland. I beg to move.

6 pm

Lord McAvoy (Lab): My Lords, first I want to place on record our genuine appreciation of the steps taken by the Minister to inform the Official Opposition of each step as it was taken along the way in implementing the order. He went to great lengths—probably more lengths than was required, but it is always appreciated. The many details that he has given us about welfare reform today and in his letter to my noble friend Lady Sherlock do not entirely resonate with us, but we take the point of view that the overriding priority was and is the political situation in Northern Ireland, and therefore we will not stand in the way of the order.

The point has been made before by a number of people in discussing the legislation, and the whole Northern Ireland situation, that credit must be given to Members of Parliament on all sides of the House of Commons for agreeing to this statutory instrument. They could be open to accusations that they were supporting a better deal for Northern Ireland than their own people were getting. We could argue back and forth about that but, again, the overriding principle that we are pursuing is a duty of care to the whole of Northern Ireland to facilitate agreement and the political situation coming together.

On this 100th anniversary of the Battle of the Somme and other battles in the First World War, where many people from the island of Ireland from both the loyalist and nationalist communities paid with their lives to support their overall country, Britain and the United Kingdom, in the war against the Germans at that time, can we put a price on that? Many parts of the country suffered terrible losses, such as the north-east—I am not going to start naming them all because I will miss out one area that paid a terrible price in Europe fighting for freedom. We owe a duty of care to the people of the island of Ireland as well as Northern Ireland. One of my own family members, my grandmother's brother, Joseph Martin of the Martin family of Irvinestown in County Fermanagh, is buried in the military graveyard in Arras in France. He fought with the Royal Inniskilling Fusiliers. I well remember the stories that my grandmother told me about her brother.

It has been a rocky and difficult road in Northern Ireland and there is still a long way to go. The solution offered in the fresh start programme and the negotiations were and are justified. It shows that the rest of the UK is anxious to maintain the state of peace in Northern Ireland. I know full well that I and the Labour Party may be criticised for not standing in the way of this order, but we take the bigger picture that the people of Northern Ireland deserve support in their struggles to come to a conclusion so that both communities in Northern Ireland can work better together.

Once again, I thank the Minister, the noble Lord, Lord Freud, for his terrific information and points of view put to us in various correspondence. I indicate that we will not in any way oppose the order.

Lord Freud: My Lords, perhaps I may say how much I appreciate what the noble Lord, Lord McAvoy, said. One thing he said that really gets to the heart of this is that the people of Northern Ireland deserve our support. That is felt across the Benches and around the Chamber; we all feel that. We have gone through an unusual procedure, but the fresh start agreement has taken Northern Ireland from a long impasse. I happen to have been deeply involved in the process right from the beginning, years ago, talking to all the different parties in Northern Ireland, and I know exactly how difficult it has been for them.

The statutory instrument has the support of the Northern Ireland Assembly. It does not diminish the devolution settlement. It supports the future financial and political stability of Northern Ireland. The response from the noble Lord, Lord McAvoy, and the mood of the Chamber indicates that we want to give that support to Northern Ireland. Therefore, without more ado, I commend the Motion.

Motion agreed.

Tax: Avoidance and Evasion

Question for Short Debate

6.06 pm

*Asked by **Lord Leigh of Hurley***

To ask Her Majesty's Government what steps they are taking to mitigate tax avoidance and eliminate tax evasion in the United Kingdom.

Lord Leigh of Hurley (Con): My Lords, I am grateful to have the opportunity to debate this topic here. As is customary, I declare my interests. First, more than 30 years ago, to my amazement and that of many others, I qualified as an associate of the Chartered Institute of Taxation, and remain a somewhat passive member. Secondly, I am sure I pay my fair share of tax. I believe that all in your Lordships' House also pay their fair share, as I am told that, before being elevated to the peerage, HMRC gives a nod to the powers that be that we are up to date in our tax affairs. Personally, I am delighted that this task is undertaken by HMRC, and it sets the tone for this debate, which is predicated on my belief that all of us in this House are keen to see greater fairness in the tax system.

One reason for my interest in this area stems from my late father showing me his personal tax computations in the early 1970s which, thanks to one relatively modest property transaction, had him paying tax at some 92%. It really shocked me. In 1976, when the Government were forced to seek a bailout—of $17 billion in today's money—from the IMF, corporation tax stood at 52%, or more than half of a company's profits.

Two things have happened since then. First, capital has become infinitely more mobile. Companies and people based here do not have to stay here. Secondly, the idea that the Government are not always the best actor when it comes to spending money has become mainstream. Business is recognised as a more effective driver of sustainable economic growth, and there is general global recognition that lower tax is essential for that.

I know that not all in this House share my view on taxation, which is that it needs to be simple, fair and as low as possible, but those of us who do have a duty to make the regime more effective. This means that when rates are set low, they must be paid in full, and when laws are set to ensure compliance, they must be observed in spirit as well as letter. Failure to achieve this leaves business and the whole free-market capitalist system at threat from an increasingly cynical public who have genuine cause for concern. In a way that few anticipated, mobile capital has led not only to tax competition between nations but to widespread avoidance and abuse by businesses operating in multiple jurisdictions. Those of us who want to defend low taxes must address ourselves to this.

In 2015-16, corporation tax brought in £44.1 billion, the fourth largest contributor to the Exchequer. This was after the Government had reduced the corporation tax rate from 28% in 2010 to 20% in that year. This was to be welcomed, but only if—to use the common vernacular—20% means 20%. Economic activity carried out in the UK must be taxed accordingly.

In a global economy, making tax fit for purpose means sound policy at home and leadership abroad. From this Government we have seen both, but I would like to highlight some areas where we have been successful and, in turn, where more work is required. At home we have seen much progress. For example, private equity has a system of remuneration from which the rest of the financial services sector could learn much. However, there was no material reason why carried interest was taxed as capital and not as income, and this has now been rectified. Similarly, on interest deductibility, it is a sound principle that companies can deduct interest payments from their tax bill as a business expense, but not when it leads to abusive structures. Interest deductions are now capped at 30%—a middle way that should allow legitimate deductions to continue without unduly increasing the cost of capital. The days of a private equity executive paying less tax than their cleaner are hopefully behind us.

