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PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS
OFFICIAL REPORT

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The abbreviation [V] after a Member's name indicates that they contributed by video call.

The following abbreviations are used to show a Member's party affiliation:

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

No party affiliation is given for Members serving the House in a formal capacity or for the Lords spiritual.

House of Lords

Tuesday 30 July 2024

11 am

Prayers—read by the Lord Bishop of Southwark.

Oaths and Affirmations

11.04 am

Lord Borwick and Lord Framlingham took the oath, and signed an undertaking to abide by the Code of Conduct.

Royal Assent

11.06 am

Royal Assent was notified for the following Act:

Supply and Appropriation (Main Estimates) Act.

AI Technology Regulations

Question

11.06 am

Asked by ***Lord Knight of Weymouth***

To ask His Majesty's Government what plans they have to regulate artificial intelligence technologies.

The Parliamentary Under-Secretary of State, Department for Science, Innovation and Technology (Baroness Jones of Whitchurch) (Lab): My Lords, as set out in the King's Speech, we will establish legislation to ensure the safe development of AI models by introducing targeted requirements on a handful of companies developing the most powerful AI systems. The legislation will also place the AI Safety Institute on a statutory footing, providing it with a permanent remit to enhance the safety of AI. We will consult publicly on the details of the proposals before bringing forward legislation.

Lord Knight of Weymouth (Lab): I thank my noble friend the Minister for her reply and congratulate her on her appointment. There is no doubt that AI will be an important part of the economic growth that is this Government's priority, but there are also growing concerns about the potential harms being caused by this technology, in particular around the creation of deepfake content to pervert the outcome of elections. What is the Government's view on that potential harm to democracy, and are there any plans to extend the regulation to political advertising, as recommended in the 2020 report to this House from the Democracy and Digital Technologies Select Committee?

Baroness Jones of Whitchurch (Lab): I thank my noble friend for those good wishes. Of course, he is raising a really important issue of great concern to all of us. During the last election, we felt that the Government were well prepared to ensure the democratic integrity of our UK elections. We did have robust systems in place to protect against interference, through the Defending Democracy Taskforce and the Joint Election and Security Preparedness unit. We continue to work with the Home Office and the security services to assess the impact of that work. Going forward, the Online Safety Act goes further by putting new requirements on social media platforms to swiftly remove illegal misinformation and disinformation, including where it is AI-generated, as soon as it becomes available. We are still assessing the need for further legislation in the light of the latest intelligence, but I assure my noble friend that we take this issue extremely seriously. It affects the future of our democratic process, which I know is vital to all of us.

Lord Clement-Jones (LD): My Lords, I welcome the creation of an AI opportunities plan, announced by the Government, but, as the noble Lord, Lord Knight, says, we must also tackle the risks. In other jurisdictions across the world, including the EU, AI-driven live facial recognition technology is considered to seriously infringe the right to privacy and have issues with accuracy and bias, and is being banned or restricted for both law enforcement and business use. Will the Government, in their planned AI legislation, provide equivalent safeguards for UK citizens and ensure their trust in new technology?

Baroness Jones of Whitchurch (Lab): I thank the noble Lord for that question and for all the work he has done on the AI issue, including his new book, which I am sure is essential reading over the summer for everybody. I should say that several noble Lords in this Chamber have written books on AI, so noble Lords might want to consider that for their holiday reading.

The noble Lord will know that the use and regulation of live facial recognition is for each country to decide. We already have some regulations about it, but it is already governed by data protection, equality and human rights legislation, supplemented by specific police guidance. It is absolutely vital that its use is only when it is necessary, proportionate and fair. We will continue to look at the legislation and at whether privacy is being sufficiently protected. That is an issue that will come forward when the future legislation is being prepared.

Lord Holmes of Richmond (Con): My Lords, would the Minister agree that the way to regulate AI is principles-based, outcomes-focused and input-understood, and always, where appropriate, remunerated? To that end, what is the Government's plan to support our creative industries—the musicians, writers and artists who make such a contribution to our economy, society and well-being, and whose IP and copyright are currently being swallowed up by gen AI, with no respect, no consent and no remuneration? Surely it is time to legislate.

Baroness Jones of Whitchurch (Lab): The noble Lord raises a really important point here and again I acknowledge his expertise on this issue. It is a complex

[Baroness Jones of Whitchurch]
and challenging area and we understand the importance of it. I can assure the noble Lord that it remains a priority for this Government and that we are determined to make meaningful progress in this area. We believe in both human-centred creativity and the potential of AI to open new creative frontiers. Finding the right balance between innovation and protection for those creators and for the ongoing viability of the creative industries will require thoughtful engagement and consultation. That is one of the things we will do when we consult on the new legislation.

Lord Evans of Weardale (CB): My Lords, artificial intelligence poses a risk not only to high-profile issues such as existential threats and safety, but also potentially to public standards—a matter on which the new Government have made many statements. Areas such as objectivity and accountability are potentially undermined through the use of AI for official decision-making. Can the Minister confirm that those aspects of the risk posed by AI will also be properly considered as steps are taken to move towards regulation?

Baroness Jones of Whitchurch (Lab): The noble Lord is right that there are issues around the risks in the way he has spelled out. There are still problems around the risks to accuracy of some AI systems. We are determined to push forward to protect people from those risks, while recognising the enormous benefits that there are from introducing AI. The noble Lord will know I am sure that it has a number of positive benefits in areas such as the health service, diagnosing patients more quickly—for example, AI can detect up to 13% more breast cancers than humans can. So there are huge advantages, but we must make sure that whatever systems are in place are properly regulated and that the risks are factored into that. Again, that will be an issue we will debate in more detail when the draft legislation comes before us.

Viscount Camrose (Con): My Lords, let me start by warmly welcoming the Minister to her new, richly deserved Front-Bench post. I know that she will find the job fascinating. I suspect she will find it rather demanding as well, but I look forward to working with her.

I have noted with great interest the Government's argument that more AI-specific regulation will encourage more investment in AI in the country. That would be most welcome, but what do the Government make of the enormous difference between AI investment to date in the UK versus in the countries of the European Union subject to the AI Act? In the same vein, what do the Government make of Meta's announcement last week that it is pausing some of its AI training activities because of the cumbersome and not always very clear regulation that is part of the AI Act?

Baroness Jones of Whitchurch (Lab): Again, I thank the noble Viscount for his good wishes and welcome him to his new role. He is right to raise the comparison and, while the EU has introduced comprehensive legislation, we instead want to bring forward highly targeted legislation that focuses on the safety risks posed by the most powerful models. We are of course committed to working closely with the EU on AI and we believe that co-ordinating with international partners —the EU, the US and other global allies—is critical to making sure that these measures are effective.

Lord Hannett of Everton (Lab): My Lords, I also express my good wishes to the Minister and say that my noble friend Lord Knight has raised an exceptionally timely Question on what is, increasingly, a major challenge for the UK: AI. I was pleased to work with my noble friend recently—or at least a few years ago now—on the Future of Work Commission. My area of concern is work. Can the Minister expand further on the use of regulation and the timeline, if possible? Does she have concerns about the potential loss of employment, despite the many opportunities?

Baroness Jones of Whitchurch (Lab): I thank my noble friend for his question. He is right that there are huge opportunities from applications of AI in the workplace, but also a number of areas of cause for concern. As he knows, there have been very worrying cases where people have been sacked by a computer, sometimes incorrectly. We want to make sure that that is not possible in future and that people have more rights to be dealt with by a human being rather than by a machine.

This was an issue that came up for a great deal of debate in the last data protection Bill, which did not make it through the wash-up, but the new smart data and digital information Bill, announced in the King's Speech, will hopefully pick up some of those issues and we will look at how we can ensure that workers are protected.

House of Lords: Nominations for Appointment

Question

11.17 am

Asked by ***Lord Foulkes of Cumnock***

To ask His Majesty's Government what plans they have to review the arrangements for nominations for appointment to the House of Lords.

The Lord Privy Seal (Baroness Smith of Basildon) (Lab): My Lords, the Government are committed to improving the appointments process. There are two key areas here: one is to ensure that those who are appointed to your Lordships' House are committed to the work of this House and are willing and able to play their part; and, secondly, we need to look at the national and regional balance of your Lordships' House. We are actively reconsidering how best this might be achieved, and I would be grateful for the views of colleagues. The Government are grateful for the work of HOLAC in vetting life peerage nominations and in nominating Cross-Benchers, and we look forward to working with the commission.

Lord Foulkes of Cumnock (Lab Co-op): I thank the Leader for her helpful reply. There seems to be general agreement that the House is too large. Does she agree that one of the problems is two different perceptions of what a peerage is? Some see it as merely an honour—one above a knighthood—and therefore do not expect to have to attend this House; others of us see it as a job to be done, an appointment to the second Chamber of the legislature, and therefore we should attend regularly and vote. Is there some way of separating or disentangling these? Working Peers should be the only ones who are able to attend, to vote and to participate in the work of this House.

Baroness Smith of Basildon (Lab): My Lords, we have heard from the response from across the House how seriously those who are here in your Lordships' House take their responsibilities. It is an honour to be appointed a Peer, and that brings with it responsibilities to the work that we do. I listened to the noble Lord's comments on the King's Speech about this, and I will look at and consider the issue. The House is large, and I think we have to ensure that we focus on the active contributions. Going forward, we will look at colleagues' participation and the range of participation that Members are involved in—from voting in the Lobbies to taking part in committees to engaging in debates. I will take his views away and will take soundings from other colleagues across the House.

Lord Wallace of Saltaire (LD): My Lords, does the Minister recognise that the prerogative power of the Prime Minister to appoint to this House remains absolute, as we saw under Boris Johnson? As a prerogative power remaining from the Middle Ages, the Prime Minister could announce that from now on the Prime Minister would not make appointments to this House without consultations with ACOBA and various bodies. Is that part of what is under consideration? Is there not a consensus now that it may be time for us to consider separating the honour of a peerage from the duty to attend the upper House?

Baroness Smith of Basildon (Lab): My Lords, that is exactly the same point made by the noble Lord, Lord Foulkes, about having two separate categories of peerage. I come back to the point that for all noble Lords it is an honour to be appointed to your Lordships' House, but that brings with it responsibilities. I know noble Lords from across the House are very disappointed if colleagues are appointed and we do not see them, so I will take that back. Those who are appointed to this House at present do have a responsibility. I do not mean that everybody has to be here all day every day and be a full-time Peer, but we do have expectations that Members will be committed to the work of this House and play a part in it.

Baroness Browning (Con): My Lords, I declare an interest as a former member of HOLAC. May I ask the noble Baroness the Leader of the House whether, in discussion with the Prime Minister and others, there would be a complete discussion about the position of the Prime Minister in this role? HOLAC looks at the individual nominee from the point of view of propriety; it does not have the power to assess suitability, as that rests with the Prime Minister when sending the list forward in the first place. May I say to her that, if HOLAC suggests that, on the grounds of propriety, a person is not suitable for this House, the Prime Minister must accept that recommendation in future?

Baroness Smith of Basildon (Lab): My Lords, there is a duty, an obligation and a responsibility on all party leaders who put forward nominees that they should be suitable for the work of this House. The points that the noble Baroness makes are ones that we are considering.

Baroness Hayter of Kentish Town (Lab): My Lords, does my noble friend consider that there should be a minimum participation by Peers in order to enable the House to benefit from their expertise and experience?

Baroness Smith of Basildon (Lab): There is, but defining what that is is not easy. I entirely agree, and this is one of the things we are grappling with at the moment. All of us have been disappointed when we have seen colleagues come in, take the oath and leave, and we do not see them again till they next take the oath; that is not playing a part in this House. But neither do I want to deter colleagues who come in occasionally to speak on their area of expertise, which the House benefits from. That is why I do want to take soundings from across the House on how we can best deal with this. We want all colleagues who are Members of your Lordships' House to understand the responsibility that the honour brings with it and play a full role.

Baroness Hayman (CB): My Lords, does the noble Baroness the Leader of the House accept that, welcome though her answers are on a long-term strategy of separating the honour from the responsibility of membership of your Lordships' House, if we are to have a short-term reduction in the size of the House that will be sustainable and defensible in the long-term, we need a cap on the overall size of the House and a cap on the prerogative powers of the Prime Minister to appoint as many Peers as he wishes?

Baroness Smith of Basildon (Lab): My Lords, in terms of my comments on my noble friend Lord Foulkes's Question, I have made a commitment to consider that, not to do it. It is interesting that, for many years, this House remained at a similar size, and it is only in recent years—partly from so many prime ministerial resignation lists—that the House has expanded. When Labour left office, after 12 years, in 2010, we had about 24 more Peers than the Conservative Party, when they became the Government. At the end of their term of office, there are over 100 more Conservative Peers than Labour Peers. I know Members of the House opposite agree with me that the House is better when the numbers are better balanced. That may be one way of achieving it. I am on record as saying—and this is not an invitation to have lots of appointments on the Labour side—that, when the government and opposition parties are better balanced, we do our work as a House much better.

Baroness Berridge (Con): My Lords, one of the benefits of this Chamber is the enormous breadth of experience and the generations that are represented here. Could the noble Baroness consider whether, in the consultation on having a retirement age of 80, the Appointments Commission could be involved in some way, so there is a process to retain, on an exceptional basis perhaps, a number of Members who are over the age of 80? Looking around the Chamber, I see the noble Lord, Lord Dubs, and others who have made such a contribution beyond the age of 80.

Baroness Smith of Basildon (Lab): My Lords, one of the things about a retirement age is that everybody thinks it should be five years older than they are. I remember the days of thinking that, when I got to 65, it would be wonderful, I would be old and I could retire; as I told my doctor last week, I have just taken on a new job. These are important things to factor in. Do bear in mind that we are not talking about a hard stop at the age 80; it is the end of the Parliament in which someone turns 80, so we are talking about a retirement age between 80 and 85. I am happy to receive any considerations that noble Lords want to make on this issue.

Lord Winston (Lab): My Lords, the Government are to be congratulated on the experience, knowledge and expertise of some recent appointments to the House of Lords. This House prides itself as an expert Chamber. Would the Government be able to ensure that, in areas of expertise that are certainly very much needed, future appointments could be adjusted according to the needs of this expert House?

Baroness Smith of Basildon (Lab): My Lords, that is one of the considerations that those making nominations for appointment should take into account. It is very important that we continue with that breadth of expertise, and also that we renew our expertise as well so that people with more recent experience can contribute. The noble Lord makes a very valid point, as the noble Baroness did, that the experience we have in your Lordships' House covers a range and breadth.

Baroness Neville-Rolfe (Con): My Lords, this House has a vital scrutiny and review function, it exudes history, and therefore I think everybody is right: we need a system that delivers a wide mix of Peers, and we need that to be over the long-term—it is a long-term matter, not just a short-term matter. We are glad to welcome the flush of new colleagues to the Front Bench and we accept the need for new appointments of Labour Peers, but that does not mean that the changes the Government are proposing are necessarily the right ones. We are getting rid of some of our most effective hereditary Peers and distinguished colleagues over the age of 80—experts whom we may not be able to replace—and forcing "participation", whatever that means. Does the Minister agree that we should tread with care and proper reflection? I welcome her promise to take soundings.

Baroness Smith of Basildon (Lab): My Lords, we have been treading with care and reflection for a long time now. I have lost track—I am sure somebody can advise me—how many times my noble friend Lord Grocott brought forward his Bill to end hereditary Peer by-elections. We offered the then Government the opportunity to take that forward, and they chose not to do so. That has added partly to the imbalance in numbers. I always regret when Members leave this House for any reason. What worries me is that, too often, we do not pay tribute to those who spent many years contributing; we do not say thank you to people very often. That should be borne in mind as well. Of course, at all times we tread with care and reflection.

Lease Extension Policies for Residential Properties

Question

11.28 am

Asked by ***Lord Berkeley***

To ask His Majesty's Government, further to the remarks by Baroness Williams of Trafford on 24 May (HL Deb col 1368) where she relayed undertakings of the Crown, when they expect the Crown to publish their new lease extension policies for residential properties.

The Parliamentary Under-Secretary of State, Ministry of Housing, Communities and Local Government (Baroness Taylor of Stevenage) (Lab): My Lords, I thank my noble friend for his Question. The Crown has agreed to act by analogy with the new Leasehold and Freehold Reform Act 2024, subject to the specific condition set out in the undertaking. This will improve home ownership for most Crown leaseholders, but it is a matter for the Crown to determine when it will publish its new lease extension policies. The Government anticipate that the Crown policies of the relevant Crown bodies will be published no later than when the relevant provisions in the Leasehold and Freehold Reform Act come into effect.

Lord Berkeley (Lab): I am grateful to my noble friend for that Answer. This was a Crown undertaking, given by the then Minister over two months ago. Hundreds of leaseholders on the Isles of Scilly and elsewhere are dying to know whether their 40-year leases can be extended in the way that the rest of the country achieved with the leasehold reform Act. Could my noble friend go back to the Crown and maybe instruct the Duke of Cornwall to publish this document, which will give comfort to these tenants? Could she also provide an opportunity for the House to debate that document, if and when we ever see it?

Baroness Taylor of Stevenage (Lab): I thank my noble friend for his championing of Crown leaseholders and the Scilly Isles, and for this offer to visit. You do not have to be a Foreign Office Minister to go to beautiful and exotic places. The undertaking confirms that the Crown will act by analogy, but it is well established that Acts of Parliament for England and Wales do not bind the Crown unless the Act expressly states that this is the case or does so by necessary

implication. Instructing the Duke of Cornwall is probably a bit beyond my ministerial powers. The undertaking for the Act delivers similar improvements to those that leaseholders would have if the Leasehold and Reform Act 2024 were to bind the Crown directly. The difference is therefore largely a matter of delivery. Binding the Crown to the Act's provisions is therefore felt to be unnecessary.

Lord Young of Cookham (Con): But does the Minister remember the debate on an amendment to the then leasehold Bill in my name on this very subject? Although as she said, in a nutshell, the Crown Estate is not bound by the law on enfranchisement, it voluntarily agreed 30 years ago, when I was the responsible Minister, to abide by its provisions. It has broadly done so in respect of freeholds that it originally owned, but it is not doing so in respect of freeholds that it acquires by an obscure process known as escheat. I believe this is contrary to the agreement that I reached with it 30 years ago, so will the Minister agree to support my amendment to the Crown Estates Bill to close this loophole?

Baroness Taylor of Stevenage (Lab): My Lords, as the noble Lord says, when property becomes ownerless, the land and buildings escheat to the Crown. That includes the Crown Estate and the royal duchies of Lancaster and Cornwall. If a purchaser is interested, the Crown can sell it so it goes back into private ownership, or the leaseholders are able to collectively purchase the freehold from the Crown. The Government recognise very much that when a freehold becomes ownerless it causes significant problems for leaseholders, but ownerless goods and escheat are complex areas of law, as I have discovered since I heard the noble Lord's original discussion on this, and need to be considered very carefully. The Law Commission has flagged ownerless land as a possible project for inclusion in its 14th programme of law reform; I think we will be very interested to see what comes out of that review.

Baroness Thornhill (LD): My Lords, can I segue a little from Crown Estate tenants, if the noble Baroness will forgive me? We have 5 million leaseholders in limbo land waiting for the enactment of the 2024 Act. Indeed, we were promised in the recent King's Speech a new leasehold and commonhold Bill—I see a big smile from the Government Chief Whip there. Therefore, could the noble Baroness urge the Government to set out a timetable as soon as possible for both these things, as limbo land is not a good place to be? Leaseholders have already waited long enough for this much-needed reform.

Baroness Taylor of Stevenage (Lab): The noble Baroness will know that I agree with her sentiments. I have certainly already had the Chief Whip speak about this. As outlined in the King's Speech, the Government will provide home owners with greater rights, powers and protections over their homes by, first, implementing the provisions of the Leasehold and Freehold Reform Act 2024. Some of that has already been enacted, but there will be a need for some secondary legislation to do the rest. We will then further reform the leasehold system by enacting remaining Law Commission recommendations —which we tried to do with amendments but were not successful—relating to leasehold enfranchisement and the right to manage; tackling unregulated and unaffordable ground rents; and removing the disproportionate and draconian threat of forfeiture as a means of ensuring compliance with the lease agreement. We will take steps to bring the feudal leasehold system to an end, reinvigorating commonhold through a comprehensive new legal framework.

Lord Teverson (LD): My Lords, the Crown Estate owns the seabed around England and Wales. Is it the Government's opinion that it should use that influence of ownership to stop particularly destructive fishing practices, such as scallop dredging? It could end that here and now.

Baroness Taylor of Stevenage (Lab): The noble Lord will not be surprised to learn that I do not have particular information about scallop dredging. However, a Crown Estate Bill will come forward as part of the King's Speech legislation. This will modernise the Crown Estate by removing some of the outdated restrictions on its activities. The measures that will come forward will widen investment powers and give the Crown Estate powers to borrow to invest at a faster pace. Those reforms will ensure the successful future of Crown Estate business and help meet the clean energy superpower mission. I will come back to the noble Lord with a Written Answer on the issue of scallop dredging.

Lord Deben (Con): My Lords, it would not be reasonable to ask the Minister to talk in detail about scallop dredging, but I think it would be reasonable to ask her to make sure that the regulations, when changed under the new law, enable the Crown Estate to stop the terrible destruction on the seabed, which is very damaging in respect of climate change. All sorts of bottom trawling ought to be banned. The Crown Estate ought to have the power, as it owns the seabed, to say, "No more of that kind of behaviour".

Baroness Taylor of Stevenage (Lab): I thank the noble Lord for those comments. The Government want to do everything they can to protect the environment and tackle climate change. As we go through the process of the Crown Estate Bill, I am sure noble Lords will want to get involved in the consultation and submit amendments. I encourage the noble Lord to do so.

NHS Blood and Transplant Service: Blood Stocks

Question

11.36 am

Asked by ***Lord Rooker***

To ask His Majesty's Government what assessment they have made of the response by donors to the national alert regarding low levels of blood stocks issued by NHS Blood and Transplant Service.

Lord Rooker (Lab): My Lords, I beg leave to ask the Question standing in my name on the Order Paper, and I declare that, until my late 70s, I was a regular donor, which stopped when I met with chemotherapy.

The Parliamentary Under-Secretary of State, Department of Health and Social Care (Baroness Merron) (Lab): My Lords, there has been an excellent response from altruistic donors since NHS Blood and Transplant issued an amber alert for O-group blood on 25 July. I thank everyone who has booked an appointment and who has already donated, because they will have helped save up to three lives each. Since Thursday, 25,000 new donors have registered, website traffic has increased almost fourfold and booked appointments have doubled. O-negative stocks have risen from 1.7 days to 2.9 days.

Lord Rooker (Lab): I thank my noble friend. That Answer is excellent news, but volunteers have to be treated carefully. There are 800,000 of them. Can my noble friend tell me how many of the 25 donor clinics are open seven days a week? That is for the convenience of the donors. Secondly, why was it left until there were only 1.6 days of O-negative blood left before the alert was issued? Finally, what are the stocks of the special blood, of any group, that is required for newborn babies?

Baroness Merron (Lab): I will need to come back to my noble friend on that last question, but I assure your Lordships' House that action was taken to increase the number of donors and the supply of the necessary blood even before the alert was announced. An alert creates better conditions, because more people come forward and rally. I thank them very much for that. On the donor centres, it is possible, of course, to give blood every day of the year apart from Christmas Day.

Baroness Walmsley (LD): My Lords, as the universities return in the autumn, many new students will be recruited to be blood donors, which is a very good thing, because they often remain blood donors for many decades. The system needs to recruit 140,000 new donors every year for various reasons. But what about other young people? Will the Government do what they can to help the blood transfusion service to devise ways and means of encouraging other young people to become blood donors and, we hope, carry on doing so for decades?

Baroness Merron (Lab): The noble Baroness is absolutely right that we need to encourage young people to come forward and to stay in the system. I have been in discussion with the chief executive and the chair of the service about how we can build more resilience and extend the number of donors. I am sure noble Lords will be pleased to know that, with the assistance of the actors Hugh Jackman and Ryan Reynolds, there is an exciting partnership with the Disney action film "Deadpool & Wolverine", which is exactly intended to reach new and younger donors, and donors of black heritage. I am sure it will.

Baroness Blackwood of North Oxford (Con): My Lords, I declare my interest as former chair of the Human Tissue Authority. I understand that this alert was in part triggered by the cyberattack, and that Synnovis has largely stabilised the system for wider testing, but can the Minister say when the system will be wholly stabilised for blood transfusions? Can she also say whether any backlog has been created as a result of the cyberattack and what steps will be taken to create resilience so this cannot happen again?

Baroness Merron (Lab): The noble Baroness is right in her observations. What I can say is that, while there has been a dramatic and somewhat sustained increase in the need for O-group blood, that is now improving. There has not been a negative effect on elective surgery; I think that is an important reassurance. In the future, obviously cyberattacks are going to be something that we are going to have to always be mindful of. That is why the service, at my request, is working to come up with plans for greater resilience, and such work is already ongoing within the department and across government.

Lord Patel (CB): My Lords, does the Minister agree that, as a country, we should be pleased that, throughout the four nations of the United Kingdom, we are self-sufficient now in blood and all blood products and do not have to import, as we used to in the past? Furthermore, the problem that occurred was because, apparently, demands became suddenly high and the stocks were there for about only 1.4 days; normally, they are there for about four days. For a person being transfused, it is better if they are transfused with freshly donated blood, rather than blood that has been on the shelf, because it will last in their bodies for longer. The problem, particularly for recipients and donors of O-group blood, was, I hope, temporary and will be addressed.

Baroness Merron (Lab): I assure the noble Lord that it is indeed a temporary problem. However, it is likely the alert will go on for a little while yet, not least because, as I mentioned, we can benefit from keeping it in place. I absolutely associate myself with the assessment that it is so much better to be self-sufficient within the United Kingdom, and that will be of great benefit. It is important to realise that this is a situation that we must live with but not be at the mercy of. I also assure the noble Lord and the House that this is because of external factors and not internal factors to do with the service, as was the case in 2022.

Lord Kamall (Con): I thank the noble Lord, Lord Rooker, for raising this important issue and for his supplementary question. I also thank the Minister for her answers so far. Can she tell your Lordships whether the department has found an obvious reason why these stocks were low, and whether it was a confluence of factors or an unusual occurrence? I was speaking to a noble Lord who is an existing blood donor; he told me that when he read about the shortage he had not yet been contacted. What have the Government and the NHS learned from this experience about what does and does not work, both in the UK and in other countries, when it comes to encouraging the public to come forward to donate blood to avoid future shortages?

Baroness Merron (Lab): The lessons-learned exercise started from day one—we are not waiting for the end of the alert. The approach that has been taken is to increase the number of appointment slots available, to launch new and innovative campaigns, and to seek to reduce the use of O-negative blood. On all these levels, there has been a tremendous response from the public and clinicians, and from all stocks. Even if we put the cyberattack to one side, it is certainly the case that collections of blood have been lower in recent months due to the impact of sporting events, bank holidays and the weather. All of these would have been manageable; it is the cyberattack that tipped the service over—by that I mean "over" to the point where it is now.

Baroness Morgan of Drefelin (Lab): My Lords, I am delighted that my noble friend is looking at resilience with respect to the supply of universal O-group blood. Is she concerned that it could be indicative of the pressure that pathology services have been under for many years? If we see cyberattacks, we obviously have to be resilient to those, but we also need to be resilient in the strength of the pathology services across our NHS, so that when you have unusual happenings such as this, there is some back-up. Will she consider that when she looks at the resilience question?

Baroness Merron (Lab): I thank my noble friend. That is a very important point and I will consider it in our deliberations. It is worth saying on resilience that work was already in place—for example, new centres are planned to be opened in Brixton and Brighton. I make that point not just because of expanding capacity but because the location of them will widen the range of donors. We absolutely need to continue. That is why I have asked the chief executive and the chair to come back to me with their plans to make us even more resilient.

Lord Hayward (Con): My Lords, the Minister just referred to widening the levels of contributions from certain communities. Is she satisfied that all communities are adequately targeted about giving blood, and if not, what efforts are being made to ensure that greater contributions are made from different elements of society?

