PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)

Fifth Sitting

Tuesday 4 December 2018

(Morning)

CONTENTS

Clauses 32 to 35 agreed to.
Schedule 13 agreed to.
Clause 36 under consideration when the Committee adjourned till this day at Two o'clock.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 8 December 2018

The Committee consisted of the following Members:

Chairs: †Ms Nadine Dorries, Mr George Howarth

† Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Badenoch, Mrs Kemi *(Saffron Walden)* (Con)
† Black, Mhairi *(Paisley and Renfrewshire South)* (SNP)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Charalambous, Bambos *(Enfield, Southgate)* (Lab)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Dowd, Peter *(Bootle)* (Lab)
† Ford, Vicky *(Chelmsford)* (Con)
† Jenrick, Robert *(Exchequer Secretary to the Treasury)*
† Keegan, Gillian *(Chichester)* (Con)
† Lamont, John *(Berwickshire, Roxburgh and Selkirk)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Sobel, Alex *(Leeds North West)* (Lab/Co-op)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Syms, Sir Robert *(Poole)* (Con)
† Whately, Helen *(Faversham and Mid Kent)* (Con)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Colin Lee, Gail Poulton, Joanna Dodd, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 4 December 2018

(Morning)

[Nadine Dorries *in the Chair*]

Finance (No. 3) Bill

(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)

Clause 32

First-year allowances and first-year tax credits

9.25 am

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): I beg to move amendment 73, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the likely effect of extending the first-year allowances on energy-saving plant or machinery or environmentally beneficial plant or machinery to 2030 and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the effects of extending first-year allowances to 2030.

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

Amendment 74, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the likely cost of extending the first-year allowances on energy-saving plant or machinery or environmentally beneficial plant or machinery to 2022 and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the cost of extending first-year allowances to 2022.

Amendment 75, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the effect of ending the first-year allowances on energy-saving plant or machinery or environmentally beneficial plant or machinery and lay a report of that review before the House of Commons within one year of the passing of this Act.

(7) A review under subsection (b) must consider the effect on—

(a) the energy technology sector, and

(b) the water technology sector."

This amendment would require the Chancellor of the Exchequer to review the impact on the energy and water technology sectors of ending first-year allowances.

Amendment 76, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the effect of ending the first-year allowances on energy-saving plant or machinery or environmentally beneficial plant or machinery, on foreign direct investment in the energy technology and water technology sectors and lay a report of that review before the House of Commons within one year of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of ending the first-year allowance on foreign direct investment in the energy and water technology sectors.

Amendment 77, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the effect of the provisions in this section on the United Kingdom's ability to comply with its third, fourth and fifth carbon budgets and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 32 on the UK's ability to meet its carbon budgets.

Amendment 78, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must lay before the House of Commons a report on any consultation undertaken on the provisions in this section within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to report on any consultation undertaken on the provisions in this clause.

Clause stand part.

Jonathan Reynolds: It is lovely to see you again in the chair, Ms Dorries, as we reconvene for this Committee's second week. It is particularly good to see the Minister still here—I am never quite sure at the minute who will turn up on behalf of the Government.

I speak to Opposition amendments 73, 74 and 78 to clause 32, which focuses on first-year allowances and first-year tax credits. This measure would end the first-year allowance for all products on the technology and energy list and on the water technology list. Before I move on to why the Opposition feel strongly that the Government are wrong to end the first-year allowance, it is important to establish the extent of the allowance, its qualifications and the logic behind its introduction.

Enhanced capital allowances legislation was introduced in 2001 to encourage the use of energy-saving plant and machinery, low-emission cars, natural gas and hydrogen refuelling infrastructure, water conservation plant and machinery construction projects and so on. Under the relief, businesses that pay income or corporation tax can claim 100% of the first-year capital allowance on investment in ECA qualifying items. In addition, adoption of ECA qualifying items improve a project's building research establishment environmental and assessment method—the BREEAM rating—and contribute to an improved energy performance certification rating.

To qualify, the item acquired must qualify as plant and machinery and satisfy the following criteria: it must not be second hand; the expenditure must have occurred after 1 April 2001; and the plant must either be a listed product or meet the energy saving or water conservation criteria specified by the Carbon Trust. Energy-saving technologies are things such as air-to-air energy recovery, automatic monitoring, boilers including biomass, combined heat and power units, compressed air equipment and so on. Water conservation technologies include efficient showers, taps and toilets, energy-efficient washing machines and more.