The previous Parliament also saw the introduction of the general anti-avoidance rule, or GAAR. Before its introduction, the so-called targeted approach was simply encouraging tax advisers to concoct ever more nefarious schemes that flagrantly violated the intended spirit of our tax legislation, while hewing just close enough to its letter to be technically compliant. The GAAR means that, irrespective of the letter of the law, companies should concentrate their innovative energy on their business rather than their tax planning. I understand that HMRC is considering applying a GAAR more generally. This too is to be welcomed.

When I started my somewhat short-lived career as a tax adviser, the idea of any immorality in avoiding tax would have been risible. However, these days responsible corporations have to consider seriously how far they should go. One very senior executive of a global bank told me that they look at their tax liability and do not let it fall below around 29%, so that they are in step with their peers. He explained that they felt they could easily concoct schemes to reduce the rate but had decided that this was not in their long-term interests as a respected institution. Regretfully, others clearly had no such concerns, and some international conglomerates have essentially ducked and dived their way around international tax treaties and devised complex transfer pricing agreements to negate any tax liability in certain jurisdictions.

It is now clear that the general public will not tolerate this. I was amazed, and perhaps a little proud, to see protests in Boots by people objecting to its aggressive tax planning. One solution suggested is a corporate tax based on revenues not profits. It sounds good, but some organisations have very different types of revenue, often computing a meaningless headline number. It has to be remembered that many invest heavily in the UK, knowing full well that they will not make profits for very many years. Should they pay taxes for this when it is clear that they are genuinely not making profits here?

What are the alternatives? Our former Prime Minister used his leadership of the G20 to put global tax avoidance on the diplomatic map. This led directly to the commission of the base erosion and profit shifting—BEPS—work from the OECD, and in October 2015 the endorsement of 15 proposed action points by the G20 Finance Ministers. The focus has been rightly on transfer pricing rules which, as it happens, was the subject of my maiden speech in 2013, so I am pleased to say that it is a subject on which the Government have acted—noting, for example, the profits diversion tax.

However, the G20 process is not binding. It relies on individual countries showing leadership at home to enact real reform. The Finance Bill will update the UK's own transfer pricing rules to match those agreed at the G20. However, it is clear that more work at the OECD and elsewhere is required to prevent even those updated rules from being abused. Instinctively, I like the Government's new approach to apply the GAAR where it is clear that a multinational is simply using devices, such as offshore debt instruments, to reduce tax. Where actual tax is paid—I am not talking about the amounts in the accounts, which include things like deferred tax—but cash paid is less than 20% of profit, they should be allowed to consider whether a corporation should be required to pay more.

I hope that it is appreciated how radical this idea really is. This House and the other place have for centuries operated on the principle that taxpayers have certainty and pay only the minimum amount that the law dictates. But as the learned judge Lord Denning said,

> "The avoidance of tax may be lawful, but it is not yet a virtue".

We will need to see more virtuous behaviour if we are to avoid applying rigorous GAAR, which some will argue is retrospective tax, the idea of which could send some in this House, and libertarians, into apoplexy. There will be great resistance; government has to take a lead on it, and corporations will have to act responsibly.

Lastly, we must do more to tackle VAT evasion, particularly when international businesses are gaining an unfair advantage over UK businesses. The issue at hand is international businesses on Amazon and elsewhere selling goods on the internet without accounting for VAT. As highlighted in this Chamber by my noble friend Lord Lucas, of Crudwell and Dingwall, that is illegal evasion and we must take action.

In short, we are on the right track. Global tax avoidance is still ahead of any plan to tackle it, but tackle it we must. Capitalism and the free market is a model that is often harder to defend than one based

[Lord Leigh of Hurley]
on higher taxes and higher public spending, but defending it will become next to impossible if we do not come together—businesses and Governments alike—and enact meaningful and lasting reform. It is that reform that we should set our minds to now—Government, Opposition and responsible business.

6.16 pm

Lord Tugendhat (Con): My Lords, I begin by congratulating my noble friend on his constructive and imaginative suggestions. One great virtue of the House of Lords is that it brings to bear expert opinion on a variety of complex subjects. The speech that we have just heard by my noble friend is a very good example of what somebody who has spent a lifetime in a particular field can bring to the legislative process. I look forward to hearing what my noble friend the Minister has to say in response.

I cannot resist pointing out that in this discussion about what steps the Government are taking to mitigate tax avoidance and eliminate tax evasion in the United Kingdom, not a single Back-Bencher in the Labour Party or the Liberal Democrats has chosen to contribute. It is only Conservative speakers—apart from the Front-Benchers, of course—who have anything to say on that subject. That is something worthy of note.

Baroness Kramer (LD): I point out to the noble Lord that we have just had a debate on the Finance Bill in which not a single Conservative Back-Bencher spoke. I suggest that he is a little more careful when he decides that finger-pointing is appropriate.

Lord Tugendhat: That is a very good riposte, on which I congratulate the noble Baroness, but the two subjects are quite different. My point simply is that we have this very interesting subject for debate, and her colleagues—and she has a great many of them; the Liberal Democrat Party is absurdly overrepresented—do not seem to find it of particular interest. That was my only point, but I accept her earlier criticism.

From a Conservative point of view, we feel that if the Prime Minister's comments and undertakings about creating a society fairer for all are to carry conviction, it is very important that the issue of tax evasion and tax avoidance should receive a very high priority. It is something on which the last Prime Minister and the previous Chancellor of the Exchequer had strong words to say, but not enough action was taken—and I hope very much that in the May Government we will see more action more quickly on this front.

The introduction of a criminal offence for firms which do not stop staff facilitating tax evasion will certainly be a good place to start. Evasion can arise not just because a company wishes to evade tax but also because executives want to earn bonuses. Their bosses see the beneficial result of their imaginative actions and do not look too closely at what is happening, with the result that the company's tax burden is reduced without anybody having taken responsibility at the highest level. The aim must be to deter not just companies but also individual executives from seeking to evade tax or avoid it beyond a reasonable level, as my noble friend was discussing.