Baroness Merron (Lab): I am sure that we could do better; that will be part of the ambition. That is why the ongoing campaign is focused particularly on those of black heritage, as well as younger donors. I will be very interested to look at the data to assess the response. It is important we make it as easy as possible to give blood, and that will be underlying all that we do.

Patrick Finucane

Private Notice Question

11.47 am

Asked by ***Lord Caine***

To ask His Majesty's Government, further to the Court of Appeal judgment of 11 July, and the Secretary of State for Northern Ireland's meeting with Mrs Geraldine Finucane on 25 July, (1) when they expect to announce a decision on how they intend to satisfy their Article 2 obligations in the case of Patrick Finucane and (2) whether they plan to do so via an Oral Statement to Parliament.

The Parliamentary Under-Secretary of State, Foreign, Commonwealth and Development Office (Baroness Chapman of Darlington) (Lab): My Lords, I thank the noble Lord, Lord Caine, for his Question. On 11 July, the Northern Ireland Court of Appeal delivered its judgment on the previous Government's appeal against the Northern Ireland High Court's judgment in the case of the death of Patrick Finucane. The Court of Appeal dismissed the previous Government's appeal, finding that there still has not been an Article 2-compliant investigation into the death of Mr Finucane. The Secretary of State met Mrs Geraldine Finucane and her family in Belfast to hear her views first hand on the circumstances surrounding the appalling murder of her husband and to discuss next steps for responding to the court's judgment. The Secretary of State wants to ensure that the Government make a decision about the way forward on this case as soon as possible and that this decision takes account of the views of Mrs Finucane. As part of this, the Secretary of State has asked the Northern Ireland Office to examine the options available regarding the establishment of an Article 2-compliant investigation into the death of Mr Finucane. The Government will provide further information on their response to the court in due course and are happy to commit today to update Parliament via an Oral Statement when a decision has been made.

Lord Caine (Con): My Lords, I am grateful to the noble Baroness. The murder of Patrick Finucane was a vile atrocity for which there could never be any justification whatever and I stand by the apology that I helped to draft for my noble friend Lord Cameron of Chipping Norton when he was Prime Minister in 2012. Now that the Government have decided that they will not scrap the Independent Commission for Reconciliation and Information Recovery, can the noble Baroness confirm that referral of the Finucane case to that body remains an option, given that the High Court ruled in February that it is independent and capable of carrying out ECHR-compliant investigations? I welcome what she said about updating Parliament via an Oral Statement and we will hold her to that.

Baroness Chapman of Darlington (Lab): I am grateful to the noble Lord, Lord Caine, for his words and concur with what he said about the apology from the noble Lord, Lord Cameron. Noble Lords will understand that the Secretary of State wishes to engage fully with the Finucane family and others in respect of finding the right way forward at this stage, but I note what the noble Lord said about the commission.

Baroness Suttie (LD): My Lords, does the Minister agree that the approach of the previous Government has resulted in the Finucane family, like so many other families in Northern Ireland, waiting far too long for justice? In the light of Hilary Benn's Written Statement

[Baroness Suttie]
yesterday on the legacy Act, can she say how and when the Government will announce whether they intend to restart inquests?

Baroness Chapman of Darlington (Lab): It is my understanding that inquests can be restarted as soon as the necessary steps are taken. The Government do not seek to delay that any longer than is absolutely necessary, for reasons that I am sure the noble Baroness can appreciate.

Baroness Foster of Aghadrumsee (Non-Afl): First, I take this opportunity to welcome the noble Baroness, Lady Chapman, to her place dealing with Northern Ireland issues and look forward to working with her in the future. Today is the start of the Omagh bomb inquiry in Omagh, and I am sure the whole House will have the victims' families in the forefront of their mind as they go through the start of what will be a very long procedure. Does the Minister agree that it is important that His Majesty's Government never take any action or decision that would give the perception to victims right across Northern Ireland that some victims' lives are worth more than others?

Baroness Chapman of Darlington (Lab): I am grateful to the noble Baroness, Lady Foster, for her welcome. I note, as she did, that today is the start of investigations into what happened in Omagh. On her point about all victims being treated with equal respect and concern, of course she is right.

Baroness Ritchie of Downpatrick (Lab): My Lords, I welcome my noble friend to the Front Bench. I recall the murder of Patrick Finucane. It was one of the most heinous murders in Northern Ireland back in the late 1980s, like many other murders right across the piece. I hope that the Government will find a solution for Geraldine Finucane and her family because no doubt they are tortured as a result of such a murder. Yesterday, I welcomed the Government's decision to withdraw the previous Government's decision to take the High Court to court in relation to the ruling over the amnesty decision. In that respect, there are other outstanding cases. Will the Government withdraw the application by the previous Secretary of State for a judicial review of the decision of the coroner in the case of Sean Brown to confirm that state agents were involved in his murder, as they were in other murders in Northern Ireland?

Baroness Chapman of Darlington (Lab): I thank my noble friend Lady Ritchie for her question and completely agree with her comments about the heinous nature of the murder of Pat Finucane. I remind noble Lords that one of the first meetings the Secretary of State held was with Geraldine Finucane. That signals something about his intention to deal with this issue with the greatest care. It is important that a way forward is found with families and victims that can command as wide a degree of support as possible in the circumstances. My right honourable friend the Secretary of State will consider all the issues that my noble friend Lady Ritchie has raised.

Lord Empey (UUP): My Lords, I, too, welcome the noble Baroness to her place. Will she tell the House what the criteria will be in determining any future inquiries? It seems to a lot of people that there is a hierarchy of who gets inquiries and who does not. That can, in part, result from a campaign, whether well-funded or by people who have a profile. However, hundreds of ordinary people were murdered in atrocious circumstances similar to those of Patrick Finucane, and they do not seem to have a voice. Sight of the criteria that the Government will apply would be most helpful, because that would at least let people know what the process is rather than it seeming to be simply responding to high-profile campaigns.

Baroness Chapman of Darlington (Lab): I am familiar with the point that the noble Lord has made. The Government are giving careful consideration to the recent rulings and requests for public inquiries in these cases. A decision to establish a public inquiry will be taken only after full consideration of the specific individual factors of each case. The Secretary of State is very concerned to ensure that the Government make decisions in these cases as soon as possible.

Lord Reid of Cardowan (Lab): My Lords, I welcome my noble friend to her position; I also welcome the Statement and the engagement of the Secretary of State for Northern Ireland. This has been a long-running problem, I think since 1989. It is true that the campaign has been kept alive, not least by the stalwart efforts of Geraldine Finucane. It is time that it was brought to some sort of closure. I therefore commend the Secretary of State for his engagement with the Finucane family, because, without that, I do not think that we will never reach closure.

Baroness Chapman of Darlington (Lab): I thank my noble friend for the points that he made and assure him that I will make sure that my right honourable friend the Secretary of State is aware of his comments, given his extensive experience in Northern Ireland.

Lord Dubs (Lab): My Lords, I, too, welcome my noble friend to her position on the Front Bench. I welcome very much the Secretary of State having met the Finucane family. This has been going on for years, and we have just got to bring it to a satisfactory conclusion, if that is at all possible. I note the point made by the noble Lord, Lord Empey, because we open the door and then there is a list of tragedies where everybody wants an inquiry. For example, if I was pitching one in, it would be Ballymurphy, where again we need a resolution. I welcome the progress that has been made so far and hope that this issue, the Finucane family tragedy, will be resolved as soon as possible.

Baroness Chapman of Darlington (Lab): I thank my noble friend for making that point. I do not think there was a question there; I take it as general support for the broad approach being taken by the Secretary of State, and I will make sure that he is aware of my noble friend's views.

Lords Spiritual (Women) Act 2015 (Extension) Bill [HL]

First Reading

11.58 am

A Bill to extend the period within which vacancies among the Lords Spiritual are to be filled by bishops who are women.

The Bill was introduced by Baroness Smith of Basildon, read a first time and ordered to be printed.

Marine Protected Areas (Bottom Trawling) Bill [HL]

First Reading

11.59 am

A Bill to regulate and limit the practice of bottom trawling in marine protected areas; and for connected purposes.

The Bill was introduced by Baroness Ritchie of Downpatrick, read a first time and ordered to be printed.

Infected Blood Inquiry

Statement

Noon

The Parliamentary Under-Secretary of State, Department for Culture, Media and Sport (Baroness Twycross) (Lab): My Lords, with the leave of the House I shall now repeat the Statement delivered on Friday 26 July in the other place by my right honourable friend the Minister for the Cabinet Office:

"With your permission, Madam Deputy Speaker, I would like to take the opportunity to provide an update on the Government's progress in responding to the infected blood inquiry's report.

I want to start by reiterating that the inquiry's final report laid bare harrowing aspects that make it vital we provide regular updates on this work. The infected blood scandal is an injustice that has spanned across decades on an unprecedented scale. Thousands of people have died and continue, sadly, to die every week. Lives have been shattered and the voices of victims have been ignored for decades. People have watched their loved ones die and—in one of the most chilling aspects that the inquiry brought to light—children were used as objects of research. It is hard to conceive of the scale of the damage done and the incredible suffering of all those impacted.

On 20 May, the country bore witness to the devastating findings of the infected blood inquiry's report. It was a national moment, a profound moment of shame for the British state, and a moment of long-overdue recognition for the victims and their loved ones. My right honourable friend the Prime Minister, in his former role as Leader of the Opposition, acknowledged that

"suffering was caused by wrongdoing, delay and systemic failure"

by all parties

"across the board, compounded by institutional defensiveness".—[*Official Report*, Commons, 20/5/24; col. 667.]"

The former Prime Minister issued an apology on behalf of the state for the devastating impact that the use of infected blood and infected blood products has had on countless lives. Today, on behalf of this Government, I reiterate that deep and heartfelt sorry. First, let me reassure the House that the Government are committed to acting on the findings of the infected blood inquiry report to ensure swift resolution. We are also committed to working on a cross-party basis, and will work with others to deliver the compensation scheme and get final payments to victims as soon as possible. It is vital that we shine a penetrating light on the lessons that must be learned, and that includes paying comprehensive compensation to those infected and affected by the infected blood scandal.

I would like to thank honourable Members who have played prominent roles in pushing the work to this point. My right honourable friend the Member for Kingston upon Hull North has always been—and I know will continue to be—a powerful advocate for this cause. Her work in pushing forward the cause and representing the voice of those infected and affected was unquestionably pivotal to reaching this point. I would also like to thank my predecessor as Paymaster-General, the right honourable Member for Salisbury. As I said yesterday at Questions, I am grateful for his work in the lead-up to the announcement of the compensation scheme, and indeed for his collegiate approach in doing so. I hope that we can continue to work together on this important issue.

The scale of the horror that was uncovered by Sir Brian Langstaff's report almost defies belief. One of the issues that the report brought to light is the importance of addressing the unacceptable culture of defensiveness in the public sector. We must make sure that the reputation of people and protecting institutions are never put above public service. This Government will bring forward legislation to place a duty of candour on public servants and authorities to make sure that this kind of behaviour cannot happen again. That legislation must be the catalyst for a changed culture in the public sector by improving transparency and accountability. It will address the culture of defensiveness and help ensure that the lack of candour uncovered in the infected blood scandal—and, indeed, in too many other instances, such as Hillsborough and Horizon—is not repeated.

However, we also recognise that, as well as delivering institutional change, we must also provide financial redress to people whose lives have been irreversibly and tragically changed as a result of the infected blood scandal. One of the most powerful conclusions in the inquiry's report is that an apology is meaningful only if it is accompanied by action. It is now my responsibility to carry forward this action, and I hope to lead that work not only with the support of this House, but with sensitivity and respect towards the people who have been so unfairly affected by this scandal. After all that has happened, listening to the voice of victims is crucial, and I will endeavour to work closely with the infected blood community as we progress this work.

I would also like to take this opportunity to update the House on the progress being made in establishing the Infected Blood Compensation Authority. The Victims and Prisoners Act 2024 legally created the authority

[Baroness Twycross]
on 24 May, and since that point the interim chief executive David Foley has been working closely with Sir Robert Francis KC, the interim chair of the Infected Blood Compensation Authority, to set up the compensation service. It is, frankly, no small task. The Cabinet Office is supporting the organisation as it recruits and sets up a service that is easy to access and simple to use. The Infect Blood Compensation Authority itself will then provide regular updates to the infected blood community and all others interested in its work.

Let me turn to compensation. On 21 May, I welcomed the former Administration's announcement on compensation. There is an urgent need to get money to people in the most timely way possible. On 24 June, interim payments of £210,000 were made to beneficiaries of the infected blood support schemes living with infections, bringing the total paid in compensation to victims to more than £1 billion. However, we recognise that this is not enough, given that many others have also been waiting for far too long.

The Cabinet Office is working closely with the DHSC, the devolved Governments and the administrators of the existing infected blood support schemes to establish the process for making interim payments of £100,000 to the estates of deceased people who were infected with contaminated blood or blood products and whose deaths have not yet been recognised. Work is progressing to ensure that these payments are made as soon as we are able to. I am pleased to confirm to the House today that applications for these payments will open in October. The Government will set out further details in due course.

There is also the matter of the final compensation scheme. We are committed to delivering this work and delivery it quickly. We are also committed to getting it right. The proposed compensation scheme was published on GOV.UK on 21 May, and we are committed, as I indicated yesterday to the shadow Paymaster-General, to making regulations to establish the scheme by 24 August, as we are obliged to by the Victims and Prisoners Act. However, we also recognise the importance of building support and trust of those who will access the scheme. Sir Robert Francis undertook an engagement exercise in June at the former Government's request, with the support of all parties. This exercise engaged those who have been most impacted by the scandal on the content of the compensation scheme. I have been engaging with Sir Robert to hear his advice following his meetings with members of the infected blood community. I am considering his advice carefully, with a view to publishing both his report and the Government's position on it in advance of 24 August.

Finally, I reassure the House that there will be an opportunity to fully debate the content of the inquiry's final report. I am conscious that, given the timing of the recent election, there has not yet been time for honourable Members to do so. It is essential, in my view, that Members of this House have enough time to digest and debate the devastating findings of the report. The Government are considering Sir Brian Langstaff's recommendations, and we will provide an update to Parliament on the progress we are making to respond to the inquiry's recommendations by the end of the year, as Sir Brian recommended in the report.

The infected blood scandal is one of the gravest injustices this country has seen. I want to end by paying tribute to the courage and determination of the victims of this scandal—those infected and those affected who fought so hard for justice. At every debate on this issue, we remember that they are at the centre of all this. It is for them that we must come together to restore the sense that this is a country that can rectify injustice. They deserve nothing less. I commend this Statement to the House".

12.09 pm

Earl Howe (Con): My Lords, this is a welcome Statement and I thank the Minister for repeating it. During the passage of the legislation that underpins the creation of the infected blood compensation scheme, one thing that I am very glad that we all agreed on across the House was that we should not let party politics interfere with our collective aim of reaching a fair and workable set of legal provisions in response to Sir Brian Langstaff's recommendations. It is therefore particularly welcome to see that collegiate spirit continuing under the newly appointed ministerial team, and I thank them for that.

The debate that took place last Friday in the other place served to clarify a number of important questions arising from the Statement and I do not therefore propose to dwell on matters that have already been covered. The main areas that I would like to touch on relate in one way or another to the projected timetable for delivering compensation and justice in all its forms. It is excellent to hear that the recent period of election purdah did not prevent the further interim payments of £210,000 being made to beneficiaries of the infected blood support schemes living with infections, as was promised by the previous Government.

However, the other promise that we made was to put in place as soon as possible arrangements to make an interim payment of £100,000 to the estates of deceased people who were infected with contaminated blood or blood products and whose deaths have not yet been recognised. To fulfil that promise, it is clearly necessary, as the Statement indicated, to reach consensus between the devolved Administrations and the Government in Westminster, as well as those in charge of the existing support schemes, on how exactly those arrangements should be implemented. Can the Minister say how those discussions are progressing? Is she confident that, when applications for those payments open in October, they will open across the United Kingdom, as opposed to just a part or parts of the United Kingdom?

Secondly, the Statement made it clear that the regulations to establish the scheme would be made on 24 August, which, as the Act provides, is exactly three months after Royal Assent. How will that work, procedurally and legally? One risk that we identified when the Victims and Prisoners Bill was being debated was that a three-month deadline for making regulations might be too rigid if the Summer Recess, and/or an election campaign, meant that the regulations would have to be made at a time when Parliament was not sitting. Our solution was to create the Infected Blood Compensation Authority in shadow form, with a view to timing Royal Assent for a date some time in July, when we judged that the risk of a parliamentary recess

or Prorogation interfering with the making of regulations would be reduced. Because of reservations expressed by Labour shadow Ministers, it was not possible to build any flexibility into the statute to allow for those risks, which, as things have turned out, may be seen as unfortunate, because Royal Assent had to happen as soon as the general election was announced. Can the Minister clarify what the legal effect will be of the regulations being made when Parliament is not sitting? At what point will the Infected Blood Compensation Authority be legally in being?

Next, one of the key reassurances that I gave when taking the Bill through was around the need to listen to the victims. We envisaged involving the infected blood community directly in two ways: first, in setting the final shape of the compensation scheme and, secondly, in assisting Sir Robert Francis as interim chair of the authority in ensuring that the scheme, when up and running, was implemented fairly and with the full benefit of input from those whose lives have been directly affected by this calamity. As regards the former, it is good news that Sir Robert Francis completed his engagement exercise last month and that he will be publishing the outcome in advance of 24 August. As regards the latter, can the Minister reassure the House that it is still the intention for the infected blood community to be represented in the compensation authority through its committees and subcommittees? If so, is work proceeding now to give effect to that intention?

Could I next ask the Minister to confirm a point that I know is still a matter of anxiety for the infected blood community? It is a question that concerns those currently in receipt of support payments. As the responsible Minister, I gave the House an assurance that no one will be worse off under the final compensation scheme than they would have been under existing support schemes, and that an additional top-up payment would be made to anyone assessed as being entitled to less money than would otherwise have been payable via the infected blood support schemes. In other words, I promised that those people who have a legitimate expectation of receiving a certain sum of money from support payments over their lifetime will have that expectation honoured. Can the Minister confirm the assurance that I gave? Following on from that, can the Minister clarify for me whether what are now classed as ex gratia payments under the support schemes are now in effect to be rebadged as compensation?

I shall touch also on a further concern within the infected blood community, relating to access to necessary treatment. Victims have told me that parts of the NHS have been slow to recognise the moral and clinical urgency of treating those whose illness, or multiple illnesses in some cases, stems directly from receiving infected blood or blood products. Will the Minister ask her colleague in the Department of Health and Social Care to look into this and report to the House on how any difficulties of this sort might best be remedied? The Republic of Ireland issues a special card to those registered as having been infected by contaminated blood or blood products, so that there is no argument when someone presents themselves to the GP or the hospital. Is that an idea that could be considered here?

While on the subject of treatment, can the Minister say whether everything is on track in NHS England and the devolved Administrations to roll out the bespoke psychological support service for those infected and affected by the infected blood disaster?

Finally, the Statement is right to pick up Sir Brian Langstaff's finding that there is a culture of institutional defensiveness that can too often rear its head in areas of the public sector. The Government have stated their intention to bring forward a statutory duty of candour to address that issue—and, indeed, this was a proposal that we debated at some length during the passage of the Victims and Prisoners Bill. It is an idea that has obvious appeal and no doubt the Government will bring forward legislation in due course when they are ready to do so. However, I said, during our debate, that it is an idea that merits a reasonably long run being taken at it before it is set in legislative stone—and I repeat that view today, because I do not in fact think that a duty of candour is of itself a magic bullet that is capable of changing what is often an ingrained culture.

The duty of candour that we have already in the NHS has not prevented some very serious and high-profile disasters arising out of poor care, or even criminal behaviour. Similarly, we already have the Civil Service code, which mandates honesty and transparency but has not, alas, prevented the kinds of cover-ups and dishonesty in departments of government that Sir Brian Langstaff has highlighted. So, finally, will any proposals to introduce statutory duty of candour for the public sector as a whole be preceded by extensive and thorough engagement with all those parts of the public sector to which the duty is intended to apply?

Lord Scriven (LD): My Lords, I welcome the Minister to her place and wish her well in the role she is undertaking. We on these Benches also welcome this Statement and commit to a collaborative cross-party approach to this very important issue.

Victims of the infected blood scandal and their families have been waiting for decades to see justice. Tragically, as we know, thousands have died without ever having received compensation. The report of the inquiry into the scandal, chaired by Sir Brian Langstaff, laid bare the suffering inflicted, the cover-ups and the systematic failures of individuals and of the British state as a whole. Not only did individuals and the state fail to help these victims, but in many cases people were lied to, treated with contempt and dismissed outright. It is good to hear updates on progress, but victims have waited far too long and there are still some gaps.

I want to follow up on the comments by the noble Earl, Lord Howe, about the treatment and some dismissive approaches by the NHS. Rather than just having a card, now that patient records are electronic would it be possible to put an automatic flag in them so that the onus is on the service and not the individual to make sure that timely treatment is given by the NHS?

An infected blood compensation authority will be set up, but what framework is being set for a light-touch approach to those seeking compensation? We have seen that compensation schemes, such as for Horizon, can be complex and difficult for those who have been affected to navigate. What framework are the Minister

[Lord Scriven]
and the Government asking the compensation authority to undertake that will make it as light-touch as possible but with appropriate probity in place?

Another problem with the Government's proposals for compensation is that only infected victims and bereaved partners are entitled to the autonomy award. This is being used as a catch-all to cover, for example, clinical trials and the loss of the right to have children. Affected parents cannot claim this £50,000 award, but it is the only measure that looks to compensate for the financial outlay of supporting the child or children of the deceased and their partners over many years.

Another issue with the autonomy award is that it does not recognise infected and affected partners whose pregnancies have been terminated as a result of links to their blood infection. Does the Minister not agree that there is a good case for the autonomy award to be extended to specific affected individuals who can prove injury? I look forward to the Minister's answers.

Baroness Twycross (Lab): I thank the noble Earl, Lord Howe, and the noble Lord, Lord Scriven, for their contributions and thoughtful responses. The noble Earl has spoken many times from these Benches with great sensitivity and consideration, and I hope that we can work closely together on this issue as we move forward.

I also pay tribute to the work of many noble Lords across your Lordships' House, including my noble friends Lord Ponsonby of Shulbrede and Lady Thornton. They worked closely with the noble Earl and the then Government throughout the passage of what is now the Victims and Prisoners Act to put in place the legislation required to provide the necessary legal framework to establish the arm's-length body and to pay compensation with any further undue delays. It would be remiss of me not to mention the noble Baronesses, Lady Brinton, Lady Campbell of Surbiton, Lady Featherstone, Lady Meacher, and Lady Finlay, as well as all other noble Lords for their many years' work on this matter in order to reach this point.

The work of Sir Brian Langstaff should also be recognised. As the chair of the infected blood inquiry, he has worked comprehensively for the past seven years, not least for the victims and families of the infected blood scandal who for far too long were not given a voice. It is critical that we in your Lordships' House continue to speak about this important issue.

The infected blood inquiry's report brought to light the enormity of the scandal, the lives that had been shattered and the voices that had been ignored for decades. The inquiry described the infected blood scandal as a collective failing and provided a clear and powerful depiction of its subtle, pervasive and chilling aspects, which must not be forgotten. I pledge that this Government are committed to action and to ensuring that we work across your Lordships' House to ensure that those who have endured unspeakable injustices finally receive the justice they deserve.

I turn to specific points and questions that noble Lords have raised. I apologise if I do not manage to cover them all. If it is not possible to do so, I will write in detail to noble Lords. The Government recognise that no amount of money will make right the wrongdoings of the infected blood scandal, but they feel that the compensation scheme is a step towards providing recognition for those infected and affected by this tragedy. I note the comments of the noble Lord, Lord Scriven, that this should not be a complicated process, and I will feed this back after this debate on the Statement.

As noted by the noble Earl, Lord Howe, Sir Robert Francis KC recently concluded an engagement exercise on the previous Government's proposals for the infected blood compensation scheme. The Minister for the Cabinet Office has been engaging with Sir Robert to hear his advice, following his meetings with members of the infected blood community. The Minister is considering this with a view to publishing Sir Robert's report, and the Government's position on it, before 24 August.

During the summer, the made affirmative procedure will be followed, and there will be a full debate in your Lordships' House in due course; I understand that it will take place in September.

In relation to interim payments, it is important that, as well as providing sufficient time to review Sir Robert Francis's findings, we do not forget that speed, as well as simplicity, is of the essence. More than £1 billion have been paid so far in interim compensation. I am pleased that, last Friday, the Minister for the Cabinet Office announced that applications for interim payments of £100,000 to the estates of the deceased people infected by contaminated blood or blood products and who have not yet been recognised will open in October. The Government will set out further details in due course.

The proposed tariffs for the compensation scheme have been developed using the work of the infected blood inquiry response expert group, which included clinical and legal advisers assisted by social care specialists, and with reference to judicial guidelines. In line with the inquiry's recommendations, the Government have not been constrained by the practice of the courts in setting compensation rates.

There will be no immediate changes to the infected blood support schemes. Under the current proposals, payments will continue to be made at the same level until 31 March 2025. They will not be deducted from any compensation awards. From 1 April 2025, people who receive infected blood support scheme payments will continue to receive them until such time as their case is assessed by the infected blood compensation authority under the new scheme.

The noble Earl, Lord Howe, asked about support for estates payments. I can reassure him that we are working across government and with the devolved Administrations to ensure that the process for applicants to obtain probate or confirmation is as smooth as possible for them.

The noble Earl rightly raised concerns about making sure that the duty of candour is properly rolled out. The Government will bring forward legislation to place a duty of candour on public servants and authorities to make sure that this kind of behaviour cannot happen again. This will be done through the Hillsborough Bill, which will be a means of putting measures in place to ensure that those working in the public sector will be rightly held to a high standard of candour. Cultures and behaviours also need to change. It is not

just about legislation, but this Bill will support this change by bringing about consequences for those who fall short of standards.

I have taken on board what the noble Earl said about how consultations should include those affected, and I will feed this back. I do not have the details of that yet, but I will write to the noble Earl at the earliest opportunity.

I can assure the noble Earl, in response to his specific question, that no one will be worse off. The Cabinet Office is working closely with the Department of Health and Social Care and other relevant departments and organisations to give consideration to recommendations, and I am happy to pick that up at ministerial level as well.

I have already covered the regulation process and the "made affirmative" procedure. I will be brief, because I am mindful of time and the need to move on to Back-Bench questions. The committees and subcommittees will include members of the community. In a recent newsletter, the Infected Blood Compensation Authority announced that it was recruiting a permanent user consultant to help shape its work. This role will be open only to those with lived experience of the infected blood scandal. Finally, I reassure the noble Earl that the NHS support is now in place in England.

I assure noble Lords on all sides of your Lordships' House that I want to work together closely as we progress this work, as has been the case in recent years—the noble Earl himself worked very closely on this. It is essential that we do this on a cross-party basis, which is the only way that we can face up to the failures of the past and make sure that tragedies on this scale never happen again. This will take leadership and a change of culture to move away from what Sir Brian Langstaff understandably described as "institutional defensiveness". Moving away from that is absolutely critical.

12.31 pm

Baroness Meacher (CB): My Lords, I want to add bit of urgency to the point about full compensation. The noble Earl, Lord Howe, rightly referred to the urgent need for treatment for the victims of the infected blood scandal. It is ironic that we talk about the urgency of treatment and compensation decades after this happened. Nevertheless, it is good to hear that from the noble Earl, Lord Howe. The Minister referred to interim payments on a number of occasions, but these people do not just need interim payments. They have suffered and suffered for decades, and they need and deserve the full compensation as a matter of absolute urgency. I simply wish to leave that thought with the Minister.

Baroness Twycross (Lab): I reassure the noble Baroness that the Government are absolutely committed to paying comprehensive compensation to infected and affected victims of the blood scandal. This is such a priority for the Prime Minister that he stated this publicly on his second day in office. I hope the noble Baroness can take some reassurance from that.