The Department for Business, Energy and Industrial Strategy describes enhanced capital allowances as different from standard capital allowances. It estimates that enhanced capital allowances are between 5.5 and 12.5 times greater than ordinary capital allowance relief. This accelerated cost saving further shortens the period of time and builds the business case for investment in energy-efficient equipment.

It is clear that this allowance encourages businesses to mitigate their environmental footprint and is designed to help the UK transition to a green and low-carbon economy. It is therefore disappointing that at a time when, as we have already discussed in this Committee, the United Nations Intergovernmental Panel on Climate Change has warned that climate change is at the point of becoming irreversible, the Government would choose to end such an effective relief.

Despite the positive steps that national Governments are taking all over the world to get citizens to recognise and limit their personal carbon footprint, businesses clearly have a role to play, too. We feel that the best way is to incentivise businesses, making it worth their while to use energy-saving and water-conserving technologies through tax relief. Taking away first-year allowances with little notice would only further alienate business at a time when we all need to do what we can to transition our economy to deal with the realities of climate change.

Although in its policy notes the Treasury suggests that small and medium-sized businesses will be shielded and the vast majority will be able to claim relief under the separate annual investment allowance, it concedes that large businesses will face additional costs and some level of disruption. Similarly, the Chancellor has stated that the revenue saved will be used to fund the industrial energy transformation fund. However, details about the fund remain scant, aside from the fact that it will be targeted at smaller businesses and funded through the end of these first-year allowances.

From the Opposition's perspective, the change appears to be little more than a rebranding exercise designed to take an effective relief—first-year allowances—away and simply redirect that revenue into the Chancellor's new fund. It is far from the radical industrial strategy that the UK needs to ensure that businesses and citizens are equipped to deal with climate change and the evolving energy market.

In the Budget, the Chancellor announced a consultation on a new business energy efficiency scheme, yet there appears to be little mention of whether businesses were consulted about ending this vital relief. Opposition amendment 78 would therefore require the Chancellor to report on what consultation has taken place.

The Government's decision to end first-year allowances for energy-saving and water conservation technologies raises a further question about the effectiveness of this relief. Put simply, it is not broken, so the Government need to explain why they are planning to scrap it. That is certainly the sentiment behind Opposition amendments 74 and 73, which would require the Chancellor to undertake a review of the cost of extending the allowance to the end of this Parliament, and to 2030, respectively.

The reality is that the changes made by the Government in clause 32 appear to be revenue-led. They put the short-term priorities of the Treasury ahead of the UK's long-term obligation to tackle climate change. Rather than empowering businesses to do their part and invest in energy-saving and water conservation technologies, it appears likely to deter them. We cannot see the logic of that. If the Government are sincere in their desire to create a better-targeted and more effective relief, they need to offer the Committee further details about the supposed industrial energy transformation fund to replace first-year allowances. If the Committee is being asked to endorse that change, let us have all the details first.

The Exchequer Secretary to the Treasury (Robert Jenrick): It is a pleasure to serve under your chairmanship, Ms Dorries. After two days in the reassuring embrace of the Financial Secretary to the Treasury, the Committee has a brief interlude.

Clause 32 will make changes to end, from April 2020, first-year allowances for all products on the energy technology list and the water technology list, including the associated first-year tax credit. The environmental first-year allowances aimed to encourage greater take-up of environmentally friendly technology. Capital expenditure by businesses on plant and machinery normally qualifies for tax relief by way of capital allowances. Environmental first-year allowances allow 100% of the cost of an investment in qualifying plant and machinery to be written off against taxable income in the year of investment, providing a cash-flow benefit. The first-year tax credit provides a tax credit for loss-making businesses that invest in qualifying items.

The first-year allowance was introduced in 2001 for products on the energy technology list, and in 2003 for products on the water technology list. However, the allowances have made the tax system more complex, and there is very limited evidence that they have driven greater uptake of such technologies. A report by the Office of Tax Simplification found significant barriers to accessing the allowances, including the administrative burden of making claims. Government analysis suggests that less than 25% of energy managers would increase investment in energy-saving technology because of the allowances, while fewer than 20% of manufacturers report a positive impact on sales.

Kirsty Blackman (Aberdeen North) (SNP): The Minister makes an interesting case, but it is what I would have expected as part of the report required by amendment 75. Will the Government accept the amendment and provide us with the information in report form, rather than having the Minister stand up here and tell us?