The House will be aware of the charges currently being brought against former senior Tesco executives for fraud by abuse of position and false accounting. It is very hard for the authorities to go for Tesco itself unless the former CEO himself is charged. Will the Minister say what the position would be in an analogous case involving tax evasion, so far as the Government's plans are concerned? Once those plans have been published, would individual executives find themselves at risk, as well as a company?

I have another question for the Minister. Will he give us an indication of the Government's view of the European Commission's demand that Apple should repay the Irish Government some €13 billion in uncollected taxes? I know that the Commission's action raises many delicate issues of international law and state aid, as well as tax. I am also aware that the Government may well be reluctant to take up a position or intervene in an issue that involves the European Commission on the one hand and the Irish Government on the other. However, whatever else the Commission's action does, it shows how a large multinational corporation can set up arrangements that enable it to avoid paying vast sums of tax. I say, "avoid", because there was nothing illegal in Ireland about what Apple was doing. It is the Commission which is challenging it on the grounds of state aid, rather than tax.

Apple is, of course, only one of a great many companies that have shown similar imagination, not just in Ireland but elsewhere. The Commission's move may or may not be the best way of tackling this problem; I am not an expert and I have no idea whether it is or not. However, I applaud the Commission because, whether or not it is the best way, it does actually seek to tackle a long-standing scandal that Governments, including our own, have so far evaded. The Commission has, as it were, thrown the ball into the line-out and it is now for Governments to determine how best to handle it. It is very important that we get an idea of what the British Government's view on this matter is. The Commission has also demonstrated that there comes a point at which evasion and avoidance become virtually indistinguishable. The line between them has become so blurred because there does not seem to be any liability on the part of Apple to pay tax anywhere at all.

Finally, I point out that, whether or not we are in the European Union, this is a problem that can only be tackled by Governments on a co-ordinated basis. The United States is not going to lead on this issue because its own multinational companies can bring pressure to bear in Washington, as Apple has very effectively demonstrated and as the American Government's response to the Commission's actions shows. Therefore, in the countries where multinational companies operate, only the EU can effectively challenge these companies. The individual member states—or individual states, as we will not be a member for much longer—do not have the clout to do so. I hope the Minister can assure the House that, as we negotiate our way out of the European Union, this is an issue on which we will work as closely as possible with the EU institutions and other member states. It is in our national interest to do so and it will be a test of whether we put our national interest or dogma first.

6.25 pm

Lord Borwick (Con): My Lords, I thank my noble friend for calling this important debate. His timing is, as always, impeccable. That we should debate this subject when we have just passed the Finance Bill is a remarkable coincidence.

I thought I would start to research for this debate by reading the Finance Bill—I am known as an unhinged optimist on these Benches. Here it is—all 644 pages of it, and unnumbered pages of notes. I must confess that I did not get the whole way through it. To me, that is part of a bigger and extremely serious problem—our Houses pass new, complicated legislation every single year in the Finance Bill, yet we do not fully understand what is in it, let alone what impact it will have on millions of families and businesses. That is because it is too difficult to fully understand, and it gets more and more complex each year. This is despite every Chancellor in memory pledging to make taxes simpler and fairer.

The length of the Finance Acts from 1965 to 1990 rarely topped 200 pages; in fact, they only twice surpassed this benchmark. Since then, the length of the Finance Act has soared. The 1990s saw it touch 500 pages on a few occasions, and in the 2000s it passed the 600-page mark twice. However, it has been well over 600 pages every single year since 2012, except for the election year of 2015. This recent and exponential growth in the length of the Finance Act has occurred even after the creation of the Office of Tax Simplification. This body was set up with good intentions, and I held out a lot of hope for it. No doubt its staff work hard and do wish to simplify taxes. However, it is disappointing that taxes are not being simplified—quite the opposite. Have we simplified taxes as a result of this year's Finance Bill? The Office of Tax Simplification has published interesting work on aligning national insurance and income tax, for instance, but no real action has been taken on this issue. What we have heard less about from it, and the Government, is on reforming corporation taxes. After all, the subject of this debate is mitigating tax avoidance and eliminating evasion. At present, the popular villains in this debate are corporations. Corporation tax itself was concocted in the 1960s, when, for the large part, things were made in set locations, and sold to somebody specific. You could see where the value was added, the profit generated, so it was that bit easier to apply corporation tax. The world has changed somewhat, with different products being made and assets being less tangible. Therefore, to truly address these issues, I urge the Treasury to ask the Office of Tax Simplification to be bolder, then listen to what it has to say, with an intention to take action.

If I may make a humble suggestion to the Office of Tax Simplification, it would be to review the work done on abolishing corporation tax and replacing it with a tax on distributed profits. This would be a much simpler more effective way of taxing the activity of companies. It has been recommended by several organisations, most recently by the Institute of Economic Affairs. In a report released just last month, its researchers found that of all the ways to reform corporate taxes, a tax on the income distributed to company shareholders is the most desirable. Past work has been done on this by the 2020 Tax Commission, too, in its final report *The Single Income Tax*. Both reports conclude that this kind of reform would reduce incentives and opportunities for avoidance, and raise revenue in the most pro-growth way.

The last point is essential as we disentangle ourselves from the EU. It is crucial that our economy becomes more liberal and competitive. That can happen if we make corporate taxes simpler and fit for the modern economy. It is this kind of thinking that must now be taken on by civil servants and politicians in both Houses, because, if we want to mitigate avoidance and eliminate evasion, we need simpler, flatter taxes that do not take a tax accountant to understand them. The answer of simpler taxes addresses the two crucial questions of how to improve tax compliance and how to boost economic growth. It seems to be a win-win.

The previous Chancellor said that he was a low-tax Conservative. He even established a commission while in opposition to explore tax simplification and flattening taxes. Perhaps circumstances never allowed him to live out his dream. So now my right honourable friend in the other place, the Chancellor of the Exchequer, has the opportunity to change things for the better. He is a businessman and knows the fundamental waste of money involved in training inspectors to collect complex taxes and in training HMRC to keep up with the latest Budget wheezes. Instead of continuing with structures that drive corporations to order a "double Irish", he should seek to simplify taxes. He has the chance in the next Autumn Statement to be radical, and I trust that he will be.