Baroness Ritchie of Downpatrick (Lab): My Lords, I welcome my noble friend to the Front Bench. The Statement says:

"The Cabinet Office is working closely with the Department of Health and Social Care, the devolved Governments and the administrators of the existing infected blood support schemes to establish the process for making interim payments of £100,000 to the estates of deceased people who were infected with contaminated blood or blood products".

Can my noble friend further elaborate on this issue and say at what stage the devolved Administrations will be ready to make such payments? As others know only too well, both victims and their families have waited a considerable time for due compensation. They also want to know whether support schemes will continue in some format.

Baroness Twycross (Lab): I thank my noble friend for her question. On the urgency of ensuring that those affected and infected receive compensation, it is difficult to talk about urgency when people have quite clearly waited decades, in some cases, to get justice. A lot of dialogue is going on at official level with the devolved Administrations, and this will be taking place at ministerial level as well. Applications for interim payments will start in October and it is a matter of absolute urgency that that goes smoothly. Those discussions will continue to take place over the summer, in advance of 24 August, when the "made affirmative" procedure will go through. It is vital that those continue to proceed. Applications for payments will open across the piece in October and the compensation scheme will be a priority for this Government. As I said, the Prime Minister made it a priority and reaffirmed this on his second day in office.

Baroness Kramer (LD): My Lords, the Minister raised the duty of candour as a mechanism to make sure that such horrors are not repeated, but will she take on board that a duty of candour alone is completely insufficient—the noble Earl, Lord Howe, raised this—so long as those who speak out become victims of retaliation? This is almost the norm, rather than the exception, despite the existence of employment tribunals, which are completely unfit for purpose in dealing with these situations. People will not speak out because they are not prepared to martyr their career, their family and their future. So will the Minister please support actions to provide proper protections for whistleblowers? Obviously, I have brought Bills before this House, but can that become a priority? Without that, a duty of candour is ineffective.

Baroness Twycross (Lab): The duty of candour really matters. I appreciate that people are concerned about making sure that we protect public servants, which is right: we should protect them. But the duty of candour also relates to making sure that we have a culture within all our public services where, when things go wrong, people are able to say so and we do not have cover-up after cover-up. That is about not just whistleblowing but a culture that has protected the establishment and left people vulnerable and unprotected when they have been infected and affected by infected blood and infected blood products in this instance. Time and again when we have public inquiries, we see that people knew but did not speak out—and actually people have not always spoken out initially when there has been a formal public inquiry. So you

[Baroness Twycross]
cannot do that just by having a duty of candour within legislation; it has to be about the culture, which has to respect that, when whistleblowers speak out, they are protected. That is about not just legislation but the culture in which we want to operate our public services across the piece.

Public Spending: Inheritance

Statement

The following Statement was made in the House of Commons on Monday 29 July.

"On my first day as Chancellor of the Exchequer, I asked Treasury officials to assess the state of public spending. That work is now complete and I am today presenting it to this House. In this Statement, I will do three things. First, I will expose the scale—and the seriousness—of what has been uncovered; secondly, I will lay out the immediate action that we are taking to deal with the inheritance; and thirdly, I will set out our longer-term plans to fix the foundations of our economy. Let me take each of these points in turn.

First, I turn to the inheritance. Before the election, I said that we would face the worst inheritance since the Second World War: taxes at a 70-year high, debt through the roof, and an economy only just coming out of recession. I knew all of those things, and during the campaign, I was honest about them and about the difficult choices that they meant. The British people knew them too. That is why they voted for change. But upon my arrival at the Treasury three weeks ago, it became clear that there were things that I did not know. There were things that the Conservative Party covered up—covered up from the Opposition, from this House and from the country. That is why today we are publishing a detailed audit of the real spending situation, a copy of which will be laid in the House of Commons Library. I take this opportunity to thank the Chief Secretary to the Treasury, my right honourable friend the Member for Bristol North West (Darren Jones), for his leadership, and Treasury officials for all their work in producing this document.

Let me now explain what that document has uncovered. The previous Government published their plans for day-to-day spending in the Spring Budget in March, but when I arrived at the Treasury, I was alerted by officials on the very first day that that was not how much the Government had expected to spend this year. It was not even close; in fact, the total pressure on those budgets across a range of areas was an additional £35 billion. Once we account for the slippage in budgets that we usually see over a year and the reserve of £9 billion designed to respond to genuinely unexpected events, that means that we have inherited a projected overspend of £22 billion. That is a £22 billion hole in the public finances now—not in the future, but now. It is £22 billion of spending this year that was covered up by the Conservative Party. If left unaddressed, it would mean a 25% increase in the budget deficit this year, so today I will set out the necessary and urgent work that I have already done to reduce that pressure on the public finances by £5.5 billion this year and over £8 billion next year.

Let me be clear: I am not talking about costs for future years that the previous Government signed up to but did not include, like the compensation for infected blood, which has cross-party support. I am not talking about the state of public services in the future, like the crisis in our prisons that they have left for us to fix. I am talking about the money that the previous Government were already spending this year and had no ability to pay for, which they hid from the country. They had exhausted the reserve and they knew that, but nobody else did. They ducked the difficult decisions, put party before country, and continued to make unfunded commitment after unfunded commitment, knowing that the money was not there. That has resulted in the position that we have now inherited: the reserve was spent more than three times over only three months into the financial year, and the previous Government told no one.

The scale of this overspend is not sustainable, and to not act is simply not an option. This month, we have seen official Office for National Statistics figures showing that borrowing is higher this year than the Office for Budget Responsibility expected, and the disaster of Liz Truss's mini-Budget shows what happens if we do not take tough decisions to maintain economic stability. Some, including the Leader of the Opposition and the shadow Chancellor, the right honourable Member for Godalming and Ash (Jeremy Hunt), have claimed that the books were open. How dare they? It is not true, and I will tell the House why: there are very clear instances of specific budgets that were overspent and unfunded promises that were made but that—crucially—the OBR was not aware of for its March forecast. I will take each in turn.

The first is the asylum system. The forecast for the number of asylum seekers has risen dramatically since the last spending review, and costs for asylum support have risen sevenfold in the past three years, but instead of reflecting those costs in the Home Office budget for this year, the previous Government covered up the true extent of the crisis and its spending implications. The document I am publishing today reveals a projected overspend on the asylum system, including the previous Government's failed Rwanda plan, of more than £6.4 billion for this year alone. That figure was unfunded and undisclosed.

Next, in the wake of the pandemic, demand for rail services fell. Instead of developing a proper plan to adjust to that new reality, the Government handed out cash to rail companies to make up for passenger shortfalls, but failed to budget for this adequately. Because of that, and because of industrial action, there is now an overspend of £1.6 billion in the transport budget. That was unfunded and undisclosed.

Since 2022, the Government, with the support of the whole House, have rightly provided military assistance to Ukraine in response to the Russian invasion. The spending audit found that there was not enough money set aside in the reserve to fund all these costs. We will continue to honour these commitments in full, and unlike the previous Government, we will make sure that they are always fully funded.

On top of these new pressures, since 2021 inflation was above the Bank of England's target for 33 months in a row—hitting 11% at its peak—but the previous

Government had not held a spending review since 2021, which means that they never fully reflected the impact of inflation in departmental budgets. That had a direct impact on budgets for public sector pay.

When the last spending review was conducted, it was assumed that pay awards would be 2% this year. Ordinarily, the Government are expected to give evidence to the pay review bodies on affordability, but extraordinarily, this year the previous Government provided no guidance on what could or could not be afforded to the pay review bodies. That is almost unheard of, but that is exactly what they did. Worse still, the former Education Secretary had the pay review body recommendations sitting on her desk. Instead of responding and dealing with the consequences, the Government shirked the decisions that needed to be taken.

I will not repeat the previous Government's mistakes. Where they provided no transparency to the public, and no certainty for public services, we will be open about the decisions that are needed and the steps that we are taking. That begins with accepting in full the recommendations of the independent pay review bodies. The details of these awards are being published today. That is the right decision for the people who work in, and most importantly the people who use, our public services. It gives hard-working staff the pay rises they deserve while ensuring that we can recruit and retain the people we need.

It should not have taken this long to come to these decisions and I do not want us to be in this position again, so I will consider options to reform the timetable for responding to the pay review bodies in the future. This decision is in the best interests of our economy too: the last Government presided over the worst set of strikes in a generation, which caused chaos and misery for the British public and wreaked havoc on the public finances. Industrial action in the NHS alone cost the taxpayer £1.7 billion last year. That is why I am pleased to announce today that the Government have agreed an offer to the junior doctors that the British Medical Association is recommending to its members.

My right honourable friend the Health Secretary will set out further details. Let me pay tribute to him: his leadership on the issue has paved the way to ending a dispute that has caused waiting lists to spiral, operations to be delayed and agony for patients to be prolonged. Today marks the start of a new relationship between the Government and staff working in our National Health Service, and the whole country will welcome that.

Where the previous Government ducked the difficult decisions, I am taking action. Knowing what they did about the state of the public finances, they continued to make unfunded commitment after unfunded commitment that they knew they could not afford, putting party before country and leaving us with an overspend of £22 billion this year. Where they presided over recklessness, I will bring responsibility. I will take immediate action. Let me set it out in detail.

On pay, I have today set out our decision to meet the recommendations of the pay review bodies. Because the previous Government failed to prepare for these recommendations in the departmental budgets, they come at an additional cost of £9 billion this year. The first difficult choice I am making is to ask all departments to find savings to absorb as much of this as possible, totalling at least £3 billion. To support departments as they do this, I will work with them to find savings ahead of the Autumn Budget, including through measures to stop all non-essential spending on consultancy and Government communications. I am also taking action to ask departments to find 2% savings in their back-office costs.

I will now deal with a series of commitments made by the previous Government that they did not fund, because if we cannot afford it, we cannot do it. First, at the Conservative Party conference last year, the former Prime Minister announced the introduction of a new qualification: the advanced British standard. That is a commitment costing nearly £200 million next year, rising to billions across future years. This was supposed to be the former Prime Minister's legacy, but it turns out that he did not put aside a single penny to pay for it. So we will not go ahead with that policy, because if we cannot afford it, we cannot do it.

Next, the Illegal Migration Act 2023, passed by the previous Government, made it impossible to process asylum applications or remove people who have no right to be here. Instead, they relied on a doomed policy to send asylum seekers to Rwanda on planes that never took off, leaving tens of thousands of people stuck in hotels on the public purse. We need a properly controlled and managed asylum system where rules are enforced, so that those with no right to be here are swiftly removed. So we have scrapped their failed Rwanda scheme, which placed huge pressure on the Home Office budget. To bring down these costs as soon as possible, my right honourable friend the Home Secretary has already laid legislation to remove the retrospective element of the Illegal Migration Act, which will significantly reduce the use of hotel accommodation. These measures will save nearly £800 million this year and avoid costs spiralling even further next year. This was a bad use of taxpayers' money, and we will not do it.

The previous Government claimed they were levelling up the country. They made promise after promise to the British people, but the spending audit has uncovered that some of those commitments were not worth the paper that they were written on. At Autumn Statement last year, the former Chancellor announced £150 million for an investment opportunity fund, but not a single project has been supported from that fund. So following discussions with my right honourable friend the Deputy Prime Minister, I am cancelling it today, because if we cannot afford it, we cannot do it.

The previous Government also made a series of commitments on transport, promises that people expected to be delivered and promises that many Members across this House campaigned on in good faith, but the Conservative Party has failed them. We have seen from the National Audit Office the chaos that the previous Government presided over, with projects over budget and delayed again and again. The spending audit has revealed £1 billion of unfunded transport projects that have been committed to next year, so my right honourable friend the Transport Secretary will undertake a thorough review of these commitments.

As part of that work, she has agreed not to move forwards with projects that the previous Government refused to publicly cancel, despite knowing full well that they were unaffordable. That includes proposed work on the A303 and the A27, and my right honourable friend will also cancel the restoring your railway programme, saving £85 million next year, with individual projects to be assessed through her review. If we cannot afford it, we cannot do it.

The previous Government had plans for a retail sale of NatWest shares. We intend to fully exit our shareholding in NatWest by 2025-26. But having considered advice, I have concluded that a retail share sale offer would involve significant discounts that could cost taxpayers hundreds of millions of pounds. It would therefore not represent value for money, and it will not go ahead. It is a bad use of taxpayers' money, and we will not do it.

Next, let me address the unfunded pressures in our NHS and our social care sector. In October 2020, the Government announced that 40 new hospitals would be built by 2030. Since then, only one new project has opened to patients, and only six have started their main construction activity. The National Audit Office was clear that delivery was wildly off track, but since coming into office, it has become clear that the previous Government continued to maintain their commitment to 40 hospitals without anywhere close to the funding required to deliver them. That gave our constituents false hope. We need to be straight with the British people about what is deliverable and what is affordable, so we will conduct a complete review of the new hospital programme, with a thorough, realistic and costed timetable for delivery.

Adult social care was also neglected by the previous Government. The sector needs reform to improve care and to support staff. In the previous Parliament, the Government made costly commitments to introduce adult social care charging reforms, but they delayed them two years ago because they knew that local authorities were not ready and that their promises were not funded, so it will not be possible to take forward those charging reforms. This will save over £1 billion by the end of next year.

I can understand why people, and Members, are angry. I am angry too. The previous Government let people down. The previous Government made commitment after commitment without knowing where the money was going to come from. They did this repeatedly, knowingly and deliberately.

Today, I am calling out the Conservatives' cover-up and I am taking the first steps to clean up what they have left behind, but the scale of the inheritance we have been left means that the decisions we have so far announced will not be enough. This level of overspend is not sustainable. Left unchecked, it is a risk to economic stability—and unlike the Conservative party, I will never take risks with our country's economic stability. It therefore falls to us to take the difficult decisions now to make further in-year savings.

The scale of the situation we are dealing with means incredibly tough choices. I repeat today the commitment that we made in our manifesto to protect the triple lock, but today I am making the difficult decision that those not in receipt of pension credit or certain other means-tested benefits will no longer receive the winter fuel payment, from this year onwards. The Government will continue to provide winter fuel payments worth £200 to households receiving pension credit or £300 to households in receipt of pension credit with someone over the age of 80. Let me be clear: this is not a decision I wanted to make, nor is it the one that I expected to make, but these are the necessary and urgent decisions that I must make. It is the responsible thing to do to fix the foundations of our economy and bring back economic stability.

Alongside this change, I will work with my right honourable friend the Work and Pensions Secretary to maximise the take-up of pension credit by bringing forward the administration of housing benefit and pension credit, repeatedly pushed back by the previous Government, and by working with older people's charities and local authorities to raise awareness of pension credit and help identify households not claiming it.

This is the beginning of a process, not the end. I am announcing today that I will hold a Budget on 30 October, alongside a full economic and fiscal forecast from the Office for Budget Responsibility. I have to tell the House that the Budget will involve taking difficult decisions to meet our fiscal rules across spending, welfare and tax. Mr Speaker, they still don't get it, do they? Parties in Downing Street, crashing the economy, gambling on the election—party before country, every single time.

It will be a Budget to fix the foundations of our economy, and it will be a Budget built on the principles that this new Government were elected on. First, we will treat taxpayers' money with respect by ensuring that every pound is well spent, and we will interrogate every line of public spending to ensure that it represents value for money. Secondly, I can repeat from the Dispatch Box our manifesto commitment that we will not increase taxes on working people. That means that we will not increase national insurance, the basic, higher or additional rates of income tax, or VAT. Today, my honourable friend the Exchequer Secretary is publishing further detail on our manifesto commitments to close tax loopholes and clamp down on tax avoidance to ensure that we bring in that money as quickly as possible. My third principle is that we will meet our fiscal rules: we will move the current budget into balance and we will get debt falling as a share of the economy by the end of the forecast.

These are the principles that will guide me at the Budget, but let me be honest: challenging trade-offs will remain, so today I am launching a multiyear spending review. This review will set departmental budgets for at least three years, providing the long-term certainty that has been lacking for too long. As part of that process, final budgets for this year and budgets for next year, 2025-26, will be set alongside the Budget on 30 October.

I will look closely at our welfare system, because if someone can work, they should work. That is a principle of this Government, yet under the previous Government, welfare spending ballooned, while inactivity has risen sharply in recent years. We will ensure that the welfare system is focused on supporting people into employment,

and we will assess the unacceptable levels of fraud and error in our welfare system and take forward action to bring that down.

To fix the foundations of our economy, we must ensure that never again can a Government keep from the public the true state of our public finances. The fiscal framework I have inherited had several flaws. It allowed the Government to run down the clock on departmental budgets to avoid difficult decisions and to push them back beyond the election, so I am announcing the most significant set of changes to our framework since the inception of the Office for Budget Responsibility. These changes will come into effect in the autumn.

First, we have introduced legislation to ensure that we can never again see a repeat of the mini-Budget. Secondly, we will require the Treasury to share with the Office for Budget Responsibility its assessment of immediate public spending pressures, and we will enshrine that rule in the charter for budget responsibility, so that no Government can ever again cover up the true state of our public finances. Finally, we will ensure that never again do public service budgets get set at only a few months' notice. Instead, spending reviews will take place every two years, with a minimum planning horizon of three years, to avoid uncertainty for departments and to boost stability for our public finances. I have already spoken to the chair of the Office for Budget Responsibility to brief him on the findings of our audit and our reforms.

By launching the spending review, I am also today starting the firing gun on a new approach to public service reform to drive greater productivity in the public sector. We will embed an approach to government that is mission-led, that is reform-driven, with a greater focus on prevention and the integration of services at a national and local level, and that is enabled by new technology, including through the work of my right honourable friend the Secretary of State for Science, Innovation and Technology on the opportunities of artificial intelligence to improve our public services. We will establish a new office of value for money, with an immediate focus on identifying areas where we can reduce or stop spending, or improve its value.

We will appoint a Covid corruption commissioner to bring back money that is owed to taxpayers after contracts worth billions of pounds were handed out by the previous Government during the pandemic. Ahead of the spending review, I will also review the cost of our political system, including restricting eligibility for ministerial severance payments based on time in office. I expect all levels of government to be run effectively and efficiently, and I will work with leaders across our country to deliver just that. That means effective local government, a Civil Service delivering good value for the British taxpayer and reform of our political institutions, including the House of Lords, to keep costs as low as possible.

The Budget and spending review will also set out further progress on our No. 1 mission: to grow our economy. Economic growth is the only way to sustainably improve our public services and our public finances, so we will use the spending review to prioritise specific areas of capital investment that leverage in billions more in private investment. It will not happen overnight—it will take time and it will take focus—but we have already made significant progress, including: planning reforms to get Britain building; a national wealth fund to catalyse private investment; a pensions investment review to unlock capital for our businesses; Skills England to create a shared national ambition to boost skills across our country; and work across government on a new industrial strategy, driven forward by a growth mission board, to ensure that we deliver on our commitments.

Our country has fundamental strengths on which we can build, and I look forward to welcoming business leaders to the international investment summit in Britain later this year. I know that if we can create the stable conditions that investors need to thrive, we will return confidence to our economy so that entrepreneurs and businesses big and small know that this is the best place in the world to start and grow a business. That is the bedrock on which economic growth must be built.

The inheritance from the previous Government is unforgiveable. After the chaos of partygate, when they knew that trust in politics was at an all-time low, they gave false hope to Britain. When people were already being hurt by their cost of living crisis, they promised solutions that they knew could never be paid for, roads that would never be built, public transport that would never arrive and hospitals that would never treat a single patient. They spent like there was no tomorrow because they knew that someone else would pick up the bill. Then, in the election—perhaps this is the most shocking part—they campaigned on a platform to do it all over again, with more unfunded tax cuts and more spending pledges, all the time knowing that they had no ability to pay for them. No regard for the taxpayer. No respect for ordinary, hard-working people.

I will never do that. I will restore our country's economic stability. I will make the tough choices. I will fix the foundations of our economy so that we can rebuild Britain and make every part of our country better off. I commend this Statement to the House."

12.38 pm

Baroness Penn (Con): My Lords, I take this opportunity to welcome the Minister to his role. I am sure he will bring the same intellect and consideration to the Government Benches as he did in opposition.

My right honourable friend the shadow Chancellor set out clearly yesterday why the Statement we are debating today is nothing more than a political ploy by the Government to lay the ground for tax rises that Labour was not honest about during the election. He asked the Chancellor several important questions and I listened very carefully to her failure to answer them. So it is welcome that the Minister is here today to give things another go.

First, will the Minister confirm to the House that, since January, in line with constitutional convention, the Chancellor had meetings with the Permanent Secretary to the Treasury? Will the Minister tell the House whether they discussed the public finances, including any of the pressures included in yesterday's Statement? If so, why are we hearing about the response to those only after the election, during which the Government promised no new tax rises?

[Baroness Penn]

Secondly, we are just three months into the financial year. Can the Minister confirm that, at the start of the year, the Treasury had a reserve of £14 billion for unexpected revenue costs and £4 billion for unexpected capital costs? Can he explain why yesterday's Statement did not account for the Treasury's ability to manage down in-year pressures on the reserve by £9 billion last year alone? Why did it apparently not account for underspends typically of £12 billion a year?

Will the Minister further confirm whether the Government have abandoned the £12 billion of welfare savings planned by the last Government? That is apart from yesterday's announcement of a cut to the winter fuel allowance. The Chancellor yesterday admitted she was well aware that take-up of pension credit was woefully low; therefore, can the Minister tell this House how many pensioners living in poverty will now have their winter fuel allowance taken away from them? Can the Minister also confirm whether the Chancellor has abandoned £20 billion of annual productivity savings planned by the last Government, and if not, why they were not in the numbers published yesterday?

Thirdly and importantly, just five days ago the Chancellor presented to Parliament the Government's estimates for their spending plans this year. Yesterday, my right honourable friend the shadow Chancellor wrote to the Cabinet Secretary with questions on the difference between the figures the Chancellor asked MPs to approve last week and the document she presented yesterday. Perhaps the Minister can speed up the process by answering them today? Can the Minister confirm that senior civil servants signed off on the main estimates and that they were presented in good faith? Can he explain why is there a difference between the plans signed off by senior civil servants in estimates and plans presented yesterday by the Chancellor? If the estimates are wrong, will accounting officers be sanctioned for signing off departmental spending plans for this year which are based on a forecast of requirements that is incorrect?

The Government have also not been straight about their economic inheritance. When BBC Verify asked a professor at the London School of Economics about the claim that Labour had inherited,

"the worst set of economic circumstances"

since the Second World War, he responded:

"I struggle to find a metric that would make that statement correct".

In fact, the metrics speak for themselves: inflation is 2% today—nearly half what it was in 2010; unemployment is nearly half what it was then, with more new jobs than nearly anywhere else in Europe. So far this year, we are the fastest-growing G7 economy, and over the next six years the IMF says we will grow faster than France, Italy, Germany and Japan. In addition, the forecast deficit today is 4.4%, compared to 10.3% when Labour was last in office.

Every Chancellor faces pressures on public finances, and after a pandemic and an energy crisis those pressures are particularly challenging. That is why, in autumn 2022, the previous Government took painful but necessary decisions on tax and spend. We knew that, if we continued to take difficult decisions on pay, productivity and welfare reform, we could live within our means and start to bring taxes down. On the other hand, Labour ran a campaign knowing that, in government, it would duck those difficult decisions. In just 24 days, the Government have announced £7.3 billion for GB Energy, £8.3 billion for the national wealth fund and around £10 billion for public sector pay awards. That is £24 billion in 24 days—£1 billion for every day the Chancellor has been in office—leaving taxpayers to pick up the tab.

Will the Minister confirm that around half of yesterday's supposed black hole comes from discretionary public sector pay awards—in other words, not something that the Government have to do, but something on which they have a choice? In accepting those recommendations, was the Chancellor advised by officials to ask unions for productivity enhancements before accepting above-inflation pay awards to help to pay for those awards, as the last Government did? If she was advised to do that, why did she reject that advice? Can the Minister reassure the House on another promise the Chancellor made, on her fiscal rules? Can he confirm that, in order to pay for the Government's public sector spending plans, the Chancellor will not change her fiscal rules to target a different debt measure so that she can increase borrowing and debt by the back door?

The difference between yesterday's Statement and 2010 is that, when the Conservatives came to office, we were honest about our plans, saying straightforwardly that we would need to cut the deficit. The party opposite has just won an election promising over 50 times that it has no plans to raise taxes. Yesterday was simply a political exercise to lay the ground for breaking that promise.

Baroness Kramer (LD): My Lords, in the debate on the economy following the King's Speech, I particularly noticed the speeches made by the noble Baronesses, Lady Noakes and Lady Vere, and the noble Lord, Lord Bridges, in which they lauded the state of the economy that the Conservatives were handing over. I welcome the noble Baroness, Lady Penn, back to her place on the Conservative Front Bench, but I have just heard a repeat of exactly the same. I find myself thinking today, as I thought back then, how out of touch can the Conservative Party be? Ordinary folk are seriously struggling with the cost of living; businesses are short of workforce and facing costs and barriers to trade with Europe, our major market; productivity and business investment are both stagnant; public debt and taxes are at record highs; and public services are in as dire a crisis as I can ever remember.

My party recognises that the new Government face a huge challenge to deliver both fiscal stability and economic growth, but like my colleagues in the Commons, I ask the Government whether they will give significant priority to the NHS and social care. The two are totally intertwined. It is not just a case of humanity; thousands of people who are trapped in ill health or overwhelmed by caring responsibilities are the potential workforce who could change our economy. I was very sad to hear of a further delay in the introduction of the Dilnot cap, but, frankly, I never had any confidence that a Conservative Government, had they followed the election, would ever have implemented it. However, that nettle has got to be grasped, and I very much

hope we will soon hear that there is at least going to be a royal commission to get some final answers to what is an absolutely fundamental ulcer in the health of our overall economy and civil society.

During the election, my party pointed out that there are potential sources of funding: restoring the levy on the big banks, a windfall tax on oil and gas giants without huge loopholes and a fair tax on the online and tech giants are simple examples. There are ways to look at the broader shoulders in order to meet some of those funding gaps. Moreover, infrastructure cannot be neglected. I ask the Government, even if a particular transport or green project—I give those as examples—cannot lever in private funds directly, but on the other hand has the potential to release new opportunity that follows on from private investment, and which will drive economic renewal, will those projects be on the priority list as we move forward? Furthermore, a long-term, reliable industrial strategy is essential, and I very much welcome it. I also welcome and very much approve of plans for new transparency and accountability in the numbers and forecasts provided to give us a sense of the health and state of the public finances.

In closing, I repeat: will the NHS and social care be very high on the list of choices the Government will have to make? They are essential to the future of both the UK economy and the structures of civil society.

The Financial Secretary to the Treasury (Lord Livermore) (Lab): My Lords, I am grateful to the noble Baronesses, Lady Penn and Lady Kramer, for their comments and questions. I thank the noble Baroness, Lady Penn, for her kind words and I welcome her to her place.

The noble Baroness, Lady Penn, asked a number of questions about the decisions we have taken to deal with the public spending inheritance, and she spoke in positive terms about the economic inheritance this Government face. The fact is that the previous Government left the worst inheritance since the Second World War: public services at breaking point, sewage in our rivers, our schools literally crumbling, taxes at a 70-year high, national debt through the roof, and an economy barely out of recession. The British people know that to be true; that is why they voted for change, and it now falls to this Government to clean up the mess left behind. The scale of that mess inherited from the previous Government is serious. The Treasury's detailed audit of the spending situation published yesterday uncovered a projected overspend of £22 billion this year.

The noble Baroness, Lady Penn, repeated the claim that all that information was known; let us be very clear that that is not true. In her Statement, the Chancellor set out very specific instances of budgets that were overspent and unfunded promises that were made that, crucially, the OBR was not aware of when producing its March forecast.

The director of the Institute for Fiscal Studies said of the previous Government's spending commitments that they "genuinely appear" to have been unfunded. The noble Baroness, Lady Penn, is very experienced in these matters and fully knows the rules that govern access talks prior to an election. In a letter to the Treasury Select Committee, the chair of the Office for Budget Responsibility confirmed that the OBR was made aware of these spending pressures only last week. He also says that this overspend

"would constitute one of the largest … overspends … outside of the pandemic years".

He has initiated a review into the information provided to the OBR ahead of the spring Budget.