Robert Jenrick: I will come to the amendment in a moment, but I hope I will be able to reassure the hon. Lady and the hon. Member for Stalybridge and Hyde that we have already given the matter a great deal of thought and spoken to a number of stakeholders in the sector. Our actions are led by precisely the businesses that benefit from the existing reliefs.

For 99% of businesses, all plant and machinery is already eligible for full relief under the annual investment allowance, so the enhanced capital allowances provide no additional incentive. Smaller businesses such as those to which the hon. Gentleman refers have little if any reason to make use of those reliefs. The Government therefore believe that there are better ways to support energy efficiency.

[Robert Jenrick]

The changes made by clause 32 will end the first-year allowances and the first-year tax credits from April 2020. In answer to the hon. Gentleman's question about little notice, there is a significant amount of notice, beginning with the Budget this year, and these first-year tax rates not ending until April 2020. That is the point at which the industrial energy transformation fund will be available. Those rates will still be available until then, which will give businesses the time they need to prepare for change. The Government will look to lay secondary legislation in 2019 and update the lists of eligible technology, so that they can still be used and will be updated to include the most efficient technologies in the meantime. There is no sense in which those measures will fall behind with technological change.

To give some extra detail on some of the flaws with the current first-year allowance for energy technology, we found very low levels of awareness, as I have already described. Manufacturers estimate that less than a quarter of their customers are even aware of the scheme, and it provided little additionality. As I have set out, fewer than 25% of energy managers reported that the scheme influenced their investment decisions, and fewer than 20% of manufacturers reported that, if they did use it, it made a positive impact on their sales and businesses.

Many tax advisers reported to us that their clients decided to make claims after they had chosen to invest in efficient technology, so it did not have the impact that we would have hoped. Small companies are much less likely than larger companies to benefit, and 99% of companies would already be able to make such investments under the annual investment allowance. A 2017 survey by the Federation of Small Businesses found that only a quarter of small business owners were even aware of the scheme.

Kirsty Blackman: Is the Minister not making the case for more consultation in advance of any tax changes? Clearly, this tax change did not achieve what the Government thought it would. The consultations and information asked for are even more vital if the Government are making mistakes and not achieving what they had hoped.

Robert Jenrick: It is pretty clear from the evidence I have just laid out that the current tax reliefs do not work. We are making the changes required to ensure that smaller businesses, through the increased annual investment allowance, will have the allowance they need to make these investments. We will now work closely with other businesses, through the design of the industrial energy transformation fund, and a full consultation on that will be launched at the beginning of next year. We encourage the hon. Lady, businesses and other members of the Committee to take part in that consultation, as we design the successor fund to these reliefs.

The Government remain committed to increasing environmental efficiency, and the savings from ending first-year allowances and tax credits will be used to fund the industrial energy transformation fund. That fund will help businesses with high energy use to cut their energy bills and reduce their carbon emissions, by supporting investment in energy efficiency and other innovative decarbonisation technologies that may become available in the years ahead. Those could include, for example, investment in carbon capture and storage, or fuel-switching technologies. However, decisions on the scheme design, including eligibility and the technologies that will be supported, will be subject to the consultation with industry that I have just described. Establishing the scheme will fulfil our manifesto commitment to establish an energy efficiency scheme for industry, and that has been widely welcomed, including by groups such as EEF, the manufacturers' organisation; UK Steel and the Energy Intensive Users Group. Since the Budget, I have spoken to a number of heavy users of energy, including car manufacturers, who all welcome this measure.

Clive Lewis (Norwich South) (Lab): Is the Minister aware that some businesses are concerned that the Government are ending one scheme without having another in place? That causes uncertainty for business at a time when they need more certainty than they have had for a long time.

Robert Jenrick: I hear that concern, and that was the reason we chose not to end the scheme immediately. The scheme will end in April 2020. Until then it will continue as it does today, and be regularly updated with new technologies. If a company that makes use of it knows of a new technology that it wants to be part of the scheme, it will be possible for that to be added. The scheme will continue exactly as is until April 2020, by which time the new one will be in place. As a result of this year's Budget, the annual investment allowance will also go up to £1 million, so additional allowances will be available to those businesses.