6.31 pm

Lord Lupton (Con): My Lords, I congratulate my noble friend Lord Leigh of Hurley on again exposing to some healthy, fresh scrutiny the question of tax avoidance and evasion in the UK. First, I declare my interest as the European chairman of a financial services firm. We advise corporations—large and small, national and international—on their strategic moves. But we are not, and do not hold ourselves out to be, tax advisers. Despite that, I have noticed recently that our large clients are showing a willingness to engage in a private debate with us about the philosophy of international corporate taxation.

As a modern, centrist Conservative, I am encouraged by what I detect is a clear shift by the more forward-looking corporations from an ethos where legal tax avoidance and the minimisation of tax were a badge of honour to one which at least acknowledges that there are growing influences that may direct boards of companies to consider more carefully what all their stakeholders expect them to contribute to society.

My noble friend Lord Leigh of Hurley focused, with characteristic attention to detail, on some of the important changes made by the Government in the past six years. I will look at this canvas through a more wide-angle lens. Noble Lords will recall that in 2012 the Public Accounts Committee concluded its investigation into the tax affairs of Google, Amazon and Starbucks by saying that,

> "we were not convinced that their actions, in using the letter of tax laws both nationally and internationally to immorally minimise their tax obligations, are defensible".

[LORD LUPTON]

In so doing, the committee combined what I believe to be the increasingly complex conundrum of the law with the morality of tax. Since then, the European Commission, as my noble friend Lord Tugendhat said, has required Ireland to recover the staggering sum of $13 billion in additional taxes from Apple because of illegal state aid.

So what has happened in recent years to tackle the issue of overaggressive tax avoidance? First, let us look at what the Government have done. There has been an attempt to curtail the practice of transfer pricing from a high-tax regime to a low-tax or no-tax regime, governed by OECD guidance that states that,

"transactions between national parts of a multinational company should be priced for tax purposes as though with independent third parties".

This was well intended but, as the IFS said, there is no "observable market" between different parts of a multinational corporation, which has made it easier to shift profits to lower-tax jurisdictions.

Secondly, the controlled foreign company rules focus on "passive income" to prevent profits liable to UK tax being shifted to overseas tax havens. This leaves some leeway for continued avoidance. Thirdly, the interest deductibility limits now cap the deduction of interest and bite particularly on instruments that are debt in form but equity in substance. Fourthly, the general anti-avoidance rule introduced in 2013, to which my noble friend Lord Leigh referred, codifies some case law to prevent behaviour deemed to be abusive in intent, regardless of whether it is technically compliant in a narrow legal sense. Finally, the UK Government, through the G20 and the OECD, have shown real leadership in forcing this debate up the international agenda.

These steps are all admirable, but they are not enough. As a believer in our free-market capitalist system—where in principle, the less government interference, the better—I say that some of the slack needs to be taken up by the stakeholders in companies. Take the instance of Starbucks in 2012. It is in that instance very easy for customers to voice their displeasure with such a consumer company, which pursues what they believe to be overaggressive tax avoidance, by crossing the street to Costa Coffee for their daily shot. Costa is of course a subsidiary of Whitbread plc and so far as I know it pays a fair rate of tax. Indeed, Costa Coffee's turnover figures in late 2012 and 2013, as published by Whitbread, showed that this seemed to happen to a certain extent, consistent with a YouGov poll published in early 2013, which showed that Starbucks as a first choice for a cappuccino dropped from 23% before the tax row to 15% afterwards, while Costa's rose by an equivalent amount, from 32% to 39%.

I give this example because I suspect that a potentially powerful cosh waits to hit consumer-facing companies which overstep the line of publicly perceived fairness in their tax affairs. As justifiable concern over this issue increases, I hope that companies will be more motivated to beware of reaching a tipping point where their customers suddenly revolt and it is difficult to row back. How, by the way, did Starbucks react to all this? It has now agreed to move its UK tax headquarters to the UK and pay tax. Meanwhile, other household names such as Barclays, Vodafone and Topshop have been thrust into the public limelight for related reasons.

I come back to stakeholders exercising their influence. It surely must be obvious that if a company's sales, and above all reputation and brand value, begin to suffer as a result of consumer revulsion at its tax planning, shareholders—if only because of enlightened self-interest—should and will sit up and pay attention. I therefore find myself in the peculiar position, as a free-market Conservative, of hoping that pressure groups will continue to hold companies to account to pay a fair rate of tax—after all, ours is one of the lowest in the western world—through the medium of where it hurts most: the top line; that is, sales or turnover. I would rather have a bit of benign shock treatment from the market now than a far-reaching political backlash later.

Sometimes I feel that the huge, short-term pressures bearing down on companies from what have become known as "impatient" capital providers can lead management down the path of taking short-term measures, such as aggressive but legal tax planning, which can provide a short-term sticking plaster to a profits shortfall but damage the business long term. It is a function of our age: of activist investors, event-driven hedge funds—short-termists in general. Some directors claim that legally minimising tax is their fiduciary duty, but it is not as simple as that. The Companies Act 2006 requires them to promote the success of their company based on six factors: the long-term consequences of their actions; the interests of employees; relationships with suppliers and customers; the impact of corporate activities on the community; the company's reputation for high standards of business conduct; and the need for fairness between different members of the company. Shareholders, especially the large institutional shareholders, must hold to account their investee companies over these principles. Responsible and fair tax policy should form part of a company's corporate and social responsibility programme, and investors should insist on it. I will understand if noble Lords find these thoughts honourable but somewhat naive, so in conclusion I will try to explain why they are rooted in reality rather than idealism.

Those of us who believe in free-market capitalism need support, not only from the companies themselves in pursuing responsible and fair business practices but—in a democratic system—from the electorate. We all have our own views on the surprise result of the Brexit vote on 23 June, and I stand by my own views as expressed in an email to all my firm's employees across the world. I wrote the email three hours after knowing the result, at 8.30 am on the Friday, and it was designed to help them contextualise the result to enable them better to advise our international clientele. It said as follows:

"In general terms, this vote will send political tremors across the world. It is a sign that globalisation, when poorly executed or communicated, can leave behind the domestic working population. A key feature of this result, which I view with total dismay for the next generation, is that it underlines the gulf between the governing political class and the people: not least, the Labour Party in the UK failed to persuade much of its core supporters in the North of England to vote Remain. Nationalist parties will flourish in Europe, and people like Trump and Marine Le Pen in France will be delighted by the result".