However, one group of people did know the true scale of what has been uncovered: the previous Government, and they covered it up. The noble Baroness, Lady Penn, mentioned the reserve; the previous Government had exhausted that reserve and spent more than three times over, only three months into the financial year, and yet continued to make unfunded commitment after unfunded commitment, which they knew they could not afford, knowing that the money was not there—and they told no one.

The noble Baroness, Lady Penn, also criticised some of the decisions that we are now taking to clean up the mess that they left behind, including on pay, where the previous Government failed to give any guidance on affordability, to hold a spending review, or to deal with or account for the consequences. Her comments simply remind us that, when they were in Government, they repeatedly ducked the difficult decisions. This is why we have been left with an overspend of £22 billion this year. The scale of that overspend is not sustainable. Not to act is not an option. If left unaddressed, it would have meant a 25% increase in the Government's financing needs this year, so the Chancellor rightly set out immediate action to reduce pressure on public finances by £5.5 billion this year and by over £8 billion next year.

The noble Baroness, Lady Penn, also asked about the main estimates. Page 7 of the spending audit document that the Treasury published yesterday sets out the position clearly. It reads as follows:

"The government laid Main Estimates for 2024-25 before Parliament on 18 July, the earliest available opportunity after the General Election and considerably later than the usual timetable. These Estimates were prepared before the General Election, and the government was forced to lay them unchanged in order to allow them to be voted on before the summer recess. This was necessary to avoid departments experiencing cash shortages over the summer. The pressures set out in this document represent a more realistic assessment of DEL spending. As usual, departmental spending limits will be finalised at Supplementary Estimates".

The noble Baroness, Lady Penn, raised the difficult decision that those not in receipt of pension credit will no longer receive the winter fuel payment from this year onwards. That was not an easy decision, but the difficult reality we must face is that the previous Government repeatedly, knowingly and deliberately made commitment after commitment, without ever knowing where the money would come from. The level of the resulting overspend is not sustainable. Left unchecked, it would be a risk to economic stability, so it falls to this Government to take the difficult decisions to make the necessary in-year savings. That means incredibly tough choices; these are not decisions that we want to take or expected to take but necessary and urgent decisions that we must take.

These difficult decisions are the beginning of a process, not the end. There will be a Budget on 30 October. That will involve taking difficult decisions to meet our

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fiscal rules across spending, welfare and tax. Because challenging trade-offs will remain, the Chancellor also announced a multiyear spending review, which will set out departmental budgets for the next three years. To answer the noble Baroness, Lady Kramer, that spending review will prioritise our manifesto commitments on public services, as well as investment for growth.

The inheritance from the previous Government is unforgivable. After the chaos of partygate, when they knew that trust in politics was at an all-time low, they gave false hope to Britain. When people are already being hurt by their cost of living crisis, they promised solutions that they knew could never be paid for. Then in the election—this is perhaps the most shocking part—they campaigned to do it all over again: more unfunded tax cuts and more spending pledges, all the time knowing that they had no ability to pay for them, no regard for the taxpayer and no respect for working people. This can never happen again. We will take the tough decisions to restore economic stability and to fix the foundations of our economy.

12.54 pm

Lord Fox (LD): My Lords, I want to follow up on my noble friend's comments on the NHS and social care. All of us who were observing the hospital programme could see that it was foundering, costing money and not progressing, so yesterday's announcement on its future was not surprising. However, the need for new NHS facilities and to upgrade and shore up the NHS estate remains. Communities may well have been sold a pup by the Conservatives, but their needs remain. What are the Government's plans to pick up and deal with the legacy of a crumbling NHS estate?

Lord Livermore (Lab): I am grateful to the noble Lord for his support for the announcements on the hospital building programme yesterday. As he knows, those plans were completely unfunded, behind schedule and overbudget. It is right that we have a full review of them. As I said to the noble Baroness, Lady Kramer, the coming spending review will prioritise the manifesto commitments that we made on public services, including the NHS. We will take forward our commitment to reform adult social care, as he mentioned, and will work towards building a consensus for the reforms needed to build a national care service.

Lord Wood of Anfield (Lab): My Lords, I thank my noble friend the Minister for his Statement. Noble Lords will remember that, in 2010, when Conservative Chancellor George Osborne set up the Office for Budget Responsibility, he said:

"That means there will be nowhere to hide the debts, no way to fiddle the figures, and no way of avoiding the difficult choices that have been put off for too long".

I think noble Lords will agree that the most shocking thing about yesterday's Statement was that it was not the Labour Government but the Office for Budget Responsibility—set up by the Conservatives—that made clear that, a week ago, £21.9 billion of unfunded pressures were revealed to it for the first time. I was glad to hear that the Minister, the Chancellor and their colleagues at the Treasury will revisit the OBR charter, but what will the nature of that revisiting be? Will it make sure that, as George Osborne intended, the OBR will not be kept in the dark by any future Government?

Lord Livermore (Lab): I am grateful to my noble friend for his question. Yesterday's letter from the chair of the Office for Budget Responsibility shows his views on these important overspends being kept from the OBR. My noble friend asks about the reforms that have been announced. As part of the longer-term plan to fix the foundations of the economy, we are going to introduce significant additional reforms to strengthen the fiscal framework and ensure that this can never happen again. Those initial reforms were welcomed yesterday by Richard Hughes, the chair of the OBR. He also said that he will initiate his own review to determine whether those reforms are sufficient, and he may make additional recommendations.

There are two elements to what was announced yesterday. First, we will introduce a fiscal lock, which has already been introduced in the other place as the Budget Responsibility Bill. This fiscal lock will ensure that there is always proper scrutiny of the Government's fiscal plans. Secondly, we will increase transparency by, in future, requiring the Treasury to share with the OBR its assessment of immediate public spending pressures and enshrine that in the charter for budget responsibility, in essence so that this never happens again—no Government can ever again cover up the true state of public finances.

Baroness Altmann (Con): My Lords, I warmly welcome the noble Lord to the Front Bench and congratulate him on his appointment. We have heard about shock today; I truly confess that I was shocked yesterday to see pensioners being picked on and yet again bearing the brunt of cost savings. This Government promised to protect the triple lock, but what they announced at a stroke yesterday, with virtually no notice, was worse than taking away the triple lock.

The winter fuel payment is worth 3% of the basic state pension for over - 80s. I urge the Government to think again about the enormity of the decision that was made. Three hundred pounds does not sound like a lot to us, but to pensioners who will also have rising energy bills, to 800,000 pensioners who are not claiming pension credit and to those just above the threshold, this is compounding the cliff edge. We have already seen that £300 was taken away in the emergency cost of living payment was last year, and I agreed with that, but I urge the Government to reconsider and think about joining the winter fuel payment with the state pension so that it becomes taxable, saving some money that way. At the very least, they should delay any such decision until they are able to carefully assess the impact on some of the very poorest pensioners.

Lord Livermore (Lab): I am grateful to the noble Baroness for her kind words. She is extremely expert in these matters, and I have the greatest respect for her, but I think that her analysis is not correct in terms of the value of the triple lock versus the winter fuel payment. In the other place yesterday, the Chancellor confirmed that pensioners will continue to benefit from the triple lock throughout this Parliament.

On the winter fuel payment, this of course is not an easy decision and I can understand why there is disappointment about it, but it is the right decision in the circumstances. The level of overspend is not sustainable. Left unaddressed, it would have meant a 25% increase in the Government's financing needs this year, so it falls on this Government to take the difficult decisions to make the necessary in-year savings.

We will, of course, work to maximise the take-up of pension credit in two ways: bringing together the administration of housing benefit and pension credit, and working with older people's charities and local authorities to raise awareness of pension credit and to help identify households not claiming it.

Lord Boateng (Lab): My Lords, I congratulate the Financial Secretary on his appointment and say how glad many of us are about his return to the Treasury. We recall—as I look around, there are a number of folk who do—his excellent service last time he was in that place.

Will he also please draw to the attention of the House—and Members opposite in particular—that when he was last at the Treasury, the United Kingdom was second only to the United States in increases in productivity and indeed had the highest growth in GDP of any member of the G7? Will he reject the carping criticisms and crocodile tears that have come from Members opposite, here and in the other place? Will he reaffirm his Government's commitment to building on human capital and innovation to support long-term growth?

Lord Livermore (Lab): I am extremely grateful to my noble friend for his kind words. He is quite right: not only are the previous Government guilty of what we are discussing today, of running up an enormous overspend and of hiding that from Parliament, the public and the Opposition at the time, but they left us with possibly the worst economic inheritance since the Second World War. That contrasts sharply with the performance of the economy under the last Labour Government. Of course, growth is absolutely our priority. That growth will take time, but we are absolutely committed to doing what it takes to return this economy to a sustainable level of growth.

Baroness Wheatcroft (CB): My Lords, I welcome the Minister to his position on the Front Bench. As we listen to this tale of consistent overspend and budget failures being swept under the carpet, it is very hard to imagine that civil servants in several departments were not increasingly unhappy about what was going on, including a lack of a spending review since 2021—extraordinary really. Can the Minister assure those civil servants that they will not be guilty if they come forward and talk of any pressures that have been applied to them? The previous Government had form on that, and I think that there should be an amnesty for any civil servant who was put in a deeply uncomfortable position by, in effect, telling untruths to the country.

Lord Livermore (Lab): I am grateful to the noble Baroness for her question. Of course, at the end of the day, civil servants advise and Ministers decide. We have full confidence in the Treasury and all civil servants in the way that they do their jobs. She is absolutely right that part of the problem was the continual delay to hold a spending review; the last spending review was in 2021. That sits behind so many of these problems: that budgets were never adjusted to account for any of the decisions that were taken subsequent to that spending review.

The Chancellor announced yesterday that she has commissioned the OBR to deliver a full economic and fiscal forecast, which will be presented alongside a Budget on 30 October. She also announced that the Government have launched a multi-year spending review to conclude in spring 2025, setting budgets for at least three years of the five-year forecast period. As part of this, final budgets for this year and next year will be set alongside the Budget on 30 October. The Government are also committed to holding a spending review every two years, which will set departmental expenditure limits for three years, to avoid uncertainty for departments and bring stability back to our public finances.

The Earl of Effingham (Con): My Lords, cost of living crises are created by inflation. There was a generational shock to global supply chains during and after the pandemic, followed by the war in Ukraine, which together caused a serious spike in global energy, food and goods prices. Those factors caused inflation and the ensuing cost of living crisis, not the Government at the time. Therefore, what is the Minister's assessment of the clause in the Statement which says that people were already being hurt by the previous Government's cost of living crisis?

Lord Livermore (Lab): I am grateful to the noble Earl for his question. He is absolutely right that the origins of many of the shocks that the British economy experienced were global; however, the UK suffered worse and for longer than many comparative countries. Inflation stayed higher for longer in this country than I think in any other comparative country. The reason for that is the decisions taken by the previous Government, and there were three in particular: austerity, which choked off investment; a badly handled Brexit deal; and the Liz Truss Budget, which crashed the economy and sent mortgage rates spiralling.

Lord Hain (Lab): My Lords, I too congratulate my noble friend the Minister on his appointment, and his performance this afternoon has shown what authority he has in that post. Does he agree that capable Minister though the noble Baroness was, and respected in this House, she cannot possibly believe the guff that she has just read out, sent to her from down the Corridor, no doubt? The truth is, as the letter from the chair of the OBR confirms, they were not told the full information. There was a monumental mess left by the previous Government, who were not straight with the electorate during the election campaign, promising massive tax cuts and huge increases in defence spending which they could not possibly finance.

However, can the Minister confirm that the payments given to doctors and others in the public sector are merited? They are vital public sector workers who have been treated miserably by the previous Government, and justice is at last being done.

Lord Livermore (Lab): I am very grateful to my noble friend for his kind words. Of course, as always, he is absolutely correct: the previous Government had exhausted the reserve. They had spent it more than three times over only three months into the financial year, yet they continued to make unfunded commitment after unfunded commitment that they knew—cynically—they could not afford, knowing the money was not there. They told no one about this. It is deeply shocking. What is more shocking, as my noble friend said, is that they continued to do this throughout the recent general election campaign. They continued to make unfunded tax and spending commitments with money that they knew, looking back at what they had in the Treasury, was not there to meet any of them. It is deeply shocking not only that they did it but that they learnt nothing from it. From the words of the noble Baroness today, it is still not clear that they have learnt anything from what they did while they were in government.

I join my noble friend in saying that the decision to meet the recommendations of the pay review bodies is absolutely the right one. Again, we have heard nothing but criticism from the other side for that. What is not right is that the previous Government—extraordinarily—published no guidance on what could or not be afforded, nor is it right that they then failed to prepare in any way for those recommendations in departmental budgets, and nor is it right that they had not held a spending review since 2021, which is the root cause for many of these problems.

Lord Sikka (Lab): My Lords, around 2 million pensioners are caught in the income tax net because of frozen tax thresholds. Now, we are taking away another £300 from the same people through a measure that was not in our manifesto. I have already received many messages from pensioners expressing great concern about this. The Government could have introduced a taper to lessen the pain to help many pensioners. Will the Minister give a commitment to have another look at that? Also, this document, produced by the Treasury, has lots of financial numbers but there is no mention of any human cost whatever. Last year, 5,000 pensioners died of cold because they were unable to afford heating. Has he made any estimates of how many more will die because £300 will be taken away from them?

Lord Livermore (Lab): As my noble friend perhaps did not acknowledge, this is not an easy decision and I understand why there is disappointment about it, but it is the right decision in the circumstances. The level of overspend we inherited is simply not sustainable. Left unaddressed, it would have meant a 25% increase in the Government's financing needs this year, so it falls on this Government to take the difficult decisions to make the necessary in-year savings.

Earl Attlee (Con): My Lords, the noble Lord, Lord Boateng, correctly drew attention to our productivity problems. How much scope does the Minister think there is for improving our productivity? There are, obviously, the welcome planning reforms but how far does he think he can improve our productivity in percentage terms, and to what timescale?

Lord Livermore (Lab): I am grateful to the noble Earl for that question. He is absolutely right: productivity must be increased because growth is a central mission of this Government, and we will not increase growth sustainably unless we increase productivity. Growth will not, of course, happen overnight. He asked for a timescale. It is difficult to judge, but we have already made significant progress—probably more progress on growth measures—in the first three weeks of being in government than were made over the past 14 years. They include planning reforms to get Britain building; a national wealth fund to catalyse private investment; a pensions investment review to unlock capital; skills England to boost skills across our country; and work across government on a new industrial strategy.

Lord Sentamu (CB): My Lords, I declare an interest. My title is Lord Sentamu, of Lindisfarne, which is in Northumberland. In Berwick, where I live, a hospital is being built. Will the building continue, or is there a question mark because of the finances? Secondly, I want to return to the question of the noble Baroness, Lady Kramer, and the Minister's colleague, regarding the health service. The Secretary of State for the Department of Health and Social Care said that social care is not fit for purpose. How long are we to wait for the implementation of Dilnot? If social care really is not fit for purpose, I did not hear in the Chancellor's statement what is going to be done about that challenge to a lot of our citizens. Over the past six months, I have attended a lot of hospitals. The challenge for those who are sick is so big that somebody has got to do something about it.

Lord Livermore (Lab): I am grateful to the noble and right reverend Lord for his question. As was set out yesterday, we will conduct a complete review of the new hospital building programme, with a thorough, realistic and costed timetable for delivery. I cannot give him any specific information on the project he mentioned. As I said to other noble Lords, we are absolutely committed to reforming adult social care to create a sustainable system that delivers for the people who draw on that care, their families and the social care workforce. We will work to build consensus for the reforms needed to build a national care service.

Lord Eatwell (Lab): My Lords, with respect to the details revealed in the Chancellor's statement yesterday, on some of which the noble Baroness, Lady Penn, casts some doubt, has the Minister noticed the statement published by the IFS yesterday evening? It stated:

"some of the specifics are indeed shocking, and raise some difficult questions for the last government. If the scale of these overspends and spending pressures was apparent in the spring—and in lots of cases, there's no reason to suppose otherwise—then it is hard to understand why they weren't made clear or dealt with in the Spring Budget. Jeremy Hunt's £10 billion cut to national insurance looks ever less defensible".

Does the Minister agree that the Spring Budget was another example of the economic mismanagement and fiscal irresponsibility that is a persistent characteristic of this Conservative Party?

Lord Livermore (Lab): I am grateful to my noble friend for drawing the House's attention to yesterday's remarks from the IFS. It is clear that it is as shocked at

the rest of us at the scale of this overspend. I 100% agree with my noble friend that the Spring Budget was just the latest and, fortunately, last episode in 14 years of failure from the party opposite.

Bank Resolution (Recapitalisation) Bill [HL]

Second Reading

1.16 pm

Moved by ***Lord Livermore***

That the Bill be now read a second time.

The Financial Secretary to the Treasury (Lord Livermore) (Lab): My Lords, I am sure that all noble Lords will be pleased to see the noble Baroness, Lady Penn, in her place today. I enjoyed working with her on the passage of the Financial Services and Markets Act in the last Parliament, when I was new in my role and she knew a great deal more about the Act than I did. Now I am new in my role again, and I am quite sure she still knows a great deal more about this Bill than I do; I am sure that I will enjoy working with her just as much. I am also pleased to see and work again with the noble Baroness, Lady Kramer, who probably knows more about this subject than the rest of us put together.

The Bank Resolution (Recapitalisation) Bill will enhance the UK's resolution regime, providing the Bank of England with a more flexible toolkit to respond to the failure of banks. It ensures that, where failing banking institutions require intervention, in particular smaller banks, certain costs of managing their failure do not fall on taxpayers. It strengthens protections for public funds and promotes financial stability, while supporting economic growth and competitiveness by avoiding new upfront costs on the banking sector.

The resolution regime was introduced in the wake of the global financial crisis and implemented in the UK through the Banking Act 2009. It provides a number of additional tools to the Bank of England to manage the failure of financial institutions safely, helping to limit risks to financial stability, public funds and the economy. The regime was introduced in recognition of a global consensus that reforms were needed to end "too big to fail" and ensure financial institutions could wind up their operations in an orderly way. This regime has been developed and added to steadily over the past decade by a succession of Governments, giving the UK a robust regime and supporting its role as a leader in financial regulation, while also reflecting relevant international standards.

The regime was last used to resolve Silicon Valley Bank UK, the UK subsidiary of the US firm that collapsed in March 2023. The Bank of England used its powers under the Banking Act to facilitate the sale of Silicon Valley Bank UK to HSBC, delivering good outcomes for financial stability, customers and taxpayers. All the bank's customers were able to continue accessing their bank accounts and other facilities, and all deposits remained safe, secure and accessible. In doing so, the Bank of England ensured the continuity of banking services and maintained public confidence in the stability of the UK financial system.

While the case of Silicon Valley Bank UK demonstrated the effectiveness and robustness of the resolution regime, the Bank of England, the Treasury and international counterparts have carefully considered the implications of this wider period of banking sector volatility. This builds on the proposals set out in consultation by the previous Government, following the work they did with the Bank of England after the Silicon Valley Bank case. This Government believe there is a case for a targeted enhancement to give the Bank of England greater flexibility to manage the failure of small banks effectively. I hope that, given the origin of these proposals, they will be welcomed by noble Lords from across the Chamber.

It is worth noting that small banks that fail are typically expected to be placed into insolvency under the bank insolvency procedure and are currently not expected to meet the conditions that must be satisfied for the Bank of England's resolution powers to be used. These conditions include whether exercise of the powers is necessary to meet certain objectives of resolving a bank and is in the public interest.

Under the bank insolvency procedure, upon entering insolvency, the Financial Services Compensation Scheme compensates eligible depositors for account balances up to £85,000 per depositor within seven days, with higher limits for temporary high balances. This compensation is funded initially through a levy on industry and then, where possible, recovered from the estate of the failed firm.

Following the case of Silicon Valley Bank UK, the Government's view is that in some cases of small bank failure, the public interest and resolution objectives may be better served by the use of resolution powers than insolvency. If, in future, a failing small bank were to require resolution, it may require additional capital. This may be needed for a range of reasons: for example, to meet minimum capital requirements for authorisation or to sustain market confidence. At present, these costs may initially have to be borne by taxpayers, as the Treasury would be the only available source of funds to meet these expenses. That is an undesirable status quo.

A key aim of the Bank Resolution (Recapitalisation) Bill, therefore, is to strengthen the protections for public funds where a small bank is placed into resolution instead of insolvency. Overall, this is a necessary and, I hope, uncontroversial set of reforms in order to ensure the regime effectively continues to limit risks to financial stability and to taxpayers.

It is important to note that the bank insolvency procedure will still have an important role in managing the failure of small banks. Relatedly, the Government do not intend to make widespread changes to a resolution regime that is already working well. Instead, this Bill reflects the view that there is merit in a targeted set of changes which ensure that, if needed, certain existing resolution tools can be applied to small banks in a way that achieves good outcomes for financial stability while also protecting taxpayers.

The Bill achieves this by introducing a new mechanism. This mechanism allows the Bank of England to use funds provided by the banking sector to cover certain costs associated with resolving a failing banking institution

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and achieving its sale, in whole or in part. The Bill does three things to create the new mechanism. First, it expands the statutory functions of the Financial Services Compensation Scheme, which will be required to provide funds to the Bank of England upon request, to be used where necessary to support the resolution of a failing bank.

Secondly, the Bill allows the Financial Services Compensation Scheme to recover the funds provided by charging levies on the banking sector. This is similar to the current arrangements for funding depositor payouts in insolvency, with the exception of the treatment of credit unions. In response to feedback from industry, the Government have decided to carve out credit unions from levy contributions in recognition of the fact that they cannot be put into resolution, and so the new mechanism cannot be used on them. It is important to note that this means the banking sector is levied only after the event of failure, not before, thereby avoiding new upfront costs on the sector.

Thirdly, the Bill gives the Bank of England an express ability to require a bank in resolution to issue new shares, facilitating the use of industry funds to meet a failing bank's recapitalisation costs. Taken together, these measures give the Bank of England a more flexible toolkit to respond to small bank failures in a way that promotes financial and economic stability. Critically, they strengthen protections for taxpayers' money, while avoiding new upfront costs on the banking sector.

The Bill consists of five clauses and is narrow in scope. I will now set out how each of them operates and the effect they produce. The first clause inserts into the Financial Services and Markets Act 2000 a new section which introduces the new mechanism. It allows the Bank of England to require the Financial Services Compensation Scheme to provide the Bank of England with funds when using its resolution powers to transfer a failing firm to a private sector purchaser or bridge bank. It sets out what these funds can be used for: namely, to cover the costs of recapitalising the firm and the expenses of the Bank of England and others in taking the resolution action. It also allows the Financial Services Compensation Scheme to recover the funds provided through levies.

The second clause sets out that the Bank of England must reimburse the Financial Services Compensation Scheme for any funds it provides that were not needed. The third clause primarily ensures that existing provisions relating to the Financial Services Compensation Scheme apply to the new mechanism in the same way. The most substantive change specifies that the Financial Services Compensation Scheme cannot levy credit unions to recoup funds provided under this mechanism. The most substantive change in the fourth clause gives the Bank of England the power to require a failing firm to issue new shares. This will make it easier for the Bank of England to use the funds provided by the Financial Services Compensation Scheme to recapitalise the firm by using the funds to buy the new shares. The fourth clause also makes several consequential changes to reflect the introduction of the new mechanism. The fifth and final clause sets out procedural matters, including that the Treasury may make regulations to commence the provisions in the Bill.

The key proposals in this Bill have been subject to consultation with industry, and the Government appreciate the feedback they have received and have reflected on it carefully. The Government note the concerns about the appropriateness of credit unions being liable to pay levies under the mechanism. The Government have taken this feedback on board, and the Bill therefore carves credit unions out of the scope of levies where the new mechanism is used. The Government also acknowledge the questions raised by industry about whether additional safeguards should be included to ensure the Bank of England calls on the Financial Services Compensation Scheme only where this is less costly than putting a bank into insolvency instead. The Government have reflected on this feedback carefully and consider that the safeguards in the existing resolution regime remain appropriate.

However, the Government do intend to update the special resolution regime code of practice in due course, in order to set out how we will ensure clarity on how the Bank of England will consider relative costs to industry in different scenarios. As part of this, the Government intend to set out in the code of practice their expectations around what the Bank of England would need to report on publicly following the exercise of its new powers. Finally, the Government stress that the banking sector as a whole stands to benefit from use of the mechanism set out in the Bill, in particular in its ability to reduce the potential risk of contagion arising from small bank failures where resolution is in the public interest.

I recognise that noble Lords have in the past raised concerns about the exemptions applied when SVB UK was transferred to HSBC and, although these are not within scope of the Bill, may wish to raise such concerns today. It is important to note that the resolution of SVB UK presented an exceptional set of circumstances which required an exceptional response, recognised by noble Lords across the House at the time. The House also supported the conditions that were applied to the exemption, in particular to limit the type of business that SVB UK—now HSBC Innovation Banking—is able to carry out. I am assured that the regulator is in a position to ensure these conditions are met.

I would also like to reassure noble Lords that there is no expectation that ring-fencing provisions would be disapplied in the event of resolution in future; as with many aspects of resolution, they would need to be considered on a case-by-case basis, based on the balance of risks and the public interest at the time. The Government would, though, caution against steps that would create significant new procedural barriers to the use of the transfer tools, given unpredictable situations and the need to act quickly and decisively.

Stability is at the heart of the Government's agenda for economic growth, because when we do not have economic and financial stability, it is working people who pay the price. The resolution regime is a critical source of stability when banks fail, by ensuring that public funds and taxpayer money are protected. This Bill delivers a proportionate and targeted enhancement to the resolution regime to ensure it best continues to provide that important stability. I look forward to hearing your Lordships' views on it during this debate. I beg to move.

1.28 pm

Lord Moylan (Con): My Lords, I welcome the noble Lord to his place on the Front Bench. In reviewing the short list of speakers in this Second Reading debate, I am very conscious that I probably know less about this topic than anybody else who is about to speak. So, I feel peculiarly exposed, coming immediately after the Minister and giving the opportunity to all subsequent speakers to point out where I have got things wrong. None the less, that is the luck of the draw. I will say at the outset that I do not object to the measure proposed in this Bill. What I want to raise is the question of whether we have quite the robust bank rescue system that the Minister thinks we have and said we have during his introductory speech.

Silicon Valley Bank is the starting point of this. In some ways, Silicon Valley Bank was not a bank failure; the parent bank failed in America but the UK subsidiary did not in itself fail, and was successfully sold to the private sector. It was sold, admittedly, for a nominal sum, and the shareholders lost their money, but none the less that is a good outcome, and those involved are to be congratulated on succeeding in doing that. The bank continues to operate and it is there in the private sector; no taxpayer money was thrown at it, and that was a successful outcome.

The Bill arises, therefore, not so much from Silicon Valley Bank as from officials thinking about what might have happened if it had all gone wrong and whether we would have needed an additional power had it worked out rather differently. That line of thinking is also to be welcomed; it is good that officials think about what might have happened if things had gone wrong, and whether they would need an additional power. So we might reach the conclusion that we have a very robust system, but what I am saying is that it was not really tested very well.

It is worth examining the players in this system, and how bureaucratic and inflexible the system has become as we have set it up. The responsibility for sorting out a bank failure rests with the resolution authority, which is a department of the Bank of England. Should it have to acquire ownership of a bank in the course of a rescue, the bank would become a subsidiary of the Bank of England, and as long as that continued it would be, in a sense, as safe as the Bank of England, as we used to say. However, further down the corridor is another department of the Bank of England, called the Prudential Regulation Authority, and it would not be having any of that at all. The Prudential Regulation Authority would say, "It may be a subsidiary of the Bank of England, just as we and you are a department of the Bank of England, but we are going to insist that it is separately capitalised". Indeed, the Bill is addressed at finding a route and an additional tool whereby that capitalisation could be provided. So we have two departments here that are not entirely working together, and are treating each other as alien bodies. That is rather distressing.