Amendments 73 and 74 would require the Government to publish a review of the cost of extending first-year allowances to 2030 and 2022. As set out in the policy costings document that we published alongside the Budget, ending the allowances will save £160 million by 2021-22. As we announced in the Budget, savings from ending the allowances will be invested in an industrial energy transformation fund of up to £315 million. Our primary motivation is finding a better way to help businesses be more energy-efficient—not saving money for the Exchequer, as was suggested—and we believe that our approach makes more efficient use of public funds. We anticipate that the average annual cost of extending first-year allowances would remain at around the same level until 2030. The figures are already known and in the public domain, so I urge the Committee to reject amendments 73 and 74 because the information that they request is already available.

Amendments 75 and 76 would require the Government to publish a review of the impact of clause 32 on the energy and water technology sectors. I hope that I have already provided the Committee with an answer to those points, removing the necessity of such reports. As I have set out, there is little evidence that the first-year allowances lead to a greater uptake of environmental technology, so the Government do not believe that such reports would provide any significant additional information. Furthermore, the Government support business investment in other, more efficient and dynamic ways, through the increase in the annual investment allowance and the creation of the industrial energy transformation fund.

Jonathan Reynolds: I am listening carefully to the Minister, but if the increase in the annual investment allowance replaces the first-year allowances or mitigates their loss, it seems that there is no fiscal incentive to invest in energy-efficient or climate change-relevant technology. The Opposition believe that we should try to operate the policy as a fiscal instrument to direct investment into the technologies that we need, but I do not see that described in the Minister's answer.

Robert Jenrick: I have described it; that is the rationale for replacing the first-year allowance with the energy transformation fund. Had we chosen simply to remove the allowances and replace them solely with the increase in the annual investment allowance, the hon. Gentleman would be correct: 99% of businesses could proceed broadly as they do today, but they would not have a specific incentive to choose environmental equipment, plant and machinery or energy efficiency measures. However, by coupling the increase in the annual investment allowance with the transformation fund, we hope to shift the dial in favour of technology that helps the environment.

Amendment 77 would require the Government to review the impact of clause 32 on the UK's ability to meet its carbon budgets. I assure the Committee that there are already robust requirements to report on progress towards the UK's emissions reduction targets. When the measures in the Budget and the Bill become law, they will become part of that regime.

The Climate Change Act 2008 provides a world-leading governance framework that ensures that progress towards carbon targets is robustly monitored and reported to Parliament. First, the Government are required to prepare and lay before Parliament an annual statement of emissions that sets out the total greenhouse gases emitted to and removed from the atmosphere across the UK, and the steps taken to calculate the net UK carbon account. Secondly, the independent Committee on Climate Change is required to prepare and lay before Parliament an annual report, to which the Government are required to respond, on the Government's progress towards meeting the UK's carbon budgets. I would expect the committee to take the changes made by clause 32 into account in their deliberations. Thirdly, the Government are required to prepare and lay before Parliament a statement that sets out performance against each carbon budget period and the 2050 target.

Clive Lewis: I thank the Minister for his patience. As I understand it, having requested an analysis from the Minister responsible for carbon budgets on whether the Government were going to take into account the recent evidence from the Intergovernmental Panel on Climate Change on the 1.5° warming, the fourth and fifth carbon budgets do not currently do that. I have been told that there will be no assessment of the 1.5° warming until after 2030 when the fifth carbon budget concludes. Was the Minister aware of that and will he comment on the fact that that could have a severe impact on our ability to be able to achieve the targets?

9.45 am

Robert Jenrick: The IPCC will report in the usual way. It will not necessarily update its methodology, but it will lay before Parliament its usual statement and the Government will have to respond, as they have in every case. The Committee on Climate Change will hold the Government to account for the changes that we make, such as the ones in the Bill. That does not entirely answer the hon. Gentleman's question on future targets. The mechanisms in place are strong and will ensure monitoring and reporting to Parliament of greenhouse gas emissions and of the Government's responses. I therefore urge Members to reject amendment 77.

Amendment 78 would require the Government to report on any consultation undertaken on the provisions in clause 32. The Government consult stakeholders on an ongoing basis to inform all their policies. The provisions in clause 32 are no different. This includes, for example, surveys of relevant manufacturers and a call for evidence on helping businesses to improve the way they use energy, which was conducted by the Department for Business, Energy and Industrial Strategy. It would therefore not make sense to report further on the consultation that the Government have already undertaken on first-year allowances. Her Majesty's Treasury Ministers meet manufacturers regularly, as I have said. I have met automotive manufacturers since the Budget and they welcome the changes.