Anti-business populist parties are already in power in Spain and Greece. In other countries, parties on both the far left and far right are gaining ground. Here, Labour has already pledged to put up corporation tax, back to 28%. That is bad for business, bad for Britain and bad for working people.

My plea to those inclined to listen is simple. If, as businesspeople, you do not modify your behaviour and pay what you know as a business judgment to be a fair rate of tax, you risk driving the electorate through the tipping point, where those who are poorly educated or low-skilled, whether or not they are in work, will not benefit from the improperly distributed fruits of globalisation and economic success. They will then vote in an Administration that will destroy wealth and damage your business. Long-term investors—pension funds, life companies and the like—should all encourage our Government to keep on pursuing their leadership role on this subject on the world stage. Sometimes, not only here but across the world, even free-market capitalists need to be protected from themselves.

6.41 pm

Lord Flight (Con): My Lords, I congratulate my noble friend Lord Leigh of Hurley on his speech. I very much agree with what he had to say. It seems to me that we are talking today about a mixture of law, morality and tax revenues. To some extent, tax revenues are perhaps the most important.

For starters, I object to people muddling evasion and avoidance. For better or worse, evasion is a criminal offence and avoidance can be harmless or can be dangerously over-clever. Within the range of avoidance, there is the whole area of government tax incentives, such as pensions, the EIS, ISA investments and capital allowances. These are a form of tax avoidance; people are attracted to doing particular things because of the tax benefits they are given. At the other end of the spectrum, there are what I would describe as ridiculous fancy inventions that rarely work—but sometimes over-clever lawyers and accountants think that they are too clever.

It is the area in the middle that is the problem, and that is the exploitation of what the law says. Therefore, people are not committing a crime, which evasion amounts to, but their actions have excessive effects on tax revenues. There is sometimes some hypocrisy about this, in that few people actually want to pay more tax than they are obliged to, especially in high tax rate areas. I remember that when I was working in Hong Kong, both personal tax and corporate tax were sufficiently low that it was not worth anyone bothering with tax evasion. The UK Government have very much gone in the right direction in reducing corporation tax to one of the lowest rates in the world. This is a fair quid pro quo for ending what I would call "clever cuts" legal avoidance.

Turning back to evasion, my observation is that there still is a significant black economy problem in the UK. It is probably not as bad as it is in many other European economies, but it should not be forgotten about. As for companies engaging in tax evasion, my view is that it is extremely unlikely. For wealthy individuals, it is certainly a lot fewer people than it was and will become much more difficult to do following the reporting rules that have been imposed on Switzerland and other such places. In a way, the recent legislation dealing with beneficial ownership will not develop and will not produce any material additional tax revenues. It is about getting businesses and companies to pay a fair rate of tax in the areas in which they operate.

I was interested to note that one of the big areas that has enabled what I would call excessive and offensive tax avoidance has been Luxembourg. When Juncker was Prime Minister, Luxembourg brought in laws that meant that royalties were free of tax. That was a huge incentive to companies for which royalties were important to their business to very easily channel profits from one country to another and to Luxembourg subsidiaries that owned the royalty rights. That sort of thing is nonsense and if we cannot get international agreement, individual countries should enact legislation themselves.

I am surprised that HMRC has not used its transfer pricing powers more. I remember when they came in in the 1990s, I worked with the Revenue briefly on them and they seem to be both fair and to work pretty well. They could be used to give a sort of bespoke appraisal of particular businesses; they were reasonably flexible. But the question whether this will be done by international co-operation or by passing domestic legislation, as this country has started to do, is the big issue in terms of tax revenues. I do not know whether anyone has estimated the total, but the potential tax revenues from chasing up tax evasion as though it were a criminal offence are minimal compared with those relating to legal tax avoidance.

6.47 pm

Baroness Kramer (LD): My Lords, at the bottom of all this is surely the issue of fairness. If individuals pay their taxes because they wish to pay for living in a civilised society, surely that is the obligation of businesses as well. That is at the heart of what we are discussing today. We have often seen in recent years businesses failing to recognise the importance of that contribution to the society in which they thrive, employ and make their money. Some small local businesses that many of us know can find themselves paying, through business rates and taxes, money to support public services and other parts of our society knowing that a business rival in the same activity—a small bookshop may regard Amazon as its major rival—could be a multinational or global company that can use a whole variety of mechanisms to eliminate, essentially, most of its tax bill. Clearly, that has to be grossly unfair.

We must recognise that the structure of our businesses today is tending in a direction that enables and facilitates moving profits around the globe in a way that is extremely difficult to constrain. That particularly accrues now to things such as brand name and intellectual property and not to physical assets, which if we look back just a few years would have been far more typical. As we move into a world where artificial intelligence and machine learning will increase the capacity to set intellectual property anywhere in the world, even though manufacturing or services are delivered quite separately, this capacity to manoeuvre profits around becomes a problem that we must tackle.

[BARONESS KRAMER]

I was heartened by the speech by the noble Lord, Lord Lupton, and his talk of shareholder responsibility because that has to be key to the future. He is right that where there is the possibility of bringing consumer pressure—the Starbucks case being the obvious example—a company can be persuaded that it is necessary to change its behaviour or it will lose its sales. But many of our companies are not consumer facing. They are somewhere in a chain that covers a whole variety of activities, whether in manufacturing or services, and we have to tackle them as well. They cannot be allowed to take the view that they can enjoy all the benefits of being in the UK, or in any other society, and not pay their fair share.

That brings me to a couple of points. There was a time some years ago when this issue was ripe and I proposed then that we really need something that would allow for the naming and shaming of companies that are not necessarily paying their fair share of profits, perhaps through a not-for-profit organisation or a website with a kite mark. We need to get the message out to the consumer and the general public, and indeed it would be something that shareholders would take significant notice of.