We then have the FCA. One of the problems that arose in relation to Silicon Valley Bank, which was an unusual species of liquidity risk as opposed to insolvency risk, was that it had a high number of accounts that were accounts of technology companies—that is its specialist business. These were ordinary current accounts for paying the bills and things like that, as businesses have to do. Some of these were large technology companies and some were small technologies companies, but, as a man, they united in saying, "If we can't actually run our current account on Monday morning when this all opens, there's going to be the most unholy mess".

One way of sorting this out in the old days would have been for the Governor of the Bank of England to ring up the chairman of a bank and say, "There are only about a thousand of these customers. Would you mind very much opening current accounts for them, so that we can release some of the funds and they can operate in an ordinary way on Monday morning—we'll sort out all the details later?" But there is another player up the road, the Financial Conduct Authority, which is not part of the Bank of England, that would not allow any of that at all because there would not be time for the "know your customer" inquiries that have to be made. Another bureaucratic step that we have put in place would have prevented a very simple and obvious solution being put into effect.

I worry whether, when the system is tested properly—Silicon Valley Bank was not a real test of the system—it will be as robust as we would all want to believe it is. Obviously, there is no political point-scoring going on here; we all have the same objective when it comes to trying to ensure the systemic robustness of the banking system in the UK.

To move on from the question of the systemic robustness of the system, there is the question about the Financial Services Compensation Scheme, which is already creaking and is a major charge on the financial system. This will add further to it, in an unpredictable way. It appears that, at the moment, the FSCS operates by way of a levy, which is paid in advance based on the actuarial likelihood of default in particular areas. I assume—the Minister might be able to tell us this—that in this particular case, if recourse was had to the FSCS, it would not be by way of the levy but by a sudden demand presented for money to be supplied immediately: we want it now, out of your reserves. If I have got that wrong, and it is to be part of the levy, some estimate of how much it will increase the levy by would be helpful. It is not clear from the Bill itself which it will be.

In addition to the FSCS levy, which is paid by more or less everybody, banks with equity and liabilities in excess of £20 billion pay the bank levy. As I understand it, the bank levy does not go to the FSCS but straight into the Consolidated Fund and is never seen again. I fully accept the Minister's contention that there should not be a charge on taxpayer funds. However, if the bank levy is there partly as an insurance premium to help ensure that there is a way of dealing with big banks if they go wrong, maybe that should be looked at before a further dip into the FSCS as a source of funding for the recapitalisation.

I end with three questions for the Minister. First, will he confirm that the bank insolvency process will remain the default, and that recourse to the FSCS as envisaged by the Bill will be the exception and not become routine? I think in his speech he half-confirmed that, but if he was able to reconfirm it for me, that would be helpful.

[LORD MOYLAN]

Secondly, could the Minister tell your Lordships about consequential costs, particularly legal ones? If the process is followed and a bank is recapitalised using FSCS money, but there is then some endless legal dispute that goes on for ever—as there might be, involving shareholders; nobody knows how people are going to respond to these things—will those legal costs be excluded from the FSCS levy so that they could not be recovered from the FSCS? They would be a liability of the Bank of England, because presumably the Bank of England's conduct would be the subject of any legal action.

Finally, would the Minister like to consider the future of the bank levy and make an assessment, at least, of the effect of the bank levy and the FSCS levy on the competitiveness of banking and financial services in the UK after this further addition to it? I contend that it is becoming very burdensome, and a real charge on domestic banking in a way that is beginning to contribute to what we see on our high streets—which is, frankly, the disappearance of domestic banking and the services that we all so much rely on.

1.38 pm

Baroness Bowles of Berkhamsted (LD): My Lords, I welcome the Bill, as I do the recognition that resolution, rather than insolvency, can be a better public interest solution for smaller banks, or at least for some smaller banks. Smaller and specialist banks are providing banking services, in particular to growth companies and start-ups, which cannot easily get banked with big banks. Likewise, I continue to hope that we will have community banks. I believe that the resolution process, should it come to that, looks a more supportive outcome all round.

As Silicon Valley Bank showed, businesses have a harder time protecting their deposits when there is a need to have sizeable sums available for running the business, including paying salaries, and that resolution reaches a fairer solution for businesses and their employees. It is a pity that it is always a megabank that has to come to the rescue, but it has ever been so, and of course again they get more competitive. We had concerns at the time, which the Minister has already covered to some extent, that maybe the HSBC ring-fence was got around; my noble friend Lady Kramer may mention that as well.

Overall, though, I have no concerns about the principle and content of the Bill, but there are a few related points that I would like to raise. The cost-benefit analysis shows that resolution can be less expensive—in effect, just using funds that would have been paid out to insured depositors. I would say that even if it were a bit more costly, it has a public interest benefit.

I also wonder whether there can be double or hybrid dipping into the FSCS; for example, if the resolution included a haircut on deposits, bringing deposits under the £85,000 level and triggering individual payments so that there could be both recapitalisation and individual compensation drawn from the FSCS. These might seem strange proposals, but I saw some very strange proposals during the financial crisis in the EU. Double dipping for recapitalisation, or subsequent rounds of recapitalisation, is envisaged in Clause 2—or is it the case that loss of deposits will be done only as part of insolvency? Is there a bar to mixing the two?

One of the guiding principles is to stay within the overall levy affordability criteria for industry. Does this inevitably mean that timing plays a part? If there is more than one rescue in a short time, will depositors end up somehow getting a worse deal by going through the bankruptcy and insolvency route rather than the resolution route, or will there be a look at the sort of smoothing over time of the burden to the banking and finance sector?

The move in the Bill may also be a psychological one, as it cuts down the demarcation between those banks that have to hold MREL and will be resolved, and those that do not hold MREL and are expected to be allowed to fail. I do not want a consequence further down the track to be a call for small banks to hold MREL. MREL was intended for large banks posing systemic risk and engaging in riskier capital market operations, but it has already crept downwards to mid-sized banks, which do not have capital market operations and for which MREL is unduly expensive. MREL also makes the depositor the enemy, as the highest liability a bank can have is its depositors. This shows in the low rates of interest of those banks with lots of other types of business and in the flight of depositors to smaller banks seeking reasonable rates. MREL in itself is a driver as to where you put your deposits, because otherwise you will not get a decent return, but at the same time, by doing that you are perhaps going somewhere less safe.

Finally, as it must, the Bill amends Section 213 of FSMA 2000 in respect of the FSCS. I take this opportunity to voice again my dissatisfaction with how that scheme works on the FCA side, where the £85,000 guaranteed sum is not actually guaranteed because it suffers deductions to cover administration expenses, as has just been announced in the case of WealthTek, where there is a charge of some £23,000 deducted from the £85,000 guarantee. Once again, the FCA dallied for a year after a whistleblower contacted it about the culprit, John Dance, during which time the situation for investors declined substantially.

It is additionally galling for investors to find the FCA taking the costs of the administration out of what they thought was a guaranteed amount. It is quite easy not to know that this happens. I have asked a lot of the people I work with in the financial sector about whether they know it is not £85,000 on the FCA side, and that you might lose a big chunk of it to the administration. Even many people operating in fund management did not know this themselves. That is probably because it is such a big strapline, but it does not say: "Wahey—you might have expenses taken away from this". Now, this does not happen on the banking side—at least not yet. I believe this is due to the provisions of the EU deposit guarantee scheme, which I may have had a hand in.

First, can the Minister assure me that, alongside the modifications for use of the Financial Services Compensation Scheme in small bank resolution, and in any domestication yet to come of the retained EU law deposit guarantee scheme, there will not start to be cost deductions from the £85,000 on the PRA side

of things? Secondly, on the FCA side of things, I think that that guarantee should be a guarantee, and if costs have to be recouped, then it should be through another route. In the WealthTek case, it said that only 4% of investors fell into the trap of the unexpected deductions. The fact that that is thought to be a small number of investors is all the more reason not to have that trap and discriminate against a small number of investors. Is this something that the Government will look at? Overall, I am not happy that the FCA is in charge of the rules of the scheme that allow it to force the cost of its own dalliance on to the investor guarantee.

1.46 pm

Lord Macpherson of Earl's Court (CB): My Lords, I declare my interest as chairman of C Hoare & Co, which would almost certainly be classified as a small bank for the purposes of the Bill.

I congratulate the Minister on becoming Financial Secretary to the Treasury. After the chancellorship of the Exchequer this is the oldest Treasury ministerial post, and I am pretty sure that it is the first time that it has been held by a Member of this House. I had the good fortune of working with the Minister for a decade around the turn of the century. He has huge Treasury experience and considerable ability and was a pleasure to work with. I wish him well in what will inevitably be difficult times ahead when no doubt he will come to this House on many occasions to make Ministerial Statements.

I speak in support of the Bill, which is a model of good legislative practice with a well-handled consultation and cross-party support. It is welcome that the new Government have seamlessly picked up where the previous Government left off. Politics is all about difference, but at least 90% of governing is about continuity.

Having been the Permanent Secretary and accounting officer when the Treasury had to nationalise Northern Rock and resolve the Icelandic banks in 2008, I am acutely aware that having the necessary powers in place makes it a whole lot easier. Of course, the Government can generally rely on common-law powers in such circumstances or, in the case of Northern Rock, pass an emergency Bill in 24 hours. I pay tribute to the late Lord Darling for managing the financial crisis so effectively with the limited powers then at his disposal, but I would not recommend a make-do-and-mend approach; it diverts finite resources from the job in hand, which is managing the crisis itself. It is better to have the right legislative and institutional framework in place, and to learn from each time the framework is tested in order to improve its functioning.

In 2008, it fell to the Treasury directly to resolve failing banks. I recall asking the Bank of England whether it would take on the role, thinking that the clue was in the name—it is a bank—and that a bank might be better at taking the necessary steps rather than a government department, but the Bank of England declined my request. Lord Darling put that right in his 2009 Act, which ensured that the resolution authority resides in the Bank of England. In my view, that is the right approach; the Bank of England is better placed to retain the necessary expertise and experience, not least because it can pay its staff more generously.

However, the Treasury needs to remain alert to one important point, which the noble Lord, Lord Moylan, touched on indirectly: the conflict of interest created by the abolition of the Financial Services Authority in 2013. The Bank of England is now the regulator and the resolution authority, and responsible for macro-prudential policy. It also in effect has the power to tax the industry through PRA fees and the wider Bank of England levy. The Bill extends its powers of taxation by allowing it to draw on the Financial Services Compensation Scheme to recapitalise a failing bank. There is nothing wrong with that in principle; it is much better that the industry finances its failures rather than the general taxpayer.

The Bank of England generally does its job well. All I am asking is that Treasury Ministers maintain adequate oversight. To this end, they need to be vigilant to three issues. First, apart from the brief period in 2007 when fear of moral hazard dominated its thinking, the Bank of England has a historical tendency to intervene. I recall Sir Douglas Wass, one of my predecessors at the Treasury, some 40 years after the event still expressing irritation at the Treasury being kept in the dark about the Bank's intervention in the secondary banking crisis of 1973-74. I can foresee circumstances where the Bank will choose to recapitalise a small bank rather than put it into a bank insolvency process, less because it is in the national interest and more as a way of minimising the reputational damage of regulatory failure.

Secondly, because of the Bank's power to tax the banking industry, I fear that it will pay insufficient attention to minimising the costs of resolution. I may be wrong, but my recollection is that the Bank of England incurred greater costs, with advisers and so on, in resolving the Dunfermline Building Society than the Treasury did in resolving the Icelandic banks. Unlike the Government, the Bank does not have to stand for re-election, so its incentive to contain costs is rather less.

Finally, it is important that small banks remain well capitalised. Challenger banks are adept at lobbying government and central banks for special treatment, arguing that this enhances competition. To some degree it does, but they are not slow to make political donations. I witnessed this at first hand a decade or so ago. It is important that the authorities ignore these blandishments. As my old friend the noble Lord, Lord King of Lothbury, used to observe, the best way to ensure that the banking system is safe is to ensure that it is adequately capitalised.

I should emphasise that these are minor points that are more about the spirit of Treasury oversight than the substance, and I am happy to support the Bill.

1.53 pm

Lord Eatwell (Lab): My Lords, the introduction of the resolution regime in the Banking Act 2009, and the subsequent development of living wills in which large banks are required to produce plans for how they could be wound up, are both designed to reduce the risk of the cost of failing banks falling on the taxpayer. This Bill seeks to add an additional protection for the taxpayer, by shifting the risk of funding the resolution of a bank from the Treasury to the Financial Services Compensation Scheme and therefore to the banking sector as a whole in subsequent levies—so far, so good. The Explanatory Notes provided by the Treasury

[Lord Eatwell]
suggest that the purpose of this legislation is to provide for the resolution of small banks, citing the resolution of Silicon Valley Bank UK as an example of where the successful resolution of a failing bank was clearly preferable to the alternative—namely, insolvency.

Maintaining the operations of a bank, particularly where the asset side of the balance sheet is strong, if illiquid, has obvious advantages. It avoids the disruption of banking services that occurs under formal insolvency procedures. Indeed, the sale of Silicon Valley Bank UK to HBSC for £1—I wonder if anyone knows whether that was actually paid; perhaps the noble Baroness, Lady Penn, knows—ensured that banking services were maintained by HSBC for an important segment of UK industry.

The focus on small banks is important. It is a recognition of the important role—referred to just now by the noble Baroness, Lady Bowles, yet so often unrecognised—that small banks are playing in the UK economy today. I will give the House just one example: a bank called Unity Trust Bank. It has a balance sheet of a little over £1 billion. To give an idea of scale, the balance sheet of Barclays Bank is 1,500 times larger. Last year, 87% of Unity's quarter of a billion in new lending supported projects in health and well-being, community spaces and services, education, skills and employment, and financial inclusion. Around half of that lending went to parts of Britain defined as areas of high deprivation, as measured by the Index of Multiple Deprivation. It achieved all this while earning a very healthy return on equity and maintaining a tier 1 capital ratio of 20%. If Barclays' numbers were the same as that, Britain would be a very different and a very much better place. This is just one example of the excellent work done by small and medium-sized banks.

That is why it is particularly welcome that the Bill makes no provision for increased funding burdens on small banks such as MREL provisions. Britain already suffers from the fact that necessary prudential regulation creates an anti-competitive environment in banking, making it particularly difficult for small banks to cover compliance costs. We should not make the task of small and challenger banks even more difficult.

All this adds up to a valuable and proportionate piece of legislation. Unfortunately, the documentation provided in support of the legislation contains a number of disturbing propositions that take some of the shine off the Bill. For example, in the Treasury document replying to the consultation on the Bill we find the following proposition:

> "Noting that the expectation is that the mechanism would generally be used to support the resolution of small banks, the government considers it appropriate for the mechanism to be, in principle, applicable to any banking institution within scope of the resolution regime".

So, this procedure is not deemed to be targeted solely at small banks but might apply to banks of any size. Perhaps the Minister could enlighten us as to what the Treasury has in mind?

Most disturbing of all is the evident belief, held by both the Treasury and the Bank of England, that this new resolution mechanism can deal not just with idiosyncratic risk—that is, failures in just one or two banks at a time—but also with systemic risk: failure impacting the system as a whole. Consider this statement in the Bank of England's guide to resolution entitled *The Bank of England's Approach to Resolution*:

> "The need for a financial system to have an effective resolution framework was a key lesson from the global financial crisis of 2007-09. During the crisis, governments had to resort to 'bailouts' as some banks had become too big, complex, and interconnected to be put into insolvency like other types of firms. Without a resolution regime, letting them fail would have meant that people or businesses would have been unable to access their money or make payments. The potential risks to the financial system and the economy meant they had become 'too big to fail'".

Now it goes on:

> "Resolution changes this by providing powers to impose losses on investors in failed banks while ensuring the critical functions of the bank continue".

Well, I hope and pray that the Bank of England does not believe this nonsense. The ability of a resolution regime to protect the taxpayer depends on the proposition that the banking services can be maintained by sale of the failing bank to a competent and well-funded counterpart. But, in a systemic crisis such as 2007-09, this is impossible because there are no buyers. Everyone is in trouble. In these circumstances, there are only two answers: bailouts by the taxpayer or insolvency.

Size matters, too. When Credit Suisse failed, the Swiss authorities immediately abandoned any pretence at resolution; only public funds could handle the job. This is not just true in the case of a large bank failing. As the Treasury consultation document notes,

> "while an individual institution may not be considered systemic, if a risk is common—or perceived to be common—among similar institutions, the collective impact can pose a systemic risk".

In other words, the failure of many small banks all at once can be as devastating as the failure of a large bank. But, having made this very sensible point, the Treasury goes on to suggest that somehow "targeted resolution" will sort things out. It would seem that both the Treasury and the Bank of England are prone to wishful thinking.

It is also worth noting that, in the face of a systemic crisis, the levy proposed in the Bill, which is designed to fund the demands on the FSCS, would be a powerful source of crisis contagion. I note that the Treasury is taking steps to limit such contagion.

There is one small irritation with the documentation that is important for later stages of the Bill. The cost-benefit analysis presented by the Treasury has little relevance to the Bill's subject matter. It compares costs and benefits of the resolution regime with the alternative of insolvency, but that is not the issue here, which is the comparison of the costs and benefits of the new funding mechanism as an addition to the old resolution regime, as set out in the Banking Act 2009. I suspect that the benefits, predominantly of flexibility, are small and that the changes in costs are negligible, even though the allocation of costs is now different. Could we please have a relevant cost-benefit calculation for later stages of the Bill?

This is a very useful measure to deal with the failure of small banks in circumstances in which the rest of the banking system is in rude health. Please let us not pretend that it is anything else.

2.02 pm

Lord Vaux of Harrowden (CB): My Lords, it is always a pleasure to follow the noble Lord, Lord Eatwell, with his in-depth analysis and huge knowledge of this area. I feel I will probably fall short after that, but I will give it my best go.

This Bill provides the Bank of England with slightly greater flexibility to find a resolution to a bank failure other than insolvency, at a cost to the rest of the banking industry. As we have heard, it follows on from the lessons learned from the insolvency of Silicon Valley Bank. As such, I think that, like everybody else, I am generally supportive of it. But it does beg some questions, so, rather than making points about its merits or demerits, I will ask the Minister a number of questions about how it will operate in practice and some of the potential impacts.

First, the Special Resolution Regime effectively splits the banking industry into two tiers: those larger banks whose failure might create systemic risk, which are required to maintain excess debt and equity over the minimum capital requirements, known as MREL, and smaller banks whose failure would not be expected to create systemic risk, which do not hold MREL. SVB was a small bank whose failure was none the less considered to create some systemic risk because of the nature and concentration of its customer base. The Bank of England therefore decided to follow a resolution procedure, which it felt was better than allowing SVB to go into insolvency, which would have restricted its customers' access to their funds, which I think the noble Lord, Lord Moylan, referred to. SVB was then rapidly transferred to HSBC for £1—a good result all round, I think. Customers retained continuity of access to funds and did not lose any of their deposits and HSBC gained a subsidiary that it said would accelerate its strategic plan by two or three years.

However, this begs the question as to whether we have the classification right for which banks are required to hold MREL. It is currently based primarily on size. Should the PRA be required to do more to ensure systemic risk has been identified before failure? SVB seems to have come as something of a surprise, and its risk profile does not seem to have been recognised in advance, so it appears to me that the current classification should be reviewed and that we should at least consider extending the MREL regime to small banks whose failure would none the less create some systemic risk. I would welcome the Minister's thoughts on that.

Secondly, and this goes to a point that the noble Lord, Lord Eatwell, raised, the letter that the Minister kindly sent explaining the Bill states in the first paragraph:

> "The Bill enhances the UK's resolution regime, providing the Bank of England with a more flexible toolkit to respond to the failure of small banks".

The Minister said that in his opening words as well, so could he explain why the Bill applies to all banks, including those inside the MREL regime?

Under the Bill, any costs of putting a bank into a resolution procedure, either by transferring it to a private sector purchaser, as happened with SVB, or by transferring it to a bridge bank with a view to ultimately transferring to a private sector purchaser or insolvency, will be met by funds provided by the industry via the FSCS. The Government indicate that in most cases they expect the costs to be lower than putting the bank into insolvency because it should avoid compensating depositors up to £85,000 each. The costs that the FSCS would cover would include the costs of recapitalising the failed bank, the operating costs of the bridge bank, and any costs in relation to the resolution, including legal and other professional expenses, costs of valuation and other associated costs incurred by both the Treasury and the Bank of England.

That raises a number of questions. What cap or limitation is there on the costs? While the Government say that they expect costs generally to be lower than insolvency, and they are probably right, that is not guaranteed. The bridge bank could be run for up to two years, and that is extendable in certain circumstances, so this could become quite a large, open-ended cost. Who controls the level of costs during the period? I think the noble Lord, Lord Macpherson, talked about this. It is not those who are going to be paying for it, so there is no direct incentive to keep the costs as low as possible. How is that going to be scrutinised? What input will those who ultimately pick up the costs have?

Under an insolvency process, there is a de facto cap on the liability to the FSCS, and therefore the industry, which is the amount of the deposit protection. Is it right that the wider industry will potentially be on the hook for paying more than that de facto cap? As I understand it, this process will be used only—and I think the Minister mentioned this—if it is in the public interest to do so, where a small bank failure turns out to create systemic risk. That would reflect a failure by the PRA to identify a systemic risk, as I mentioned earlier. If the resolution decision is driven by a public interest test, surely it should be the public purse that pays the excess rather than the banks which have no part in this. As a matter of principle, it is shareholders, lenders and other creditors who should bear the primary risk before the industry is asked to contribute. The industry should not be underwriting any debt or equity or even supplier risk. What is the mechanism for ensuring that the resolution process will not unfairly benefit shareholders or other creditors?

Related to that, if a bank is transferred to a bridge bank and two or even more years later goes into insolvency, where will the FSCS money that has been poured into the bank in the meantime rank in the hierarchy of debts? It should presumably rank above all debts that existed on the day the bank was transferred to the bridge. Is there a mechanism for returning money to the FSCS and to industry if it can be recovered either in insolvency or a sale? To go further than that, any sale to a private sector purchaser in these circumstances is typically under fire sale conditions, so they usually happen at below market price. SVB UK was transferred to HSBC for £1, as I mentioned, and HSBC is widely seen as having got rather a bargain because the failure of SVB was not caused by the UK entity; there was nothing wrong with the UK entity. SVB UK had loans of around £5.5 billion and deposits of around £6.7 billion and in the previous financial year had recorded a profit before tax of £88 million. Its tangible equity was around £1.4 billion, so quite a bargain at £1.

Will there be or should there be a mechanism for clawing back any excess profits made by the private sector purchaser to be refunded to the FSCS if the

[Lord Vaux of Harrowden]
FSCS has provided the resolution financing? What happens if the failed bank is a subsidiary of an overseas entity? What mechanisms do we have for ensuring that the parent company pays for the costs of such a failure and not the FSCS? Why should the UK banking industry pick up the costs if there is a viable overseas entity? I realise that was not the case with SVB, but there could be a situation where an overseas bank sets up a UK subsidiary that does not go very well so it just walks away from it. It should pick up those costs. Is there a process for clawing back management bonuses and dividends paid prior to the failure?

As a general principle, bad or failing businesses should be allowed to fail, and that may mean that creditors, including depositors beyond the protection cap, lose money. There is a risk that this mechanism could be used to avoid negative headlines or for political or reputational expediency. After all, as was said before, the costs of taking the action will not fall on those making the decisions. Ultimately, the costs will be borne by consumers as the banks pass them on in low savings rates, higher lending rates or higher charges. What safeguards are in place to ensure that the mechanism is used only in appropriate circumstances? I am broadly supportive, but I have a lot of questions and look forward to hearing from the Minister.

2.11 pm

Lord Sikka (Lab): My Lords, when you are the last speaker in the queue, you find that all the good points have already been made and you have to rewrite your speech rapidly. I have a number of questions for the Minister. First, this Bill suspends the iron law of capitalism, which is that the inefficient and incompetent go to the wall. Somehow that is not to be applied to the banking sector. If the Minister considers the provisions of the Bill to be good enough for a flourishing finance industry, why not apply them to other sectors where we have many essential businesses?

Looking at the Bill, it seems to assume that the Financial Services Compensation Scheme—the FSCS—has significant reserves from which the Bank of England could immediately obtain benefits. Will the Minister explain what kind of reserves the FSCS is required to maintain and how their adequacy is judged? Its accounts for the year to 31 March 2023 show it had a surplus of just £5 million, which was then taken to cover the deficit of the pension scheme. In other words, there was a zero surplus for that year, but the cumulative cash balances were £510 million. Is that enough to rescue one or more banks or do these buffers need to be beefed up? I hope the Minister will be able to tell.

Bank failures could be localised or they could have a domino effect, in which case the FSCS would not have adequate resources. Will the Minister explain what would happen then? As I understand the Bill, insolvency would be the only option left. What have we learned about the insolvency of banks? The biggest insolvency was in July 1991 when the Bank of Credit and Commerce International was shut down, but to this day there has been no investigation, no report, nothing. What have we learned about insolvency of banks? Would the Minister like to reopen that probe and tell us why there has been no investigation, why there has been a complete cover-up and what we could have learned from it to devise better regulations?

Under the Bill, the cost of reckless practices at one bank would be borne by others, as the FSCS would raise levies on other banks. There are clear moral hazard issues here, especially as the boards of the failing banks do not face personal consequences and shareholders have only a short-term interest. Will the Minister explain how these moral hazards would be checked by the regime proposed?

We all know from history that rescue and recapitalisation is not the only way that the Bank of England and the Government rescue banks; they also engage in deceit, skulduggery and cover-up. The classic case relates to HSBC, which in 2012 was fined $1.9 billion by the US regulators for money laundering. At that time, it was the largest ever fine on a corporation. According to the US Department of Justice, HSBC

"accepted responsibility for its criminal conduct and that of its employees".

The bank was regulated by the UK authorities, which took absolutely no action. In March 2013, the US House of Representatives Financial Services Committee began a review of the US Department of Justice's decision not to prosecute HSBC or any of its employees or executives for admitted criminal activities. Its July 2016 report titled *Too Big to Jail* contained a two-page letter from the then Chancellor, George Osborne, and extracts of correspondence with the Financial Services Authority and the Bank of England. The Chancellor's letter, dated 10 September 2012, urged the US authorities to go easy on HSBC as it was too big to fail. It also urged the US authorities to go easy on Standard Chartered Bank, which was fined £330 million for money laundering and for sanctions busting. Despite requests, which I have made in this House, no statement has ever been made to Parliament.

No documents have been placed on public record to show why banks are being rescued by deceit and cover-up, and this inevitably emboldens banks. In 2019, Standard Chartered was again fined for money laundering and sanctions busting—this time for $1.1 billion—and HSBC has been a habitual offender. Can the Minister explain why these matters are not being looked at? The institutionalised corruption increases the likelihood of banking failures. It would be helpful to know what steps the Government will take to cleanse the City of London. Simply saying "We will recapitalise banks" will not do.

The Bill rests on very shaky regulatory foundations. After the 2007-08 crash, the regulators' duty to promote the industry was abolished and they were primarily required to be what I call watchdogs and guide dogs. The last Government changed that legislation and now regulators are required to promote competitiveness and growth of the industry. The regulators have effectively become puppies and lapdogs of the industry. Regulatory actions requiring stringent oversight or lower gearing ratios could be interpreted as a tax on competitiveness and the potential growth of the industry. Such conflicts were considered to be contributory factors in the 2007-08 crash, but they are now back on the statute books.

Lehman Brothers had a leverage of 30.7:1 when it crashed and Bear Stearns had a leverage of 36.1. On the one hand, the Bank of England and regulators tell the banks that they must be well capitalised; on the other hand, tax relief is offered on interest payments on the debt. Government incentivise taking on leverage. How can that create stability? Why do the Government not abolish the tax relief on interest payments by corporations? That would certainly reduce their financial risks and vulnerability. Again, I look forward to hearing from the Minister.

The current regulatory environment is much weaker than the pre-crash environment. Shadow banks are the new elephant in the room. Shadow banks include hedge funds and private equity, and all are unregulated. They are meshed with the retail and investment banks, insurance companies and pension funds but remain unregulated and totally opaque. Some parts of this industry are located in offshore tax havens, and it is impossible to see their financial statements and make any meaningful assessment of the risks and dangers that they pose to the banking system.

Private equity and hedge funds function as banks, but they are not subject to any minimum capital requirements, control on leverage or stress tests, even though the collapse of one firm can destabilise the whole sector. The collapse of the US-based Archegos Capital Management showed how rapidly the domino effects occur and had immediate negative effects on the capital buffers of Goldman Sachs, Morgan Stanley, UBS and Credit Suisse. Banks that are regulated in the UK now have multiple connections with shadow banks, including lending to buyout companies and the funds that acquire them, the firms that manage them and the investors that back them. There is a complex web that is impossible to penetrate, and that will ultimately bring forward a crash. In April this year, a Bank of England official responsible for financial stability, strategy and risk said that there were serious

"questions about the risks of these financing arrangements, and the growth in kinds and quantity of leverage, or 'leverage on leverage', throughout the ecosystem".

Successive Governments have failed to bring shadow banks within the scope of regulation. A deeper crisis is being incubated, just as it was before the last crash. When the next crash comes—and it will come—it will engulf every sector of the economy, as private equity is into supermarkets, hospitals, GP surgeries, water, care homes, cosmetics, housing, property, hotels, insurance and everything else. There will not be enough money to rescue, so we need to strengthen the regulatory system now. The recapitalisation regime of this Bill will not be able to cope.

Of course, Ministers can dismiss the kinds of concerns that I have expressed, but it would be most unfortunate if the next crash was to come during the term of the Labour Government in office. Does the Minister know how many entities regulated by the FCA are enmeshed with shadow banks and what their risk exposure is? I have been unable to work that out by looking at the accounts of these organisations, but the Minister may have superior information. If he does have it, can I ask him to publish that data?

Shadow banking is now a major danger to the stability of the financial system and its practices can undermine the regulated banks, but shadow banks are not required to contribute to the recapitalisation fund. Why is it that they can create risks for the entire system but do not bear the cost? Can the Minister explain how much they will contribute to this recapitalisation fund and whether he considers their contribution to be adequate?

2.23 pm

Baroness Kramer (LD): My Lords, as the first of the winding speakers, I can repeat all the good points. This has been an exceptionally strong debate. I have welcomed the Minister on previous occasions and I welcome him again to his role. I can very much support this piece of legislation, picking up on the points made by the noble Lord, Lord Macpherson. It seems to me to be one of the first sensible approaches to dealing with the failure of small banks and, I hope, minimising the exposure of the taxpayer. However, I very much pick up the points made by the noble Lord, Lord Eatwell. If this happens on a mass or systemic basis, essentially the taxpayer is always going to be the body in play, and we should not fool ourselves that, in a really mass crisis, the banking sector as a whole will be able to pick up the problems of a large part of banking in the UK. We have to be realistic on this issue.

In fact, I have always thought that it was pretty unrealistic that most small banks could be allowed to fail, with depositors protected only up to £85,000 by the Financial Services Compensation Scheme. Therein lies the potential for a sudden run on many other banks, with flight based on rumour and social media. I suspect that, if the Government or the regulators attempt to allow failure to be a significant part of the programme for dealing with problematic banks, they are going to find once again that they are facing the impossible. Sometimes, we have to be realistic. Often, schemes which look good on paper just do not work out in the practices of real life.

The Treasury and the regulator found this out the hard way when Silicon Valley Bank UK effectively failed thanks to the troubles of its US parent. As others, including the noble Lords, Lord Vaux and Lord Eatwell, have said, SVB had to be saved through its forced sale to HSBC for £1. Perhaps this new, more realistic process could be done with an individual bank. Is that unrealistic? Can the Minister elaborate on this? Could we not just be much more open and say that we are looking for resolution? Failure would then come only in the most extreme and rare of circumstances. Picking up on the point made by my noble friend Lady Bowles, resolution is the path to go down if we are to have a banking system in which the general public at large continue to have real trust.

I want also to pick up the point raised by the noble Lord, Lord Moylan. If there is to be trouble on a large scale and, as a consequence, the FSCS is turning to the banking system as a whole and asking for very large payments, does anybody within this chain have the ability to waive that and just say, "No, this demand is excessive. We are going to ask for a smaller portion from the banking system, or we are simply going to say, 'This crisis is sufficiently large that we are going to turn to the taxpayer'"? To me, it is not realistic to suggest that, under every circumstance, the FSCS could turn to the banking system and be fully reimbursed.

[Baroness Kramer]
I would be grateful if the Minister enlarged on that. I am glad that he said that credit unions have been exempted from the levy. It would have been entirely improper to include them.

I have some related questions. The Minister knows that I was troubled by the sale of SVB UK. As the noble Lord, Lord Vaux, said, HSBC buying it for £1 was a real giveaway. HSBC played hardball, as it would, so the Government did not have a lot of choice. As the Minister knows—I have raised this before, and he referred to it in his speech—I still regard the terms of that sale as a mechanism which provided HSBC with a route to evading the ring-fencing rules that would normally apply to its retail banking, in order to separate it from investment banking activity.

When I raised this issue in Grand Committee, the Minister of the day was unable to give any kind of satisfactory answer. As far as I could tell, there was nothing to stop HSBC transferring those assets over to its Silicon Valley Bank entity, where it could engage in derivatives and securitisation on any scale it wished. If this final solution is now different, would he mind writing to me? It is probably impossible to answer that question now, but perhaps he would put a letter in the Library that makes it clear why busting the ring-fence was not a consequence of the way that sale was structured. That would be exceedingly helpful. As my noble friend Lady Bowles asked, could we get some assurances that, if the resolution pattern established for Silicon Valley Bank is going to be repeated, there will be measures in place to make sure that it does not become a backdoor to evading ring-fencing constraints? Following the 2008 crash, most of us—both in this House and in the other place—recognise that ring-fencing is a critical part of the defence against a repeat of the kind of crisis we saw back then.

As I say, I have long been sceptical of all schemes to resolve small banks, but, frankly, I am also somewhat sceptical of the plans to resolve large and medium-sized ones—those identified as systemic. As others and the Minister said, large and medium-sized banks are required to hold MREL—basically, bail-in bonds, to put it in English—to protect or provide a route to resolution. But, as the noble Lord, Lord Eatwell, said, when Credit Suisse collapsed in 2023, the Swiss regulators immediately realised that the consequences of implementing its resolution plan would lead to lasting damage to the Swiss economy. Swiss regulators are not fools or softies; they were facing the absolute reality that, with a failure of a bank of that size, they could not allow the backstop of wiping out shareholders or owners of convertible bonds. In effect, they organised a takeover of Credit Suisse by UBS. So does the Minister really expect that our regulators will implement the current bail-in resolution schemes, or will we also find that "too big to fail" still rules the day? It is time to be honest about this—with a new Government, perhaps it is time to look at this again much more directly.

Will the Minister also pick up an issue raised by my noble friend Lady Bowles: MREL and medium-sized banks? As she said, the market for bail-in bonds for medium-sized banks is so small that it is almost non-existent, so the bonds are exceedingly expensive. The consequence is that UK banks are now choosing not to grow from small into big because they see no way to put in place the MREL layer that would be required under current PRA regulations. Even if they did, because of the price they would have to pay for those bail-in bonds, they would face a competitive disadvantage compared to the big banks, which access a much more liquid bail-in regime. Is now not the time to take another look at the medium-sized banks and see whether a better scheme could be devised for their resolution, rather than assuming that MREL will be an adequate way for them to put in place that kind of protection?

I draw the Minister's attention to the other issues raised by my noble friend Lady Bowles and ask for a full response. We are supportive of the Bill. We will look at it in Committee to see whether any amendments could improve it, but, as I say, this is the first time I have looked at a piece of banking resolution legislation and thought, "Actually, that could work in practice, not just on paper".

2.32 pm

Baroness Penn (Con): My Lords, as has been the case with certain previous Treasury Bills, we have had a small but expert group of contributions today, and we have heard some common themes. From the Opposition Front Bench, I say first and foremost that we support the Bill. That should come as no surprise, given that it draws on proposals that were consulted on when we were in government.

As we heard, the genesis was the response to the period of banking stress in spring 2023, particularly the failure of Silicon Valley Bank. It is worth recalling that, at the time, Silicon Valley Bank was successfully sold to HSBC—I do not know whether the pound was actually paid—customers were able to access normal banking services and their deposits were protected in full, at no cost to the taxpayer. This was a significant success.

However, those events raised several questions, one of which is being addressed today: the potential risk to public funds of any resolution action for a small bank, given that, unlike larger banks, they are not required to hold a portion of their own equity and debt above minimum capital requirements to support their resolution. The solution put forward in the Bill is the use of the Financial Services Compensation Scheme levy to meet the costs of recapitalisation that may be needed to support the operation of a bridging bank or facilitate a sale to a private sector buyer.

As I have said, we are supportive of the Bill, but it would be helpful to our scrutiny of it if the Minister were able to give further detail on three areas. The first, which we have had some debate on today, is the approach to resolution versus insolvency. The PRA has set out that it does not seek to operate a zero-failure regime, but rather to work with the Bank of England to ensure that any firms that do fail do so in an orderly way. Prior to the failure of SVB, for smaller banks this was assumed to involve insolvency. With resolution now a viable alternative for smaller banks, it would be useful to understand the extent to which the Government expect resolution to be used, as opposed to insolvency.

The second area is the question of costs. A number of concerns were raised in response to the Government's consultation with regard to the costs of the new FSCS

levy. In particular, reassurance was sought that the most cost-effective mechanism would be used by the Bank of England in considering what course to take. Of course, those two questions are related. I was pleased to see the Government publish a cost-benefit analysis alongside their consultation response—although, as the noble Lord, Lord Eatwell, has noted, it is not without its limitations. That analysis seeks to provide reassurance that resolution, rather than insolvency, will often be the less costly option, both in terms of direct costs and the wider benefits of customer continuity and public confidence in the banking system. Although that may be welcome, it is hard not to conclude that resolution may become the default option when it comes to managing the failure of a small bank; indeed, the noble Baronesses, Lady Bowles and Lady Kramer, have said they would welcome such a move. If that is the case then the proposals we are debating amount to more than just a minor modification of the resolution regime—as is contended by the Government.

This is also an important point as the Government put forward the alternative of insolvency as a check against the inappropriate use of resolution in the case of small banks. For example, in addressing concerns around recapitalisation being used alongside the private purchaser tool, where it may otherwise be reasonable for the purchaser to recapitalise the bank, the Government point to insolvency as an alternative option, providing

"an important safeguard against any inappropriate use of the new mechanism alongside the Private Sector Purchaser stabilisation option."

That argument is also deployed with respect to any impact of the proposals on market discipline. The Government

"considers this to be a manageable risk when set in wider context, given that insolvency remains an important part of the toolkit."

Therefore, when the Minister responds, it would be useful for him to set out whether resolution will be the preferred approach to failure over insolvency for small banks. If not, can he give an example of a scenario where insolvency may be used over resolution?

I expect the Minister will likely refer me to the framework in which the Bank of England can deploy its resolution powers in order to answer that question. It will be for the Bank to determine the appropriate response within the resolution conditions and objectives set out in the Banking Act 2009, and in particular the use of the public interest test, which seems to bear significant weight for guiding the operation of the resolution process and providing safeguards to the Government and the banking industry in providing value for money. Again, that may be wholly appropriate, given the need for flexibility in response to scenarios that can be planned for but which invariably play out in unexpected ways. However, we have already heard from the noble Lord, Lord Macpherson, about some of the risks, or misalignment of incentives, with so much of the decision-making lying with the Bank of England.

That brings me to the third area where further detail from the Minister may be of help: the scrutiny of and accountability for the use of these powers—a favourite theme from our discussions on the then Financial Services and Markets Bill. The consultation response acknowledges the importance of this, and points to Sections 79A and 80 of the Banking Act 2009, which require the Bank to report to the Chancellor of the Exchequer where it has used resolution powers to transfer a bank to a private sector purchaser or a bridge bank. The report must comply with any requirements specified by His Majesty's Treasury, which could include requiring the Bank to disclose the estimated costs to industry of the options that were considered.

I am pleased that the Government have said they intend to update the Special Resolution Regime code of practice to reflect the introduction of this new mechanism, and expect that they will confirm that His Majesty's Treasury will stipulate that reports produced on the use of this new mechanism would require the Bank to disclose the estimated costs to industry of the options considered. I also welcome the expectation that the Treasury will expect to make such reports publicly available, including laying them before Parliament where required to do so under the Banking Act.

However, given the importance of this, it would be useful to see proposed updates to the SRR code of practice alongside this legislation, rather than once it is complete. Could the Minister commit to publishing the proposed updates ahead of the Bill reaching Committee? There is an expectation that such reports would be made public, including laying them before Parliament, but would Minister commit to strengthening this expectation to a commitment? Could he elaborate on where the Banking Act requires such reports to be laid before Parliament and, crucially, where it does not?

The Government have also committed that the update to the Special Resolution Regime code of practice will address the fact that, for larger banks, the new FSCS levy could be seen as charging them twice for the same risk, given that revenues from the existing banking levy can already be drawn upon to support resolution, if needed. One could argue that larger banks are paying for the same risk not twice but three times, as they meet their own MREL requirements to support their resolution. While I understand the Government's desire to spread the cost of this mechanism across the whole sector to avoid disproportionately burdening smaller banks, as the noble Baroness, Lady Kramer, asked, what consideration have the Government given to the impact on medium-sized banks that are required both to meet their own MREL requirements and contribute to this new levy?

Finally, I share the concern of many noble Lords that the Bill does not limit the use of this mechanism to the resolution of small banks. Can the Minister confirm that the Government remain of the view that MREL remains the appropriate route for the resolution of larger banks? Is the intention that this mechanism cannot be used for that purpose but is reserved only for smaller banks without MREL in place? This is important to understand whether the scope of the Bill is just a minor adjustment to the resolution regime or a more fundamental shift in how we are approaching failing banks.

These Benches support action taken to update the resolution regime. We acknowledge the need to have a flexible system in place that allows for action to be taken swiftly in response to rapid changes in circumstances, but it is also important that the costs and benefits of such action are properly understood, and that there is

[Baroness Penn]
transparency and accountability in place for when such powers are deployed. I look forward to the Minister's response.

2.42 pm

Lord Livermore (Lab): I thank all noble Lords for their contributions to this debate. As noted in my opening speech, this is intended to be a targeted and proportionate enhancement to the resolution regime. It will provide the Bank of England with additional flexibility to manage bank failures in a way that strengthens protections for financial stability and taxpayers. Therefore, it supports the Government's ambitions to promote economic stability and growth.

Without the Bill, a gap would remain in the resolution framework, meaning there would be a potentially significant risk to public funds in the event of a small bank requiring intervention. In certain circumstances, there could also be a greater risk of contagion from the failure of one small bank spreading to others. The bank insolvency procedure and other forms of modified insolvency remain an important part of the toolkit for dealing with the failure of small banks.

A key principle underlying the Prudential Regulation Authority's approach to banking supervision is that it does not operate a zero-failure regime. Rather, it works with the Bank of England, as the UK's resolution authority, to ensure that any firms that fail do so in an orderly manner. Any resolution action, including action involving the new mechanism, would continue to be subject to all four resolution conditions being met. The Bank of England must also have regard to a number of resolution objectives to ensure that the action taken is in the public interest. Not every small bank failure would meet those conditions to justify taking resolution action. However, in the event that a small bank failure does meet these conditions, it is right that the Bank of England has the appropriate flexibility to manage the failure effectively.

To address the key point made by the noble Lord, Lord Moylan, since the global financial crisis there have been international efforts to address the risks that crystallised during the crisis and to reform and strengthen financial supervision and regulation, making the financial system stronger and more stable. Financial stability is a priority for this Government, at the heart of our vision to support economic stability and growth. The Bill supports that priority by ensuring that there continues to be a robust regime for managing the failures of banks in a way that limits risks to financial stability and taxpayers.

The noble Lord also asked about the funding for the FSCS. The Financial Services Compensation Scheme is funded by levies on the financial services industry, as he knows. For deposit-taking firms, if a bank or a building society were to enter insolvency, the FSCS would have to pay out compensation and then raise its levy on the banking sector to recover the funds. To cover the gap between paying out compensation and recovering the funds through the levy, the Financial Services Compensation Scheme would use its overdraft as well as its commercial credit facility. Combined, these can provide up to £1.5 billion.

The noble Lord asked about the speed of providing the money. The Financial Services Compensation Scheme will provide the money as soon as it is able. Given that resolutions generally happen very quickly, in a matter of days, the Financial Services Compensation Scheme may be required to provide the money very quickly.

The noble Lord asked about the vehicle for the funds. Under the Bill, the Financial Services Compensation Scheme would provide the funds at the Bank of England's request and recoup them from the banking sector. The Financial Services Compensation Scheme is well placed to perform both functions, as it already has the infrastructure and expertise to source funds at short notice, handle large sums of money appropriately and levy the banking sector.

The noble Lord also asked about the bank levy. The Government believe that their proposal to fund costs through the Financial Services Compensation Scheme is a targeted and proportionate approach, ensuring that the banking sector pays only when it needs to. Meanwhile, the bank levy continues to ensure that banks make a fair and sustainable tax contribution that reflects their importance to the financial system and wider economy. However, the Government believe that the mechanism provided for under the Bill should be funded by the wider banking sector. The bank levy would therefore not be an appropriate funding mechanism and is not paid by small banks, for which the new mechanism is primarily intended.

The noble Lord asked too about the regime being insufficiently robust and not yet tested. The resolution regime is designed to ensure that the Bank of England has the full suite of powers needed. The Bank of England and the Treasury regularly contingency plan to test the regime.

Coming to the points raised by the noble Baroness, Lady Bowles, I am very grateful to her for her support for the Bill. She asked about WealthTek and MREL in substance and raised concerns about the recent failure of WealthTek and the implications of that failure for consumers. It will not be possible for me to comment in detail on the case of an individual firm failure. However, I will respond to her on her general concern that costs due to an administrator can be deducted from compensation that is due to consumers when their firm fails. In the case of depositors of banks, I reassure the noble Baroness that PRA rules are clear that no insolvency or administration costs can be deducted from payouts due to covered depositors when their bank enters insolvency.

The investment bank special administration regime is a bespoke insolvency regime for investment firms that hold client assets. It is designed to offer better outcomes for customers by ensuring that the special administrators prioritise the return of client assets.

The noble Baroness also asked about requesting money more than once in a single resolution. The Bank of England is not limited in the number of times it can request money from the Financial Services Compensation Scheme. This provides appropriate flexibility in case further unanticipated costs arise following the initial intervention, for example in relation to subsequent litigation or compensation. This in turn reduces the risk to public funds.

On the question of small banks holding MREL, the Bank of England is ultimately responsible for MREL policy. The Government note that setting MREL for small banks would be very expensive for this cohort of firms.

The noble Baroness also asked about raising new taxes on the banking sector. The Bill avoids imposing any new upfront costs on the banking sector. Crucially, all costs are contingent and would crystallise only in the event of a firm failure. The counterfactual to using resolution powers alongside industry funds would be insolvency, in which scenario the banking sector would in any case be liable to pay levies to fund depositor compensation.

I am very grateful to my noble friend Lord Macpherson for his very kind words. The noble Lord asked about the banking insolvency procedure, as did the noble Lord, Lord Sikka. A key principle underlying the Prudential Regulation Authority's approach to banking supervision is that it does not operate a zero-failure regime. Rather, it works with the Bank of England as the UK's resolution authority to ensure that any firms that fail do so in an orderly manner. It is important to note that any resolution action, including action involving the new mechanism, will continue to be subject to all four resolution conditions, including the public interest test being met, just as it is now. Not every small bank failure would meet those conditions to justify taking resolution action.

My noble friend Lord Macpherson also asked about the Treasury's ongoing role in authorising the new mechanism. As now, the Treasury will be consulted on any use of resolution powers. However, its consent is required only if the use of those powers would have implications for public funds.

My noble friend also asked about the Bank of England not being incentivised to keep costs down. It is right that Bank of England expenses can be recovered by levies. The alternative, of course, would be to use public funds.

My noble friend Lord Eatwell and the noble Lord, Lord Vaux of Harrowden, also asked about the scope of the Bill not being limited to small banks. The expectation is that the mechanism would generally be used to support the resolution of small banks. However, the Government consider it appropriate for the mechanism, in principle, to be applicable to any banking institution within scope of the resolution regime. This would give the Bank of England, in consultation with the relevant authorities, the flexibility to respond as circumstances required.

My noble friend also suggested that the regime does not protect against systemic risk and is dependent on a buyer to work. It is worth noting that the resolution regime includes an expansive set of powers designed to equip the Bank of England with the tools to manage systemic risks and to limit contagion across the financial system. As well as the powers to transfer a failing firm to a buyer, this toolkit also includes the bail-in power. As part of this power, the largest and most systemic banks are required to hold additional equity and debt to absorb losses and self-insure against their own failure.

In the event that these banks fail, the Bank of England can use these additional resources to recapitalise the firm, including by converting the additional debt into equity and turning those creditors into shareholders. This would allow the failed bank to continue as a going concern without necessarily relying on a buyer, thereby stabilising it sufficiently to give it time to restructure and address the issues that led to its failure.

Equally, the Bill will ensure the Bank of England's toolkit to manage systemic risk is robust by ensuring that the Bank of England is able to mitigate risks of contagion that may arise from the failure of a smaller bank, including in situations where a buyer is not forthcoming.

My noble friend also queried the point of comparison in the cost-benefit analysis published by the Government on 19 July. One principle of the resolution regime, as it has operated to date, is a presumption that shareholders and creditors will be required to meet the costs of bank failure. This is why the largest and most systemic banks are now required to hold additional equity in debt: to absorb losses and self-insure against their own failure. For banks that are not required to hold additional equity and debt, the Bank of England's preferred strategy for managing their failure is insolvency. The Bill would make an alternative source of funds available, such that resolution powers may be considered for small banks that would otherwise be expected to be placed into insolvency. I will look further into the points that he raises, but the Government therefore maintain that insolvency is the correct counterfactual and the right point of comparison with the new mechanism, and they stand behind the analysis that they have published.

The noble Lord, Lord Vaux of Harrowden, asked about costs of the industry being taken into account. There are a number of important safeguards in the regime. The Bank of England must consult with the PRA when considering resolution action. The PRA, in turn, sets a cap on what is considered affordable for the sector to be levied per year. The PRA will continue to have this role under the new mechanism. In addition, the Government intend to update the special resolution regime code of practice to provide greater clarity about how the Bank of England will take account of the costs to the Financial Services Compensation Scheme when considering whether to use the new mechanism in its assessment of the resolution, conditions and objectives.

The noble Lord, Lord Vaux of Harrowden, asked about the deal for buyers coming on the back of industry. The Bank of England will be responsible for determining whether resolution is in the public interest, including transfer to another firm. The new mechanism introduced by the Bill ensures that where there is no willing buyer, absent recapitalisation the taxpayer is not responsible for meeting the costs of recapitalisation. As now, the expectation is that usually any sale will be achieved by an auction process.

The noble Lord also asked about subsidiaries. It is possible that the parent company may be able to recapitalise its subsidiary outside of resolution, but there may be circumstances in which this is not possible, as was the case with SVB UK. It is important that the Bank of England has the necessary tools to deal with a failing firm, regardless of its home jurisdiction.

The noble Lord, Lord Vaux of Harrowden, also asked about levy affordability. In line with its safety and soundness objective, the PRA carefully considers the affordability of the Financial Services Compensation

[Lord Livermore]
Scheme levy for firms. The Government are therefore confident that any levies imposed as a result of this mechanism will be set at a level that is affordable for firms.

On the noble Lord's point about letting shareholders and creditors of the failed bank off the hook vis-à-vis other, larger banks that have to meet these rules in resolution, Sections 6A and 6B of the Banking Act 2009 require the Bank of England to ensure that shareholders and creditors bear losses when a banking institution fails. This is an important principle that will continue to apply when the new mechanism is used. This involves cancelling, diluting or transferring common shares so that shareholders are the first to bear losses.

The noble Lord, Lord Vaux, also asked about the flowback to the Financial Services Compensation Scheme. Any money requested by the Bank of England but not expended would be returned to the FSCS. Any money that the Bank of England recovers through the sale of the firm in resolution, or through its winding up, would also be returned to the FSCS up to the amount of the original payment.

Finally, the noble Lord asked whether taxpayers should pay. It is not right to presume that government should pay for resolution. The Bill rightly follows the approach taken in insolvency: the costs fall to industry. I hope I have covered all his points. If not, I shall write to him.

The noble Lord, Lord Sikka, asked about letting firms fail to impose market discipline. The failure of Silicon Valley Bank UK showed there may be some cases where it is in the public interest for the Bank of England to intervene in a small bank failure if doing so mitigates the risk of systemic impacts. However, insolvency remains an important part of the toolkit. It is important to know that any use of the transfer tools in their resolution regime would entail the writedown of regulatory capital. This would impose losses on shareholders and creditors of the firm and is an important means of maintaining market discipline.

The noble Lord, Lord Sikka, also asked about interaction with the corporation tax cap. This Government have been clear about their mission to boost growth; it is vital that the tax system support this. The Chancellor's commitment on tax was set out in the manifesto. We keep all tax under review, and the Chancellor makes tax policy announcements only at fiscal events in the context of the public finances.

I am grateful to the noble Baroness, Lady Kramer, for her support for the Bill. She raised a number of questions about the ring-fencing exemptions. She specifically raised points about the circumstances surrounding the failure of SVB UK and the decision to provide HSBC with an exemption to the ring-fencing rules. As I alluded to in my opening remarks, this exemption was deemed crucial to ensuring that the sale of SVB UK could proceed. The success of the transaction was necessary to protect SVB UK depositors and the taxpayers, but it did not set a precedent. As I stated earlier, the resolution of SVB UK presented an exceptional set of circumstances that required an exceptional response, recognised by noble Lords across this House at the time.

I recognise the noble Baroness's important point about ensuring that any resolution action is subject to appropriate scrutiny. That is why the Government have committed in their consultation response to updating their code of practice regarding reports. The Bank of England is already required to submit to the Chancellor to lay before Parliament in the event that this new mechanism is used. We will develop those amendments to the code of practice in due course and consult with the Treasury's banking liaison panel, which advises on the resolution regime on the precise scope of its content. The noble Baroness invited me to write to her, so if I have not covered all her questions here, I absolutely will in a letter.

The noble Baroness also asked whether the Government are committed to the bail-in procedure. Bail-in is a crucial part of the toolkit for resolving the largest, most systemic banks. There is international consensus behind this.

The noble Baronesses, Lady Kramer and Lady Penn, asked about the impact on medium-sized MREL banks and what consideration the Government have given to the impact on medium-sized banks, which are required to meet their own requirements to hold equity and for debt to be bailed in, known otherwise as MREL, as well as to contribute to the costs of this new mechanism.

The Government recognise the important contribution made by challenger banks and note concerns raised during consultation about the broader policy surrounding MREL. MREL policy is set by the Bank of England, as set out in the Government's consultation response. The Bank of England will reflect on the feedback raised during consultation and consider whether changes are warranted to its approach to setting MREL policy.

Notwithstanding that, I emphasise the Government's belief that the funding approach set out in the Bill is targeted and proportionate, ensuring that the banking sector pays only when it needs to, avoiding a new set of upfront costs. The Government have concluded that the entire banking sector, including medium-sized banks, stands to benefit from the new mechanism through the protection of financial stability and the reduced risk of contagion. It will also contribute to ensuring that the UK retains a robust and world-leading resolution regime.

The noble Baroness, Lady Kramer, asked about the new mechanism applying only to small banks without MREL. I think I covered that in my previous answer.

I am grateful to the noble Baroness, Lady Penn, for her support for the Bill. As she says, its origins were cross-party, and I am grateful for her continued support. She raised the issue of using resolution procedure versus insolvency, which the noble Baroness, Lady Kramer, also asked about. Both noble Baronesses asked about the extent to which resolution will be used instead of insolvency, and for an example of where insolvency will be preferred over the new mechanism. I should reiterate that the bank insolvency procedure will remain a vital part of the toolkit and a preferred strategy in the event of many firm failures, and I stress that the Bill is not designed to replace the bank insolvency procedure; it is designed instead to expand the Bank of England's options when faced with a small bank failure.