There has been quite a lot of talk about the GAAR. In the very early days it was extremely limited, but I think that the Government are now becoming much more willing to extend their use of it, which has to be a move in the right direction. However, we need to recognise that the GAAR is about anti-abuse. Many people think that it is an anti-avoidance measure; it is not. Picking up on the point made by the noble Lord, Lord Flight, we are dealing with some very grey areas in which companies now focus their tax minimisation strategies. It would be worth taking another look at the GAAR to see whether it could be expanded to cover some of those grey areas, because the line between avoidance and abuse is a fine and difficult one. I believe that we ought to be on the front foot in terms of trying to tackle that issue.

Obviously the work being done by the OECD and the G20 with BEPS is making a significant difference. This country is playing an important role in that, in particular on transfer pricing policy. It has been agreed in the Finance Bill that HMRC will be given the power to require companies to report both their level of sales or activity in the UK and the taxes that they pay in different countries. That is a significant step forward.

But for a lot of the time when we talk about tax policy, we do not discuss what can sometimes be the trade-off between tax avoidance and tax levels. There is an assumption that if taxes are high, avoidance will be greater, but we need to recognise that it can work in the other direction as well. When we focus on trying to row to the bottom and have the lowest taxes in the developing world, we naturally end up becoming a tax haven. That is what has happened with Luxembourg, Ireland and a number of other countries. The goal of very low taxes for what people would describe as reasons that make up part of the domestic framework has consequences, and I believe that Christine Lagarde is right to say that if we end up in a race to the bottom, we will all end up at the bottom. It is a short-term strategy and we need to recognise that constant tax cutting can itself generate tax avoidance.

I would also like us to pay attention to developing countries, which are often the greatest victims of tax avoidance. They do not have the capacity that we do to enforce against large multinationals, which can easily move from one country to another, so we need to make sure that we lend them our support. To that effect, I would ask the Government to take a look at our own UK tax treaties with a number of developing countries—an issue I was talking about with representatives from ActionAid. Many of our tax treaties with developing countries were signed during the colonial era and they are very restrictive about the taxes that can be levied on UK companies. That is an area where we could be leading by example. Indeed, developing countries, while they are invited to comment on the BEPS process and the work being done by the OECD and the G20, are not at the centre of it. If we look to the future, these countries will be vital to the overall global economy, so anything we can do to draw them much more actively into that process would be very good.

In closing, I would ask the Government to consider a process that we as Liberal Democrats are taking on. Business taxes as they have been in the recent past are not really fit for purpose for business as it is today and for how it is shaping for the future. As I said earlier, value is very much now attached to intellectual property and brand. Those are extremely mobile and can be moved from one country to another. Many companies, even quite small ones, are global in their reach. It is not just vast multinationals; small companies are genuinely global. That is part of the structure that makes sense for them.

Many companies are now part of what is called the sharing economy—Uber might be a good example. Distortions come into the picture because, in a sense, you have what looks like a very small company. For example, Uber does not own a single taxi or have a single driver as an employee, just as Airbnb, which is essentially a global hotelier business, does not own a single hotel room or employ a single hotel manager or cleaner. These new kinds of structures do not lend themselves to the traditional shape of business tax. It is time to look at this. As I said, we asked Vince Cable and an expert panel to go back to the beginning and start again with a blank piece of paper, looking at how you would structure taxes on business today so that we achieve what I think everybody here asked for—genuine fairness.

Only with that does business have the moral authority to speak to consumers, to its neighbours and to individuals, and to drive forward our economies in the future.

6.56 pm

Lord Tunnicliffe (Lab): My Lords, I thank the noble Lord, Lord Leigh of Hurley, for introducing this subject. I have a confession to make: I rather like paying tax. I pay a great deal of it. I like paying tax because it means I have a good income, it allows me to repay the enormous investment the state has made in me, providing me with a very pleasant life as a result, and I believe in redistribution. The taxation system is a sensible and essential part of any wealth redistribution system. But in paying tax, I want it to be fair.

I have also been privileged to work most of my career in the public sector. That is a wonderful thing because your objective is the general good. As such, I have not been particularly involved in taxation issues. When I look at the private sector, where most economic activity takes place, I see the vast majority of individuals paying their tax somewhat grudgingly but fairly. However, when you look at companies, you see aggressive tax avoidance, with companies claiming a fiduciary duty to minimise tax. You have a new group of individuals running these companies who have an objection to either the companies or themselves paying tax. This has all created a massive tax avoidance industry. Indeed, it has created a tax gap according to HMRC in its report of 22 October last year of 6.4%, or £34 billion. Many believe that that is an understatement.

The Labour Opposition have long believed that an important target of policy must be to try to reduce this gap. Many talked about different ways of doing that but I am talking about the direct effort to reduce that gap. The Labour Opposition proposed many amendments to the Finance Bill and I think a couple were agreed. We thank the Government for that but it is does not go nearly far enough. The Opposition set out the first of their policies on taxation in April, putting forward 10 points of a tax transparency enforcement programme. I will not go over all 10 points but we called for: a public inquiry to examine the loss of tax revenues; increased powers for HMRC; the introduction of a general anti-avoidance principle; cracking down on accounting tricks; and the introduction of minimum standards of transparency for Crown dependencies and overseas territories.

More recently—in fact, last week—the Labour Party published a report on Her Majesty's Revenue & Customs, titled *Reforming HMRC: Making It Fit for the Twenty-First Century*. The report was done by a group of 14 experts, led by Prem Sikka, and was designed to inform official Labour proposals expected in spring 2017. It made 13 recommendations under three general headings: resources, governance and transparency.

First, the resources of HMRC have been seriously cut back over the past nine years. When it was formed—in 2005, I believe—there were 91,000-plus employees. In 2014, the last year for which I have figures, there were 61,370. Amazing evidence was presented to the Public Accounts Committee when it was discussing the Google issue, when Jim Harra, the director-general for business tax, said that there was a 75:1 yield ratio—every pound invested in HMRC on large business investigations would generate £75 of profit. In other statements, HMRC has said that when it comes to the local application of tax the ratio is 18:1; for high net worth individuals it is the same. More recently it has said that when it comes to large corporations the yield is something like 97:1. So one of the report's key recommendations was:

"Additional investment in HMRC resources and staffing".

I believe that that would create a better yield—to reduce that tax gap—and, complementary to many things that have been said in this debate, an increase in the quality of advice from HMRC in improving tax policy development.

Secondly, the report said that HMRC's board is dominated by,

"individuals previously connected with major corporations",

and with large accountancy firms known for marketing avoidance schemes. It has no members representing small businesses, ordinary taxpayers, HMRC's own staff or claimants of benefits. As a result, the panel's recommendation was for:

"The formation of a Supervisory Board, consisting of stakeholders, to watch over HMRC Board to give it direction and enhance its public accountability. The Board shall act as a bulwark against corporate capture and inertia and be accountable to parliamentary committees".

Thirdly, the report touches on transparency. Over and again, scrutiny of tax affairs is obstructed by a general statement about taxpayers' confidentiality. On 24 February the PAC said about the Google matter:

"The lack of transparency about tax settlements makes it impossible to judge whether HMRC has settled this case for the right amount of tax. Taxpayers' legal right to confidentiality means that HMRC cannot explain how it has arrived at this or other settlements, or demonstrate that the rules have been applied correctly".

In relation to that, the panel recommended:

"The tax returns, related computations and documents of all large companies must be made publicly available. The public availability of corporate tax information will improve the quality of information available to parliamentary committees to scrutinise the effectiveness of HMRC in meeting its objectives".

It further recommended:

"Parliamentary committees should be empowered to examine any tax information, no matter how sensitive. It would be up to the relevant parliamentary committee to decide whether scrutiny of any documents and practices should be conducted in private or closed meetings".

In summary, I believe that HMRC should be more dynamic and better resourced and governed. It should be much more open and available to scrutiny. I accept that it may be some time before a Labour Government will be able to introduce these reforms, but in the meantime I hope the Government will pick up some of our ideas, close the tax gap and create fairness for taxpayers such as me.

Lord Berkeley of Knighton (CB): Before the noble Lord sits down, perhaps I might give a brief example which demonstrates exactly what he was saying and which the Minister might care to reply to. A couple of years ago, my family attempted to give the Revenue a considerable amount of money for something that we realised was a benefit in kind which we owed. It took it over a year to answer, let alone to deal with it. It occurs to me that if the Revenue has that much difficulty in dealing with people who are trying to give it money, how much more difficulty must it have with people who are trying to avoid giving it money?

Lord Tunnicliffe: I thank the noble Lord for that intervention but I hand it on to the Minister.

7.05 pm

Lord Young of Cookham (Con): My Lords, I join others in thanking my noble friend Lord Leigh for initiating this important debate, and for his powerful and knowledgeable speech. He made the case for

[Lord Young of Cookham]
lower taxation underpinned by proper anti-avoidance measures. Throughout the debate there has been a helpful range of suggestions as to how we might do better in this area and a unanimity of objective from all speakers that we have to promote a fairer society. I will come on to that in a moment.

For me, this is bit like Groundhog Day. Over 20 years ago, I was Financial Secretary to the Treasury and responsible for what is now HMRC. Noble Lords may recall a more memorable figure than me, Hector the Inspector, who helped launch self-assessment. That is one of my legacies to society. At that time, the issue of tax avoidance and evasion was taken seriously: in the only Finance Bill that I introduced, in 1995, we closed a number of tax avoidance loopholes, and were forecast to raise £1.5 billion over three years. As many noble Lords have said, this is not a static issue but a never ending game of cat-and-mouse, with the mouse ever mobile and able to get through small cavities in the building—not unlike the Palace of Westminster. My noble friend Lord Leigh has obliged me to update myself.

There can be no doubt about how much weight the Government attach to tackling effectively tax avoidance and evasion, in all its forms. At its heart it comes down to a question of fairness; this was a theme that ran through the whole debate. Every chairman of a FTSE 100 company ought to read the speech that my noble friend Lord Lupton made this evening. In a nutshell, what he said was that politicians misread the political mood when it came to the referendum, and that corporations run the risk of misreading the public mood when it comes to consumer behaviour. We have already seen some shareholder activism on executive pay and my noble friend outlined how, with the help of social media, consumer activism is becoming a much more potent force. There is a shift in attitudes towards companies, and the more responsible companies are already ahead of the game. They take their corporate responsibilities seriously and realise that there may be a backlash if they are seen to take aggressive tax avoidance measures.

There is another reason why we need fairness. It is because our businesses need to compete with their rivals on a level playing field, not one in which those who do not pay what they owe prosper as a result of unfair, not to mention criminal, advantage. That is why we are looking at all the ways in which we can crack down on tax avoidance and evasion—not only through legislation and the action we are taking here, but by driving progress and collaboration on the international stage, and recognising that this is a global challenge which operates across borders.

Our fight against tax evasion and avoidance starts with making sure that we are well equipped for the battle. The noble Lord, Lord Tunnicliffe, raised the issue of resources. Since 2010, we have provided HMRC with an additional £1.8 billion to tackle tax evasion, avoidance and non-compliance, helping it to secure an extra £130 billion in tax revenues. This includes £800 million extra that we invested at the summer Budget to enable HMRC to recover a cumulative £7.2 billion in tax from evasion and non-compliance by 2021. HMRC has also funded 3,000 additional recruits to improve customer service.

My noble friend Lord Borwick entered the Chamber listing heavily to one side because he was carrying with him a copy of this year's Finance Bill. The Government aim to have a tax system that is simple to understand and easy to comply with. Although he may react with some incredulity, we are taking action to achieve this. We announced at the 2015 spending review a target for HMRC to reduce the annual cost to businesses of tax administration by £400 million by 2019-20. That is a key part of our agenda to create a simpler tax system. This target builds on business cost savings of £250 million that HMRC achieved in the previous Parliament.

My noble friend mentioned the Office of Tax Simplification. I will certainly pass on to its new chairman, Angela Knight, a former colleague of mine in the House of Commons, the suggestions he has made. So far, the OTS has made more than 400 recommendations to simplify the tax system, of which nearly half the Government have implemented. Clearly, we have further to go. My noble friend mentioned that some of his suggestions might be appropriate for the Chancellor to look at in the context of the Autumn Statement.