Whether to put a failing firm into a resolution is ultimately a decision for the Bank of England in its capacity as resolution authority. It will decide this based on an assessment of the resolution conditions, and in particular on the basis of whether it is in the public interest at the time. It will make this judgment in advancement of the statutory resolution objectives, including to protect financial stability and public funds. Therefore, if the Bank of England judges that the resolution conditions and public interest test for resolution would not be met for a specific bank, it would seek to place that bank into insolvency. That might be for a range of reasons but could include, as an example, a judgment by the Bank of England that the bank's failure would not have systemic implications for the financial system or create significant disruption for customers.

The noble Baroness, Lady Penn, also asked about the accountability and for an update to the code of practice, and she asked to see the proposed updates to the special resolution regime code of practice alongside this legislation. I am happy to share a draft of the proposed updates with your Lordships at the earliest opportunity, and I can write to the noble Baroness once they are available. I note that the final wording of any proposed updates would be subject to review by a cross-section of representatives from the authorities and industry on the statutory Banking Liaison Panel, which advises the Treasury on the resolution regime, and of course on the final content of the Bill.

The Government's consultation response noted that the Government anticipate that any reports required under the Banking Act to ensure ex-post scrutiny of the Bank of England's actions when using the new mechanism would be made public and laid before Parliament as required. I am happy to state that the strong expectation is that such reports required under the Banking Act would be made public and laid before Parliament, and in many cases this is already required by statute.

The noble Baroness asked me to elaborate on where the Banking Act requires such reports to be laid before Parliament and where it does not. Section 80 of the Banking Act requires the Bank of England to report to the Chancellor of the Exchequer on the activities of a bridge bank as soon as reasonably practicable after each year of its existence, and for any such reports to be laid before Parliament. That reflects the fact that use of the bridge bank tool can have a wide range of implications that will likely be of interest and of concern to Parliament, notably the risks that using the tool could carry to public funds.

Section 80A imposes the same requirement to report to Parliament when the Bank of England exercises the bail-in tool. Section 79A of the Banking Act imposes a similar requirement on the Bank of England in relation to the use of the private sector purchaser tool, although there is no requirement for a report under this section to be laid before Parliament.

As I said in my earlier remarks, I can reassure your Lordships that in any event where the new mechanism was used the Treasury would intend to ensure that any such reports were made available to Parliament and the public unless there were clear public interest grounds for not doing so, such as issues of commercial confidentiality.

Since the global financial crisis, resolution policy has been developed as a key means of managing the risks that arise when banks fail. Although that regime has worked well in practice, it is important to learn the lessons from last year's period of banking sector volatility. This targeted set of enhancements is a key part of the policy response and provides the Bank of England with a more flexible toolkit to respond to the failure of small banks. The Bill recognises that there should be protections for public funds and taxpayers' money when a banking institution fails. It is a narrow and uncontroversial Bill and has been drafted with the aim of achieving its primary objectives while minimising financial and regulatory burdens on the sector.

The Government have listened to feedback from industry and designed their policy accordingly, ensuring that there is a carve-out for credit unions from the requirement to contribute towards levies for these purposes. The Bill is an important component in ensuring the economic and financial stability that will deliver economic growth.

Bank failures are highly unpredictable and can come about at short notice without warning, so it is right that the Government introduce this Bill now to enhance the resolution toolkit and protect public funds. I hope that your Lordships will recognise the merits of this Bill and are able to support it.

Lord Moylan (Con): Before the noble Lord sits down, unless I missed it, I did not hear him give an answer to my question about whether the Bank of England will be able to recoup legal costs from the funds charged to the Financial Services Compensation Scheme or merely the reimbursement of the recapitalisation costs that would of course go into the bank. If he is not able to answer today, he may wish to write.

Lord Livermore (Lab): I did endeavour to answer quite a lot of the noble Lord's questions. On that one, I will write to him.

Bill read a second time and committed to a Grand Committee.

Building Homes

Statement

3.05 pm

The Parliamentary Under-Secretary of State, Ministry of Housing, Communities and Local Government (Baroness Taylor of Stevenage) (Lab): My Lords, with the leave of the House, I shall now repeat a Statement made earlier today in the other place by my right honourable friend the Deputy Prime Minister. The Statement is as follows:

"Before I begin my Statement, I know the whole House will join me in expressing our shock and concern about the tragic incident in Southport yesterday, and in sending strength from this place to the families of those affected. As a mother and a grandmother, I know that the pain must be unimaginable for the people and community of Southport, who are having to deal with the trauma of such a dreadful incident. I also thank

[Baroness Taylor of Stevenage]
the police and emergency services for their swift response, and Alder Hey Hospital, which has been treating the victims.

Mr Speaker, with your permission, I have come to the House to make a Statement about this Government's plan to get Britain building. Delivering economic growth is our number one mission. It is how we will raise living standards—for everyone, everywhere—and is the only way we can fix our public services. So, today, I am setting out a radical plan to not only get the homes we so desperately need built but to drive growth, create jobs and breathe life back into our towns and cities. We are ambitious, and what I say will not be without controversy, but this is urgent.

This Labour Government are not afraid to take the tough choices needed to deliver for our country. We are facing the most acute housing crisis in living memory: 150,000 children in temporary accommodation; nearly 1.3 million households on social housing waiting lists; under-30s less than half as likely to own their own home as in the 1990s; rents up 8.6% in the last year; and total homelessness at record levels. There are simply not enough homes.

Those on the Benches opposite knew this, but what did they do for 14 years? As my right honourable friend the Chancellor said yesterday, they ducked the difficult decisions, they put party before country and they pulled the wool over people's eyes by crowing about getting 1 million new homes in the last Parliament. But they failed to get anywhere near their target of 300,000 homes a year. In a bid to appease their anti-housebuilding Back-Benchers, they abolished mandatory housing targets. They knew that this would tank housing supply but they still did it. As I stand here today, I can now reveal the result: the number of new homes is now likely to drop below 200,000 this year. This is unforgivable.

This legacy makes our job all the harder but it also makes it so much more urgent. So today I will explain how Labour will deliver the change needed to turbo-charge growth and build more homes. I will start with housing targets. Decisions about what to build should reflect local views. But that should be about how to deliver new homes, not whether to. While the previous Government watered down housing targets, caving in to their anti-growth Back-Benchers, this Labour Government are making the tough choices, putting people and country first. For the first time we will make local housing targets mandatory, requiring local authorities to use the same method to work out how many homes to build. But that alone is insufficient to meet our ambition. So we are also updating the standard method used to calculate housing need to better reflect the urgent need for supply in local areas. Rather than relying on outdated data, this new method will require local authorities to plan for homes proportionate to the size of existing communities, and will incorporate an uplift where house prices are most out of step with local incomes. The collective total of these local targets will therefore rise from some 300,000 a year to just over 370,000.

Some will find this uncomfortable, and others will try to poke holes. So I will tackle four arguments head on. The first is that we are demanding too much from some places. To this I say: we have a housing crisis, and a mandate for real change. We all must play our part. The second argument is that some areas might appear to get a surprising target. No method is perfect. The old one produced all sorts of odd outcomes. Crucially, ours offers extra stability for local authorities. The third is that we are lowering our ambition for London. I am clear that we are doing no such thing. That London had a nominal target of almost 100,000 homes a year, based on an arbitrary uplift, was nonsense. The adopted London Plan has a target of around 52,000. Delivery in London last year was around 35,000. The target we are now setting for London—roughly 80,000—is still a huge ask. But it is one that I know, after meeting the mayor last week, that he is determined to rise to. The fourth argument is that some will say a total of 370,000 is not enough. To this I say: ambition is critical, but we also need to be realistic.

I turn to the green belt. If we have targets for what we need to build, we next need to ensure that we are building in the right places. The first port of call must be brownfield land. We are making some changes today to support this, but this is only part of the answer. This is why we must create a more strategic system for green-belt release to make it work for the 21st century. Local authorities will have to review their green belt if needed to meet housing targets. But they will also need to prioritise lower-quality "grey belt" land, for which we are setting out a definition today. Where land in the green belt is developed, new golden rules will require the provision of 50% affordable housing, with a focus on social rent, as well as the schools, GP surgeries and transport links that communities need, and improvements to accessible green space.

Let us not forget that it was the previous Government's haphazard approach to building on the green belt that has seen so many of the wrong homes built in the wrong places, without the local services that people need. Under Labour, this will change. Increasing supply is of course essential to improving affordability. But we must also go further in building genuinely affordable homes. Part of this must come from developers, and the Housing Minister will be meeting major developers later to ensure that they commit to matching our pace of reform.

However, an active, mission-led Government must also play a role. This is why today I am calling on local authorities, housing associations and industry to work with me to deliver a council house revolution. This is not just a nice add-on, it is vital to getting the 1.5 million homes built because we know that schemes with a large amount of affordable housing are likely to be completed faster, and injecting confidence and certainty into social housing is how we get Britain back to building.

The previous Government had to downgrade the number of new homes their affordable housing programme would deliver. Today I can unveil that through their actions, it has had to be downgraded. Now only between 110,000 to 130,000 affordable homes are due to be built under this programme—down from the original target of 180,000. In our worse-case scenario, some 70,000 fewer families in need of a secure home will lose out. How did they let this happen?

Once again it is this Government who will have to pick up the pieces. This is why today I am announcing immediate steps for the biggest boost to social and

affordable housing in a generation. We will introduce more flexibilities in the current affordable homes programme, working with Homes England, and we will bring forward details of future government investment at the spending review. I recognise that councils and housing associations need support too. So my right honourable friend the Chancellor will set out plans at the next fiscal event to give them the rent stability they need to borrow and invest.

We must also maintain existing stock, which is why I am announcing important changes to right to buy. We have already started reviewing the increased right-to-buy discounts introduced in 2012. We will consult in the autumn on wider reforms to right to buy, and we are immediately increasing flexibilities for councils when using right-to-buy receipts. In addition, to help councils provide homes for some of the most vulnerable in society, I can also confirm today that £450 million of the local authority housing fund will flow to them to provide 2,000 new homes. This is what a Labour Government do.

These reforms are key to realising our wider growth ambitions. Part of that comes from new homes themselves, releasing the untapped potential of our towns and cities that for too long have been throttled by insufficient and unaffordable housing, but it also flows from making it easier to build the infrastructure on which we rely. So we are making it easier to build laboratories, giga-factories, data centres and electricity grid connections. We must make it simpler and faster to build the clean energy sources needed to meet zero-carbon energy generation by 2030. We have already ended the de facto ban on new onshore wind, but we are also proposing to bring large onshore wind projects back into the nationally significant infrastructure projects regime, NSIP; change the threshold for solar development to reflect developments in solar technology; and set a stronger expectation that authorities identify sites for renewable energy.

To deliver all this, we need every local authority to have a development plan in place. Up-to-date local plans are essential to ensuring that communities have a say in how development happens. Areas with a local plan are less vulnerable to speculative development through appeals, yet just a third of places have one that is under five years old. This must change. We will therefore fix this by ending constant changes and disruption to planning policy; setting clear expectations of universal local plan coverage; and stepping in directly where local authorities let their residents down. Local plans ensure local engagement and ensure local people's needs are met. But, in demanding more of others, we are also going to demand more of ourselves. Two weeks ago, I said that I will not hesitate to review an application where the potential economic gain warrants it. So today I can confirm that my Ministers and I will mark our own homework in public, reporting against the 13-week target for turning around ministerial decisions.

I know that what I have said seems like a lot, but this is only our first step. We plan to do so much more. We will introduce a planning and infrastructure Bill that will reform planning committees so that they focus on the right applications, with the necessary expertise; further reform compulsory purchase compensation rules so that what is paid to landowners is fair but not excessive; enable local authorities to put their planning departments on a sustainable footing; streamline the delivery process for critical infrastructure; and provide any legal underpinning that may be needed to ensure that nature recovery and building work hand in hand. We will also take the steps needed for universal coverage of strategic planning within this Parliament, which we will work with local leaders to develop and formalise in legislation. Shortly, we will say more about our plan for the next generation of new towns.

Because we know that this crisis cannot be fixed overnight, in the coming months the Government will publish a long-term housing strategy for how we will transform the housing market so that it delivers for working people. These are the right reforms for the decade of renewal the country so desperately needs, and we will not be deterred by those who seek to stand in the way of our country's future. The honourable Members opposite may say that this cannot be done, but I say once again that I will prove them wrong. This Government will build 1.5 million homes that are high quality, well designed and sustainable; we will achieve the biggest boost to affordable housing for a generation; and we will get Britain building to spur the growth we need. I commend this Statement to the House".

3.19 pm

Baroness Scott of Bybrook (Con): My Lords, I first add our condolences to the community of Southport after the horrific incident yesterday. Our thoughts and prayers go out to the friends and families of all those who have been affected.

We on these Benches support policies to provide more housing in this country, particularly affordable and social housing. Our previous Conservative Government fulfilled their commitment to build over 1 million homes over the previous Parliament and 2.5 million homes since 2010, but targets do not ensure that homes are delivered and I do not see that any of the changes announced today will aid any delivery.

Our last Government put £11.5 billion into the affordable homes programme, delivering 700,000 more homes. What will this Government invest to build more homes, or will homes suffer the same fate as hospitals and transport, with no investment? Compare this with the previous Labour Government, where construction slowed to the worst peacetime housebuilding rates since 1924. Let us hope that this Labour Government will invest and deliver, and not just produce targets.

How will the Government deal with communities having a say over what homes are built in their area? The Prime Minister admitted on Radio 4 that he will ignore local councils, but the Secretary of State for MHCLG and the Chancellor have both tried to stop developments in their own constituencies. What will Labour's policy be? So many questions.

The levelling up Act simplified local plans to work with local communities on the housing and infrastructure needed in their areas. Will the Government continue to support local plans and what exactly will they do if a local council does not produce a local plan or produces one with too few homes? If combined authorities are to be responsible for strategic plans of housing growth in their area, how is this devolving power to

[Baroness Scott of Bybrook]
communities? Surely this is just adding another tier of bureaucracy. Will this not once again slow down the system, adding complexity between conflicting strategies? Noble Lords have only to look at Mayor Khan's London plan and what that has not delivered for our great capital city.

Labour's top-down green belt review seems to go much further than grey belt. The NPPF already allows for brownfield site development in green belts, for example of redundant car parks, petrol stations et cetera, so how far will Labour's changes to green belt policy go? Will farmland be included in the top-down review? How long will that review take? Will there be any national or local consultation? Once again, we see a slowing down of the housing delivery system.

Before I finish, I go back to nutrient neutrality. Some 160,000 homes in this country cannot be delivered —homes for young people, families and older people trying to downsize. These are not large developments, but one or two houses here and there, quite often across a rural landscape. Will the Government take another look at this?

So many changes, so much consultation, so much extra time in the system—it seems to be a field day for the Planning Inspectorate to go out and look again and again and again.

I am confident that the whole House wants more good-quality homes in places where they are required. What I am not sure about is whether this Government's policy changes will deliver that, but what I can assure the noble Baroness opposite is that we will work with them to deliver where it is right to do so, but we will challenge them where we believe it is not.

Baroness Thornhill (LD): My Lords, we too are shocked by the appalling incident in Southport and feel very deeply for all the families concerned, and the knock-on effect in the community.

What a pleasure it is to listen to the noble Baroness, Lady Scott; now that she is no longer opposite me on the Benches I will have to get used to seeing her in profile. She always engages constructively and generously with her time, and I am sure that will continue. I agree with a lot of what she said, but I have a slightly different emphasis because I passionately want this housing agenda to succeed. We all know and understand the problems and the bigger picture, and it is indeed dire. There is so much to commend in what has been said today that it is almost too difficult to decide which bits to pick.

I start by saying that I welcome the link between economic growth and housing. Of all the things to get UK plc going, housing has always been there as a solution to a lot of our economic woes, so I sincerely hope that it works. The challenge will be in turning the Deputy Prime Minister's passionate rhetoric into reality. It is a wicked issue, and it has been caused by decades of failure to build enough homes. I do not think we should be always apportioning blame; this is a long-term systemic problem. I look forward to working on the forthcoming legislation, but I feel that there is going to be a lot of it. The devil will be in the detail, and that will come later. Within the rhetoric, there are a lot of conflicts, as the noble Baroness to the side of me hinted at. The Statement said that the Government want to bring stability into the planning system—I doubt very much that this will bring much stability.

Let us go to the big issues. I start with targets. At the election, all the parties tried to outbid each other with the numbers game. Targets do not build homes, but they send a very powerful message to local planning authorities. However, there have to be consequences. Can the Minister outline what they might be? Councillors are not going to change their behaviour overnight, so what are we going to do to change the public narrative and turn our nimbys into yimbys? How do the Government intend to engage the public and the councillors in the need for more homes? What is the future of the housing delivery test? What about the two-thirds of councils that do not have an up-to-date plan? I would like to ban the phrase, "Build the right homes in the right places", as it is a fig leaf for anybody to say anything. You hear it said by protestors who are for and against building. I want to know what it actually means. My big question to the Minister is, in short: what is going to change to change the narrative and the culture around housebuilding?

That brings us to the standard method to allocate the targets. I welcome a more balanced approach; I felt that the previous approach pitted urban authorities against rural authorities, which is never good. The Statement talked about an uplift where house prices are more out of step with local incomes. What does that mean in practice? Do the Government really believe that we can build enough homes to affect market prices? Is that even desirable? Both Barker and Letwin and several academics have said that that just is not possible, and if it were that it would take decades. I feel we should be concentrating on affordability as an issue. In those areas where there is that discrepancy, it is all about the need for social housing. I hope that the Government will stop saying "affordable" and use the terms appropriately. In high-cost housing areas we need social housing to keep balanced communities and keep people cleaning our streets, working in our care homes, et cetera. I hope that funding from Homes England reflects a real shift towards social housing.

In effect, all the Government's ambitions will come to nothing if we do not tackle the skills shortage and the issues within the workforce. What are the plans to reverse this current trend, especially as we know that a considerable number of the current workforce are due to retire? What are we doing differently from what was already in position to reverse that trend? How will SME builders be incentivised to build more and join this council house revolution? As the noble Baroness asked, what is happening in the areas that have been in an effective moratorium due to biodiversity net gain—where some of them are clapping their hands and saying, "Whoopee-do! This is the best thing that has happened"?

With regard to the green belt, in my authority I used to talk about bronze, silver and gold. We all knew what our gold was, and there was some debate about what was bronze and therefore able to be built on, but doing that is not going to be as easy as it would appear. Take the petrol station example. I know of a petrol station near where my daughter lives; it is

derelict and an eyesore, but it is right next to a dual carriageway, miles away from any other homes, and it has no facilities. I hope there is a little more local flexibility on that.

As for building the infrastructure upfront and aligned to the development, that is ideal but very challenging. It is perhaps slightly easier in larger-scale developments, but in my area a lot of the development is smaller sites and infill. The impact on infrastructure is cumulative and lags behind the building of houses. I will be interested in how the Government intend to reverse that.

On right to buy, I hope that there is some local flexibility to suspend right to buy if a local authority can prove that that is in its interests within its community.

There is loads more in this Statement. I expect we will have plenty of time over forthcoming years to discuss much of this, because, as the Minister said, there are no quick fixes. However, it is important to send out messages different from some of the messages we have had hitherto.

Baroness Taylor of Stevenage (Lab): My Lords, I thank the noble Baronesses, Lady Scott and Lady Thornhill, for their contributions on this topic which were thoughtful, as usual. We have had many discussions in this House on these subjects, and it is interesting to be on the other side of the Chamber doing so.

Without immediate bold action, the number of homes will continue to decrease, falling even further behind the needs of the people of this country. The noble Baroness, Lady Scott, mentioned targets. I have already commented on the dramatic fall off the cliff in housebuilding since the removal of targets. It is clear that we need to set targets. The measures announced today are ambitious, but they are measures we must take if we are going to improve housing affordability and turbocharge the growth we need.

The scale of the response must match the scale of the challenge—and it is a challenge; I am not making light of that in any way. This is the worst housing crisis we have had in living memory. There are not enough homes. This matters for all the reasons we have discussed so often, such as skyrocketing rents, record homelessness, falling home ownership and the setting of unreachable housing targets that have repeatedly not been met. The previous Government failed every year to meet that 300,000 homes target and presided over this drop-off in very recent times.

I turn to the specific questions. The noble Baroness, Lady Scott, spoke about the local voice and asked how it is going to be heard. The local voice is always important in the planning process, and it will remain so. There are no plans to change the process of deep and wide consultation on local plans, as I said when I repeated the Statement, but it will not be about whether or not housing is built, because we need to deliver the targets. It might be about how it is built and where, but it will not be about whether it is built. That is the difference that we are setting out in this Statement today.

On the simplification of plans, it is not the intention to make plans more complicated; this is just a change to the way plans will take housing targets into consideration.

On future funding, there definitely will be a new affordable homes programme after the current programme ends. The announcement is clear. We will bring forward details of future government investment in social and affordable housing at the spending review, enabling providers to plan for the future as they develop to deliver the biggest increase in affordable housing in a generation. We will also work with our mayors in local areas to consider how funding can be used in their areas to support devolution. In fact, I will be having a conversation later this afternoon with our mayors and leaders around the country to discuss some of the issues in this consultation with them.

The noble Baroness asked about nutrient neutrality, and it is important that I answer that question specifically. In order to secure the win-win situation for the economy and for nature that we know we can achieve, it is important carefully to consider the way forward, with the help of nature delivery organisations and stakeholders in the sector. That work has already started, and we will continue it over the summer. In the meantime, we will continue to boost the supply of mitigation. We will announce the successful recipients of round two of the local nutrient mitigation fund in the coming weeks. We are also exploring the potential for greater use of strategic approaches to mitigation, whereby, rather than individual developers having to secure their own mitigation for each new project, they are able instead to pay into high-level mitigation projects that are co-ordinated strategically, so they can deliver more effectively and efficiently.

The noble Baroness, Lady Thornhill, talked about stability in the planning system. The intention of this process is to introduce these changes and have a settled system going forward. There have been a lot of changes—we had 16 Housing Ministers in the last two Parliaments—which has created all sorts of turbulence in the system. This has caused local authorities a great deal of concern and has not allowed the system to settle down. I hope that, once the changes are brought in, it will settle down once and for all. The noble Baroness also asked if we can build enough homes to affect house prices. It is an issue, and we will keep that under review, but what is certain is that prices are going up and are unaffordable, as are rents. We have to increase the housing supply in order to have some impact on both the level and the cost of the housing available to our communities.

The noble Baroness also spoke about affordability and social housing. She will know, because she has heard me speak about this issue many times in this Chamber, of my determination not to conflate the two things. There is a difference between affordable housing and social housing, and we must deliver both. There will be funding and incentives to deliver more social housing, but both are necessary. I hope we can move that forward as quickly as possible.

The noble Baroness also asked about right to buy. It is not currently the intention to suspend right to buy, but some significant changes to that regime are coming, particularly to the way we allow local authorities to use the funding from right to buy. The problem has been not right to buy itself, but the failure to replace the houses sold through it. We have seen a very significant drop in the availability of social housing because the houses sold under right to buy have not been replaced. We need to address that issue, and the measures put in place today will, I hope, help.

[Baroness Taylor of Stevenage]

The method for calculating housing need was not fit for purpose. It relied on 10 year-old data and arbitrary uplifts to that data, which is why it has been being changed. We will make all the targets that result from this mandatory. All local planning authorities without an up-to-date local plan for housing will be held to account for their new housing target once the revised framework is published.

The noble Baroness, Lady Scott, asked about intervention. We want a system that allows for future intervention action to be swift, proportionate and justified by local circumstances. That does not mean there are no circumstances in which local authorities will not be allowed to build to their targets. If there is a very specific set of circumstances, such as flood plains and national parks, they will be taken into account; but otherwise there will be intervention, and we want that to be quick and straightforward to achieve.

It is not about forcing homes on local places. We believe that planning is fundamentally a local activity, and new homes should be built for communities with communities, but less than one-third of places have an up-to-date plan, and that has to change. This has to be about ensuring that local plans are ambitious enough to support the Government's commitment—and that is the point about numbers—to get to 1.5 million homes in this Parliament. I am not saying that that is not an ambitious target; we are clear-eyed about that, but we cannot shirk the responsibility to all these thousands of homeless families and future generations locked out of home ownership. That is not just for the sake of those who are homeless, although it is very important for them; it is about the cost to the economy of this country. Some local councils are spending one-third of their revenue budgets on homelessness, and the DWP cost has gone up and is now extremely high. So we have to tackle it from an economic as well as a housing point of view. That is why, a matter of weeks into this Government, we are making the bold changes that we need to get us where we need to be.

We have taken decisive and bold action to deal with the housing crisis we are facing. This is just the start: we will set out our long-term strategy shortly, and I am sure that that will be music to the ears of those who produced the recent report calling for a long-term housing strategy. There is a plan to deliver 1.5 million homes that are affordable, high-quality and sustainable, and we will bring forward details of future government investment in housing at the point of the spending review.

3.41 pm

Lord Young of Cookham (Con): My Lords, there is a lot to welcome in what the noble Baroness has said. I welcome the reintroduction of housing targets, unwisely abandoned by my party 18 months ago. I welcome the flexibility on RTB; receipts for streamlined planning application; cost recovery on planning application; and the long-term housing strategy, on which I hope the Minister will consult widely, particularly with the recent Church document.

On neutrality, what the Minister sounds as if she wants to do is very much like what she voted down last September. Labour said in its manifesto that it would

"implement solutions to unlock the building of homes affected by nutrient neutrality".

We await that, but the key question, and the missing element in this, is resources. We all want to do what the Minister has said, but her department is unprotected. The forecast is for a 1.6% to a 2.9% reduction every year for the next three years. What she has announced is going to cost a lot of money. I welcome a reinvigorated council house programme. She wants more affordable houses and fewer houses for sale, and within affordable housing she wants more social houses on social rents. That is going to cost. How confident is she that she has the resources? When she goes to the Chancellor, might not she say what she said yesterday? She said that

"if we cannot afford it, we cannot do it".—[*Official Report*, Commons, 29/7/24; col. 1036.]

Baroness Taylor of Stevenage (Lab): I thank the noble Lord for his comments and question. The point is that, without growing the economy, as we need to do, we will not be able to afford any of the public services that we need. That is the first priority of this Government. But we have an immediate housing crisis, so we will do what we can to solve it now, and develop things further as we begin to create the economic growth we need to solve it. But it is not just a problem of government funding; we need to create that affordable housing. The noble Lord will be as aware as I am that it has been more and more difficult to deliver the social and affordable housing that we need through things like Section 106 agreements and other forms of planning gain, so we will need to assist with that as well. But it is a priority that we tackle the homelessness crisis now and we start on the journey of improving the housing supply, because that is the only long-term way to solve the housing crisis in this country. It will take some time to develop the economic background to do that fully, but we can make a start right now.

Lord Best (CB): My Lords, this is my first opportunity to welcome the Minister to her role. We are very lucky to have someone in your Lordships' House who has a real understanding of these issues, with her years of experience on the front line of local government. I also greatly welcome the Government's commitment to easing the real crisis that faces so many people under the age of 40 who need a secure, decent home and not only cannot buy one but cannot find an available, affordable rented home either. Things are desperate, and the Government's mission is enormously encouraging.

Last week, in the debate on the King's Speech, I listed seven suggestions for achieving success on the planning side—points for the planning and infrastructure Bill—and I can now put a tick against a number of those. I am delighted with the Government's ambitions, starting with the long-term housing strategy, which is good news, but there remain some items on which I would be grateful for some further commentary by the noble Baroness the Minister.

First, in terms of restocking the hugely depleted planning departments, will the Government allow local authorities to cover the full cost of an effective, speedy, local planning service by charging fees to the developers that cover all the costs?

Secondly, I have not heard quite as much as I had hoped about the opportunities to use new development corporations with simplified compulsory purchase powers to capture the uplift in land values by acquiring strategic sites, not just for new towns but on a much wider scale. These local authority-owned but arm's-length bodies, advocated by Sir Oliver Letwin in his seminal report previously, could implement a proper master plan. They could install the infrastructure and parcel out sites to SME builders—who used to account for 40% of new homes, but now barely reach 9%—to housing associations, to providers of housing for older people and so on, amid properly planned green spaces, schools and facilities. These development corporations would help us end the nation's unhealthy dependence on a handful of volume housebuilders that have consistently let us down on quantity, quality, speed of output and numbers of affordable homes.

I heartily welcome the Deputy Prime Minister's Statement. Can the Minister give me any words of encouragement that these two issues will receive due attention in the weeks ahead?

Baroness Taylor of Stevenage (Lab): I thank the noble Lord, Lord Best, not just for his question but for his long-term championing of housing in this Chamber. I look forward to working with him, particularly on the provision of some of the specialist housing which I know is of great interest to him.

In terms of restocking—or should it be restaffing?—planning departments, there are plans to allow full cost recovery on residential applications, which is one part in the detail of the Statement today and is really encouraging. We have plans to increase the number of planners. I know that planners take a long time to train and are experts in what they do, so it is not an overnight job, but we are determined to strengthen planning departments, which are responsible for the whole of this process.

On development corporations, further announcements are coming forward tomorrow on the issue of new towns, but I take the noble Lord's point on the wider aspects of development corporations. With his permission, I will take that back, give it some further consideration and respond to him in writing. But I think he will be interested to hear the announcements on new towns tomorrow.

Lord Pickles (Con): My Lords, there is a lot in this Statement to welcome. I agree with the noble Baroness on the need to look at the green belt and at grey areas in particular. I attempted to do this 14 years ago but was stopped by the tsunami to save our green belt. We need a proper understanding of the green belt, recognising that there are plenty of brownfield sites within the green belt and greenfield sites in the brown belt, so this kind of rationalisation is necessary. I also very much welcome the commitment to council housing. It must be of some embarrassment to Labour that the Blair-Brown years never reached the number of council houses that Baroness Thatcher built or, indeed, the level built during the Cameron to Sunak years.

I make two suggestions about where we could speed up the process. I am pleased that the Minister wants to speed up planning applications, but the delay is actually at the other end in implementing the conditions. She should look very hard at that. My second suggestion is that, given that it will take some time to get this in place, the Government should look at ways of encouraging, either fiscally or through planning policy, off-site construction. That is the best way to get more houses that are better, more environmentally friendly and more secure in terms of power. Doing that requires a fair amount of investment from developers, but it would be able to give the numbers that the noble Baroness is looking for.

Baroness Taylor of Stevenage (Lab): I thank the noble Lord, Lord Pickles, for his comments and suggestions, which were helpful as ever, and I look forward to working with him as we go through this programme. I am passionate about council housing, having grown up in a council house—it was actually a development corporation house, to be clear—and I want to see that programme develop. I thank the noble Lord for his suggestions and look forward to moving the whole programme forward.

I will just make a correction on the affordable homes programme. Let me clarify that the Government have committed today to bring forward details of future government investment in social and affordable housing at the spending review, enabling providers to plan for the future as they help to deliver the biggest increase in affordable housing in a generation. I might have muddled my wording slightly on that, so that is just for clarification.

Lord Taylor of Goss Moor (LD): My Lords, I draw attention to my registered interests, as I work in this field. I might add that I have advised successive Governments—the last Labour Government, the coalition Government and the Conservative Government—on fundamental planning reform, and in that time I think this is the most important and most welcome Statement since the original and much-lamented National Planning Policy Framework. I say "lamented" because it has expanded and become more complicated and more unhelpful in every iteration, and I hope the Government will succeed in unwinding much of that.

I will not touch on much that the Minister said in her new role—to which I welcome her—because I overwhelmingly agree with it. I will just highlight a couple of important points. The first is that there is no shortage of land in this country. About 9% is developed, and that includes parks, gardens, roads and railways, as well as houses, factories and workplaces. After delivering the kind of numbers that the Government have the ambition to deliver, it will still be just over 9%. Even in the most developed part of the south-east, it is 12.2% today and will still be under 12.5% with these kinds of numbers.

The issue has been making land available and planning intelligently with long-term sight of the evolution of place and the needs of the new generation who need homes. As our generation—looking around, I am afraid it is our generation—live longer and longer, we have not been freeing up the homes for our children and grandchildren, who desperately need them. The Statement says an awful lot about homes, but not once is "community" mentioned. In all my work, whether

[Lord Taylor of Goss Moor]
as a visiting professor of planning or working with local authorities and Governments, I always say that it is about delivering not the houses but the communities in which we live, of which houses are just a part. It is about the shops, pubs, schools, bakeries, transport infrastructure, parks and particularly gardens. There have been a couple of recent reports on the importance of children having access to private green space as well as public green space—a balcony will not do.

The building of communities is critical, as is the vision of the evolution of place not over one year—that is piecemeal development—but over 20 or 50 years through strategic planning of how we evolve places. All I do, particularly around new settlements and creating new places, is about building community. I welcome the fact that the Government are looking at compulsory purchase reform, because unlocking the value from development to create whole communities and all that is needed is an absolutely essential part of what we do; it is not just housing. I hope the Government will focus on that issue.

Baroness Taylor of Stevenage (Lab): As a new town girl, what the noble Lord has just said is music to my ears. When my new town was built, it was designed to provide all the infrastructure that families needed in a neighbourhood format, and I absolutely understand the points that he has made.

There is a "delivering community needs" section of the NPPF consultation document which should help communities in practice. The changes proposed would ensure that the planning system supports the increased provision and modernisation of key public services infrastructure such as hospitals, criminal justice facilities and all those aspects. They would also ensure the availability of a sufficient choice of post-16 education and early years places and enable a vision-led approach to be taken to transport planning where residents, local planning authorities and developers work together to set out the vision for how they want places to be, rather than simply projecting forward past trends. Further, they would enable the planning system to do more to support the creation of healthy places. We have had many a discussion in this Chamber about those aspects as well and I think that incorporates some of the points the noble Lord made about gardens and private and public open space to help communities to thrive. I hope that he will look at the consultation and respond to it; that would be really helpful.

Lord Lansley (Con): My Lords, I declare my interest, as recorded in register, as chair of the Cambridgeshire Development Forum. The Minister will be aware that Cambridgeshire may be an area of particular interest from the point of view of any new towns or development corporation statements. Although we may not be here to see it, it would be very helpful for us to have the opportunity to interact with Ministers on whatever announcement is made tomorrow.

From the point of view of Cambridgeshire, the Minister will recall that during the passage of the Levelling-up and Regeneration Act we talked about strategic planning. If the Government are not going to bring into force the joint strategic development strategy provisions of the levelling-up Act but are proposing a new strategic spatial development process, I think Cambridgeshire would be a very good place in which to test those arrangements—I hope the Minister might agree.

This is going to be a plan-led system, so making plans is very important, and I want to check one or two things about the new transitional arrangements. Can those who are making plans now and who have reached Regulation 19 for submission proceed on the basis of the old NPPF? Can those who have not reached that stage proceed as long as they can submit plans for examination by December 2026, but on the basis of the new NPPF? Others who cannot achieve that timetable will have to work to the new plan-making system, which is the one set out in the levelling-up Act. For clarity, I think that therefore means that the new plan-making system needs to be in place as soon as possible next year, and we need to see the regulations come forward for that. I also think it means that national development management policies, which the Government are planning to bring in, will have to be timed to coincide with the new plan-making system and—I hope this will be clear—not be applied to those making their plans and submitting them before December 2026 using the current NPPF. Otherwise, they will simply not make progress; they will wait for NDMPs, and I do not think we want them to be waiting for those.

I want to ask two other questions. The Statement does not refer to skills for construction, which are essential—we have to have the skills. We have to have the Construction Industry Training Board, and the others, making investments in the skills base to potentially build these homes, otherwise it simply will not be possible.

Finally, the budget of Homes England is important, but it is not the only mechanism for delivering affordable and social housing. About £4 billion a year comes from developer contributions; we need to see what the new landscape for developer contributions looks like after the reform of Section 106 and reform of the community infrastructure levy. I hope that the Minister will say that those too will come forward in short order.

Baroness Taylor of Stevenage (Lab): I thank the noble Lord, Lord Lansley, for those points. There were several, but I will try to address them all. First, the new towns task force will work closely with local leaders and communities to make sure that we get the right homes in the right places. I am sorry to say that to the noble Baroness, Lady Thornhill, but it is important. It will work on identifying potential locations within the next 12 months and deliver those large-scale developments as quickly as possible—one hopes, with spades in the ground at some sites by the end of this Parliament. That was my point about new towns; I cannot yet say whether those involved will be looking at Cambridge, but no doubt your Lordships will hear about that in due course.

On the strategic planning issues, our intention is to implement the new plan making system set out in the Levelling-up and Regeneration Act from summer or autumn 2025. We anticipate that all current-system plans that are not subject to transitional arrangements will need to be submitted for examination under the existing 2004 Act system no later than December 2026.

That, coupled with the transitional arrangements, represents a significant extension of the current system compared to previous proposals. In the transitional system, changes to the housing targets will depend on the stage of the plan. For those at the Regulation 19 stage, we will ask for the numbers to be reviewed. If you have already been through examination, the numbers will stand, but we will ask you to review your plan immediately with the new housing numbers included. Therefore, there are transitional arrangements and then further arrangements.

Arbitration Bill [HL]

Second Reading

4.02 pm

Moved by ***Lord Ponsonby of Shulbrede***

That the Bill be read a second time.

The Parliamentary Under-Secretary of State, Ministry of Justice (Lord Ponsonby of Shulbrede) (Lab): My Lords, I thank noble Lords for their interest in the Law Commission's review of the Arbitration Act 1996 and this Bill, which enacts the commission's recommendations. Many of your Lordships will be aware of the Bill's history, but let me provide a summary of it for the record.

In 2021, the Ministry of Justice asked the Law Commission of England and Wales to carry out a review of the Arbitration Act 1996, which provides the arbitral framework for England, Wales and Northern Ireland. The purpose of the review was to ensure that our world-renowned arbitration laws remain just that—world leading and fit for purpose in a changing business landscape.

The commission conducted two public consultations before laying its report and draft Arbitration Bill before Parliament on 5 September 2023. This report was widely praised for recommending measured rather than wholesale reforms of the 1996 Act to bring the law up to date and modernise the arbitral framework.

That Arbitration Bill was introduced into this House in November 2023, in the final Session of the last Parliament, by the noble and learned Lord, Lord Bellamy. It progressed through a Special Public Bill Committee, of which I was a member, under the Law Commission Bill procedure. That committee held an evidence-taking process chaired by the noble and learned Lord, Lord Thomas of Cwmgiedd, which marshalled expert views from practitioners, academia and the judiciary. The Bill was amended in response to the evidence gathered, and I will return to those changes shortly.

I am pleased to bring these reforms before Parliament again, as it is clear to me, from my position on the committee, that the Law Commission's recommendations for reform commanded strong support from the sector and were the result of extensive consultation. By supporting our arbitration sector, this Bill will help to deliver one of this Government's guiding missions: to secure economic growth.

The benefits that arbitration brings to this country are plain to see. The Law Commission estimates that the sector is worth at least £2.5 billion to the British economy each year, while according to industry estimates, international arbitration grew by some 26% between 2016 and 2020. Of course, London remains the world's most popular seat for arbitration by some stretch.

However, we face healthy competition from Singapore, Hong Kong, Sweden and Dubai. They have all updated their arbitration frameworks in recent years and our legal system too must continue to adapt and evolve if we are to remain ahead of the curve. The changes this Government bring forward now will undoubtedly be a foundation for future success, although we are also clear that they represent evolution not revolution. I am therefore delighted that this Government have been able to prioritise time so early in this Session to legislate for these reforms to the 1996 Act and to support this crucial sector.

The Bill takes forward the full set of reforms recommended by the Law Commission. It also incorporates the minor and technical improvements that were made as amendments to the former Bill. There has also been one further change made to Clause 1 to address a point raised on investor-state arbitrations. For brevity, I will summarise only the key provisions of the Bill now and point out the revisions as I do so.

First, Clause 1 clarifies the law applicable to arbitration agreements by providing that the law governing the arbitration agreement will be the law expressly chosen by the parties; otherwise, it will be the law of the seat. An express choice of law to govern the main contract does not count as an express choice of law to govern the agreement to arbitrate. Clause 1 will provide greater certainty as to the law underpinning arbitration agreements, and ensure that arbitrations conducted in England, Wales and Northern Ireland are supported by our arbitration law, where appropriate. Here, we retain the change to Clause 1 made by the Law Commission draft Bill, which removed the words "of itself" from inserted Section 6A(2), as they were thought to be unnecessary and to cause confusion.

We have also made an additional change to Clause 1. Clause 1 now provides that the new default rule on governing law does not apply to arbitration agreements derived from standing offers to arbitrate contained in treaties or non-UK legislation. The reasons why are as follows. There were concerns raised during the previous Bill's passage that Clause 1 should not apply to some investor-state arbitration agreements; that is, those arising under offers of arbitration contained in treaties and foreign domestic legislation. Sector feedback was that such arbitration agreements are, and should continue to be, governed by international law and/or foreign domestic law.

The Government agree that it would be inappropriate for a treaty—an instrument of international law—to be interpreted in accordance with English law principles. Likewise, we should not subject foreign domestic legislation to English law rules of interpretation, rather than its foreign law. To apply Clause 1 to these arbitration agreements may have discouraged states from choosing London as a neutral venue for their investor-state arbitrations. Just as investor-state arbitrations with the International Centre for Settlement of Investment Disputes have their own separate regime, so too should non-ICSID investor-state arbitrations be treated separately in the matter of governing law. This change will ensure that will be the case.

[Lord Ponsonby of Shulbrede]

Lastly on Clause 1, noble Lords have also brought to my attention a further matter requiring clarification. It is possible that issues may arise which are not expressly provided for by the inserted Section 6A; in particular, where there is no choice of seat in the arbitration agreement and no seat has yet been designated by the tribunal or the court. This rare issue was considered by the Law Commission in its final report, and the Government are confident that the courts will be able to resolve such matters through common law. We will also update the Explanatory Notes in due course to make this point clear.

I move on to the other key measures in the Bill. Clause 2 codifies a duty of disclosure for arbitrators that will protect the principle of impartiality and promote trust in arbitration. This duty will apply prior to the arbitrators' appointment when they are approached with a view to being appointed. It is a continuing duty that also applies after their appointment ends.

Clauses 3 and 4 strengthen arbitrator immunity against liability for resignations and applications for removal. This will support arbitrators in making robust and impartial decisions.

Clause 7 empowers arbitrators to make awards on a summary basis on issues that have no real prospect of success. This will improve efficiency and aligns with summary judgments available in court proceedings.

Clause 8 will boost the effectiveness of emergency arbitration by empowering emergency arbitrators to issue peremptory orders and make relevant applications for court orders.

Clause 11 revises the framework for challenges to an arbitral tribunals jurisdiction under Section 67 of the 1996 Act. This will allow new rules of court to provide that such applications should contain no new evidence or new arguments. That will avoid jurisdiction challenges becoming a full rehearing, thereby preventing further delay and costs. Clause 11 also retains the improvements made to the previous Bill, including: the inclusion of subsection (3D), which makes it clear that the general power of the Procedure Rules Committee to make rules of court is not limited as a result of the provision; the change in subsection (3C), which ensures that the court rules within must provide that the restriction is subject to the court ruling otherwise in the interests of justice; and the change in the drafting of subsection (3C)(b), which clarifies that the evidence mentioned includes oral as well as written evidence.

These measures extend to England, Wales and Northern Ireland. They will apply to arbitration agreements whenever made but not to proceedings commenced before these measures come into force. There are other more minor yet quite worthy reforms in the Bill that I have not covered here but which I would be pleased to discuss during this Bill's passage.

The Bill will enable efficient dispute resolution, attract international legal business and promote the UK's economic growth. I welcome noble Lords' participation in this debate.

4.12 pm

Lord Hacking (Lab): My Lords, I hope that I am standing up at the right moment. I have been advised by the Table, as the only Back-Bencher available to speak in this debate, that this is the moment that I am allowed to intervene as a gap speaker. Unfortunately, I am also advised that I have to keep to the strict rules of the gap and a Whip is already showing four fingers to me, which I think indicates four minutes. All I can do is to hope that the Whips will be kind, because I was a full participant in the Special Public Bill Committee on this Bill and took part in the many thorough and detailed sessions that we had within that committee.

I am going to break away for a moment to give tribute to the noble and learned Lord, Lord Thomas, who was our excellent chairman, and also to tell your Lordships that the noble and learned Lord is sad not to be here today and has asked me to express his regret for his absence.

I will therefore concentrate on the corruption issue. This has become important since the judgment of Mr Justice Robin Knowles in the Nigeria case. He gave his judgment on 23 October 2023. Suffice it to say that in that case, two very distinguished English arbitrators came to the conclusion that there should be an award of no less than $11 billion US against the Federal Republic of Nigeria. When this came before Mr Justice Robin Knowles, in a judgment lasting 140 pages, he set the whole of this large award aside on the grounds of corruption.

In the committee, we received submissions from Spotlight on Corruption but had no time to examine this important issue further. I am therefore asking the Minister to convene, before Committee, a special meeting to be attended by the Law Commission, by noble Lords who take part in the Special Public Bill Committee, and other noble Lords, to consider the issue of corruption and whether we should address that in Committee. This is a very important issue, and I cite from a distinguished international arbitrator who says:

> "Corruption is today one of the greatest challenges facing international commerce and has serious detrimental effects on markets, efficiency, and public welfare".

I know that from my own days as an international arbitrator, when I arbitrated a number of commodity cases relating to Ukraine and Russia. Corruption was evident all the time, and we had to be very careful in reaching our decision.

Of course, this can be pushed over to another day for another arbitration law reform, but they come very few and far between. There were 17 years between the 1979 and 1996 Acts, and it has now been more than 20 years since the 1996 Act, so I suggest that this should not be pushed over to another arbitration reform Bill; it should be addressed now and in committee.

4.17 pm

Lord Beith (LD): My Lords, the noble Lord, Lord Hacking, has raised the corruption issue, and I will refer to it in a moment. First, I thank him for his contribution and for the insights he gave on Second Reading, in the life before the Arbitration Act 1996, which were illuminating.

The Bill is extremely important. Arbitration is important; it is a major earner for this country. We need to keep our arbitration system up to date, and its legal framework needs to be reliable and able to deal with circumstances that can arise. I am delighted that the noble Lord, Lord Ponsonby, has set out the Bill for us and will respond at the end, and I am grateful for

his close interest in it. It is an amazing Bill in that it has been through so many processes that it seems almost inconceivable that improvements could still be made to it. They could, actually, but it might be contrary to the public good if we in any way delayed the Bill, which is now somewhat overdue.

The Law Commission did the work. There were consultations arising out of it. The Special Public Bill Committee did extremely good work on it under the able chairmanship of the noble and learned Lord, Lord Thomas of Cwmgiedd. The noble and learned Lord, Lord Bellamy, was much engaged with it and will no doubt refer to it in a moment. Since the original consideration of that Bill in the previous Parliament, Clause 1 has been amended to deal with the state party issue, which was referred to at the later stages of the Special Public Bill Committee. It was very disappointing that the Bill did not get dealt with in the wash-up, but I welcome the Government having moved quickly to bring it back again. I genuinely believe that we could proceed with it expeditiously. I do not usually argue for shortcutting parliamentary procedures, but the Bill has had a lot of parliamentary procedures and a lot of attention, and I think it is in a fit state to be made statute.

On the corruption issue, which was raised at a relatively late stage in the Public Bill Committee, the noble and learned Lord, Lord Bellamy, in responding, agreed to write to arbitral institutions to see what they were doing to ensure that the arbitration frameworks that we have are not used as a device for money laundering and other forms of corruption to be pursued. I would be interested to know what response he got while he was still in office. To the extent that responses came later, perhaps the Minister can assist us and tell us what indications were given that institutions and organisations were alive to this problem and were looking for ways to ensure that it did not feature largely in arbitrations that were conducted under the terms of the Bill.

We have a very good reputation for arbitration and some of those most experienced in it took part in the Bill's proceedings. The work they put into it means that this worthwhile Bill deserves an expeditious passage.

4.20 pm

Lord Bellamy (Con): My Lords, again I take this opportunity to welcome and congratulate the Minister on his appointment, since this is the first time that we have faced each other across the Chamber at the Dispatch Box, and our roles are now reversed. I thank him particularly for his courtesy and common sense in the previous Parliament and I am sure that that those qualities will serve the ministry and this country in very good stead in the years ahead. It is a marvellous appointment and I congratulate him.

His Majesty's loyal Opposition support the Bill and I thank the Government for bringing it forward so quickly and expeditiously when it was so unfortunately lost as a result of the Dissolution of the last Parliament. I also take this opportunity to thank everyone who has contributed to the result we have achieved, particularly the Law Commission team and all those who gave evidence to our Special Public Bill Committee. It has been a notable example of co-operation in achieving the result that we now have.

As the Minister has indicated, although this is formally the Second Reading, it is in effect the Third Reading or perhaps even the fourth reading, since many of these issues have been much gone over and the Bill is in effect in exactly the same form that I would have had the honour to present to this House at Third Reading had the election not intervened, in particular in relation to the insertion of new Section 6A(3), which affects investor protection-type arbitrations. I would have moved that wording at Third Reading as a government amendment—it was consulted on and I approved the wording—so I am delighted to be able to support not only that clause but the Bill as a whole. Indeed, I could do no other, since the previous Government worked very hard—in close collaboration with the then Opposition and with all stakeholders—to arrive at the result that we have now arrived at.

On the Bill itself, I will ask the Minister one question about the background that I have just mentioned. I think our procedures looked somewhat absurd in the eyes of the world when we lost the Bill when we did. Can the Minister say whether the Government in due course would be prepared to co-operate with all parties across both Houses to consider the procedures and rules for carryover between Parliaments, so that we avoid similar situations arising in the future, at least in relation to Bills that are uncontentious and apolitical? I am sure the Minister would be prepared to take that under advisement, but I look forward to his reply on that issue.

On the Bill itself, this is a very technical area, and there will always be certain what ifs, or questions that the Bill does not address. The Minister has indeed mentioned one such area in relation to the situation that may arise if there is in fact no choice of seat in the relevant arbitration agreement. The position of His Majesty's Opposition is that one cannot cover everything in a Bill of this kind, and we should have absolute confidence in our excellent judges, who are well equipped to deal with any remaining lacunae there may be. As at present advised, we support the Government's view that has just been expressed on that particular issue—there may be others—that we would welcome possibly a further comment in the Explanatory Notes but are entirely content to rely on the Commercial Court to sort out any questions that may remain. That is indeed what judges are for.

In our view, the Bill has, for one reason or another, been delayed long enough, and should now reach the statute book as early as possible. However, there is one point that has been drawn to my attention. It was drawn to my attention only today and relates to Clause 13, which relates to the situation where one needs the "leave of the court" to appeal on a certain issue. It apparently relates or could relate to a case called Inco Europe v First Choice. As I understand it, the issue is related to the question of whether the "leave of the court" means the court of first instance and/or includes or should refer to leave from the Court of Appeal. The normal situation is that you apply for leave from the court trying the case; if you do not get it there, you ask the Court of Appeal for leave. The question is whether the Inco Europe decision—a decision of this House sitting in its judicial capacity some years ago—is fully reflected in Clause 13. I simply leave that question with the Minister; I have no idea myself what the answer is, but that is a point that has been raised with me.

[Lord Bellamy]

In relation to the points made by the noble Lord, Lord Hacking, also referred to by the noble Lord, Lord Beith, on corruption, I first thank the noble Lord, Lord Hacking, for his contribution today, his continuing interest in the issue of corruption and indeed his contribution to our Special Public Bill Committee. It was a great pleasure to have the opportunity to work with him, and he is by far the most experienced Member of this House on a number of these issues. At this stage, to take the point raised by the noble Lord himself, the position of the Opposition would be that it is now important that the Bill reaches the statute book. We would therefore hesitate to support further delay or dealing with the issues of corruption in this particular Bill. There are a number of important, albeit fairly technical, improvements made by the Bill, and it is quite important that those reach the statute book as soon as may be.

However, as the noble Lord, Lord Beith, has already said, the issue of corruption was raised before. I believe the ICC Commission on Arbitration and ADR has commissioned a task force to explore the issues of corruption, and in my previous capacity, I also wrote to the Chartered Institute of Arbitrators, the ICC, the LCIA, the London Maritime Arbitrators Association and GAFTA, asking for their views on the issue of corruption and the Government should take this forward. I ask the Minister what replies he has had to those letters I authorised and personally wrote, and if and when the Government are able to come to a view on how we should take forward this important issue of corruption. As the noble Lord, Lord Hacking, has rightly emphasised, we cannot leave things where they are.

4.30 pm

Lord Ponsonby of Shulbrede (Lab): My Lords, I am grateful to all noble Lords who have taken part in the Bill. Although it is a very short list of speakers, it is fair to say there are a number of other noble Lords who said that they are sorry not to be here, and have also said to me personally that they would have supported the Bill.

I will start with the comments of the noble Lord, Lord Beith. I agree with his overall point, which is that there has been a lot of process on the Bill and that we really need to conclude the Bill as soon as possible—we have written to all the arbitration institutions, and all the people who gave evidence in the process for the previous Bill, and that is a common theme in the responses we have had. I have been lobbied separately by numerous groups to say that they want the Bill to be concluded.

I turn to my noble friend Lord Hacking, who raised the issue of corruption. This of course is a serious matter, and I do not know the answer to the question raised by the noble and learned Lord, Lord Bellamy, about the responses to the letters he wrote to the institutions. I will see whether those letters have come back and will write to the noble and learned Lord and my noble friend, and copy it to other noble Lords. I am happy to have a private meeting with my noble friend, but my point is that we do not want anything that will hold up the current Bill. It has had a lot of process, and it is to the benefit of the arbitration process that it is concluded as quickly as possible. However, I will meet my noble friend when he wishes.

Lord Hacking (Lab): My noble friend would have heard my worry that the opportunity for arbitration reform is an opportunity that does not arise until a number of years have passed. Can he give any assurance that, as corruption is a serious issue—I think he recognises that—this Government will support this further investigation into corruption and whether any legislation relating to arbitration law should be brought in, and fairly swiftly?

Lord Ponsonby of Shulbrede (Lab): We are always open-minded about addressing problems. We need to scope out the true extent of the problem, which is why I have offered to write to noble Lords about the responses that we may have received—I do not know the answer to that—to the letter written by the noble and learned Lord, Lord Bellamy, when he was the Minister concerned.

I turn to other points. The noble and learned Lord, Lord Bellamy, was very gracious to me in his opening, and I thank him for that. I certainly intend to behave as a Minister as he behaved when he was a Minister, and to consult with colleagues across the House to try to make sure that we focus on the real issues of difference between us, rather than any other matters that may distract us. I will take a leaf out of his book about how I conduct myself in trying to achieve that.

The noble and learned Lord asked about the possibility of carryover for uncontentious Bills between Parliaments. I will bring that comment to my noble friend's attention. I do not know what the reaction will be, but it seems a sensible idea to me.

The second point the noble and learned Lord made concerned the choice of seat. I had a discussion with the noble Lord, Lord Wolfson, about this very issue, and my opening speech referred to it. I agree that we should have confidence in our judges, and perhaps some extra words can be added to the explanatory notes to reflect the position. We have undertaken to look at that.

The noble and learned Lord also raised an issue concerning Clause 13. I will have to write to him about that as well, as I am not sighted of that issue.

In conclusion, this Bill achieves a balance. It neither seeks to fix what is not broken, nor does it sell short the potential of our jurisdiction. Growth is a fundamental mission of this Government, and this Bill plays its part. I thank all noble Lords who have taken part in this short debate, and I look forward to interacting with them as the Bill progresses.

Bill read a second time and committed to a Committee of the Whole House.

Education (Values of British Citizenship) Bill [HL]

First Reading

4.36 pm

A Bill to make provision about statements related to values of British citizenship in education in England and Wales; and for connected purposes.

The Bill was introduced by Lord Harries of Pentregarth, read a first time and ordered to be printed.

House adjourned at 4.37 pm.