We are also putting into effect a range of innovative measures to tackle avoidance and evasion. In the last Parliament, we introduced accelerated payments, giving HMRC the power to collect disputed tax bills up front, and that has already brought in £3 billion. I welcome my noble friend's comments about the general anti-abuse rule, which tackles the worst tax avoidance arrangements. In the Finance Bill we have just been discussing, we further introduced a new GAAR penalty of an additional 60% of the tax due and tough new measures for serial avoiders, including publishing the names of serial users of defeated tax avoidance schemes. We took on those who sought to promote tax avoidance by setting up a tough regime of penalties and monitoring requirements for high-risk promoters of tax avoidance schemes, thereby tackling the supply as well as the demand for marketed tax avoidance.

HMRC has an excellent record of success in litigating tax avoidance schemes. It wins around 80% of all avoidance cases that taxpayers choose to litigate, and many more settle with it before litigation. Earlier this summer, HMRC secured wins worth more than £800 million from avoidance cases involving films schemes attempting to use sideways loss relief alone. However, we must keep the pressure up, and there is much more we will be taking forward over the course of this Parliament.

Much of our debate dealt with international avoidance. As I said at the beginning, we need to ensure that we play our part in driving action at an international level. The UK has led efforts within the G20 to reform international corporate tax rules through the OECD base erosion and profit shifting project mentioned by my noble friend. This makes it harder for multinationals to avoid tax by shifting profits to low or no-tax jurisdictions.

My noble friend Lord Tugendhat referred to the EU Commission's ruling on Apple. This is primarily an issue for the Irish Government, Apple and the European Commission, but the UK remains committed to ensuring that companies pay the right amount of tax on their activities. In response to my noble friend's question, the UK is generally supportive of the

Commission's role in its proportionate enforcement and application action. We will look at the ruling carefully when it comes out to ensure that all corporation tax payments genuinely reflect companies' activities, and we will take into account any new information as part of that.

My noble friend asked whether we will continue to work with EU member states. We are committed effectively to mitigating tax avoidance wherever it occurs. It is a cross-border issue, as my noble friend said, that requires a co-ordinated approach to come up with effective solutions, so we will continue to work with EU member states post the UK leaving the EU in addition to working with other international partners.

On the question my noble friend raised about whether the new offence extends beyond corporate liability to individual liability, I say that if a company is found guilty of not having reasonable procedures to prevent tax fraud, the people who are convicted are company directors for not having put in place reasonable procedures to prevent the fraud. For example, if a chief executive is a company director, this could extend to him or her.

In connection with international action, the noble Baroness, Lady Kramer, urged us not to engage in a race to the bottom by cutting corporation tax or offering unjustified tax breaks. We are committed to a competitive but fair tax system and have no intention of starting a race to the bottom.

As for the treaties that the noble Baroness referred to which may have been negotiated some time ago, decisions on the negotiation and renegotiation of a tax treaty are taken on the basis of a range of factors, including the role of treaties in promoting development. In all of its tax treaty negotiations with developing countries, the UK is committed to ensuring that UK companies pay a fair share of tax in the countries in which they operate. It has long been our practice to include robust anti-abuse provisions in all the revised double taxation agreements. We are also encouraging and giving support to developing countries to participate in international tax reform; more than 100 countries have now joined the inclusive framework on BEPS.

The noble Baroness raised a broader question about GAAR, and why we do not introduce a general anti-avoidance rule instead of a penalty. As she may know, this was looked at by Graham Aaronson's independent study group in 2011, and again when GAAR was introduced in 2013. It was decided against, on the basis that it would be difficult to make a general rule focused on the right targets and would require HMRC to provide costly clearances to business.

We have led the way in converting these international avoidance measures into domestic legislation. This includes, for example, new hybrid mismatch rules to prevent multinationals exploiting differences in how countries tax financial instruments and entities, as well as new rules to protect against the use of interest on borrowings to shift profits overseas—as mentioned by my noble friends Lord Leigh and Lord Lupton. As other noble Lords have said, we now have the requirement for multinationals to provide HMRC with a country-by-country breakdown of their profits, tax and assets. In addition, we have been calling for an international agreement to get multinationals to report tax information publicly for each country in which they operate.

My noble friend Lord Leigh mentioned alternative methods of taxing businesses, such as a corporate tax based on revenues not profits. Although I agree that these are theoretically simple, issues remain as to whether such alternatives would achieve the right tax result, as linking profits to sales or staff numbers may well undervalue activity in the UK when most sales are undertaken abroad, thereby creating its own challenges.

A number of noble Lords mentioned carried interest. The Government have made changes in this area recently which have made the tax treatment of carried interest fair while maintaining competitiveness.

If I do not get through all the points raised by noble Lords, I will write to them. My noble friend mentioned VAT evasion. In this year's Finance Bill, the Government are making changes to ensure the UK high street and online businesses can compete on a level playing field with overseas traders. The new measures will ensure that VAT is paid by businesses from outside the EU who store goods in UK warehouses and then sell those goods to UK consumers in online marketplaces. These changes will give HMRC stronger powers to make overseas businesses appoint a UK tax representative and will ultimately make online marketplaces accountable for the trading on their websites. I assure noble Lords that the UK is committed to effectively tackling tax avoidance and evasion and to promoting compliance.

I was asked why the HMRC non-executives were all from the private sector. The non-executives are recruited in line with the HMT code of governance for Whitehall departments, which states:

> "Non-Executive Board Members, appointed by the Secretary of State, will be experts from outside Government".

The HMRC complies with the code and guidance, and its board includes non-executive members drawn from a broad base of knowledge with experience of tax in the commercial and not-for-profit sectors.

Whether it is at home or abroad, we will keep leading the way in our efforts to put an end to tax evasion, avoidance and non-compliance. I pay tribute to the thousands of people at HMRC, who are working so hard to take on those who bend or break the rules. In doing so, they are not only helping to bring the gap between the tax owed and the tax paid to one of the lowest anywhere in the world but ensuring that we increase the tax yields year on year. These go to fund the vital public services we all rely on, as well as reducing the deficit and protecting the public purse.

Finally, I thank all noble Lords who have taken part in this most helpful and informative debate.

Haberdashers' Aske's Charity Bill [HL]

Returned from the Commons

The Bill was returned from the Commons agreed to.

House adjourned at 7.19 pm.