The legislation was not released in draft because this is a simple abolition and does not constitute a measure that we would consult on normally. The Government stated in the new budget timetable and the tax-making process, which was published last year, that they will generally not consult on straightforward rates, allowances and threshold changes because they do not benefit from that process. I therefore urge Members to reject amendment 78.

The removal of the first-year allowances and associated first-year tax credits will allow the Government more effectively to support businesses to cut their energy bills and reduce carbon emissions. It will enable us to redirect the funds to the industrial energy transformation fund, which has been widely welcomed. I hope Members who are interested will take part in the consultation next year so that we can ensure it meets the requirements of industry and those who care about the environment. I therefore commend this clause to the Committee.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 18]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 75, in clause 32, page 19, line 23, at end insert—

"(6) The Chancellor of the Exchequer must review the effect of ending the first-year allowances on energy-saving plant or machinery or environmentally beneficial plant or machinery and lay a report of that review before the House of Commons within one year of the passing of this Act.

(7) A review under subsection (b) must consider the effect on—

(a) the energy technology sector, and

(b) the water technology sector.”—*(Jonathan Reynolds.)*

This amendment would require the Chancellor of the Exchequer to review the impact on the energy and water technology sectors of ending first-year allowances.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 19]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Clause 32 ordered to stand part of the Bill.

Clause 33

First-year allowance: expenditure on electric vehicle charge points

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

Robert Jenrick: After that excellent start, I will continue. Clause 33 extends the life of the first-year allowances for electric vehicle charge points until April 2023. In the UK, the continued use of high-emission vehicles creates pollution and increases health issues. This measure was first introduced on 23 November 2016 to support the transition in the UK to cleaner vehicles with zero or ultra-low emissions. The measure allows businesses that invest in charge points to reduce their taxable profits by 100% of the cost of their investment in the year it is made. That provides accelerated tax relief compared with normal capital allowances, and so encourages greater investment in these assets. The allowance is currently due to expire in April 2019. The clause enables the first-year allowance to continue as part of the Government’s ambition for all new cars and vans to be zero emission by 2040.

Bim Afolami (Hitchin and Harpenden) (Con): Yesterday evening, for some light relief, I was going through emails from constituents. One constituent runs a business that installs electric charging points. Will the Minister illustrate for the Committee how he thinks that business will flourish as a result of these measures?

Robert Jenrick: The Government have taken two measures, the first of which was in the last Budget. That created an electric charge point investment fund—£200 million of public investment—which is designed to spur an extra £200 million of private investment. A business such as the one my hon. Friend describes could be part of that. The measure could enable the business to partner with the public sector and gain the capital that it needs to develop, and will be able to take advantage of the allowance and invest early. There are now two opportunities for such a business to take advantage of tax reliefs and public investment in order to grow rapidly and enter the market.

Peter Dowd (Bootle) (Lab): I do not deny the Minister’s point per se. Is there any implication that businesses that have chargers could be subject to a rating revaluation, which would put the cost of their business rate up? Perhaps the Minister could clarify that important point.

Robert Jenrick: The hon. Gentleman makes a valid point and I will reply—the powers that be will return to me in a moment.

The changes made by clause 33 will extend the current 100% first-year allowance for expenditure incurred on electric charge point equipment for a further four-year period until April 2023. That will encourage the increased use of electric vehicles by supporting the vital development and installation of charging infrastructure for such vehicles, to which drivers will look when deciding whether to buy them.

Sir Robert Syms (Poole) (Con): Will the Minister give way?

Robert Jenrick: Perhaps I could reply to the hon. Member for Bootle before taking a further intervention.

Peter Dowd: Providing inspiration arrives.

Robert Jenrick: Or not, as the case may be. We will have to write to the hon. Gentleman, I am afraid. He has outfoxed our officials.

Sir Robert Syms: Is the funding available to businesses also available to local authorities, because many of them put in charging points, or does that not apply to councils?

Robert Jenrick: I understand that this would apply only to private businesses. Other interventions help the public sector, such as the charging infrastructure investment fund, which local authorities can become involved in if they wish to develop infrastructure in their area. There were a number of wider measures in the Government’s Road to Zero strategy, including consulting on changes to the planning system to ensure that new business and residential properties, as well as public sector projects such as new council offices, hospitals and so on, are built with the infrastructure in place to support these vehicles.

The allowance will expire on 31 March 2023 for corporation tax purposes and on 5 April 2023 for income tax purposes. This extension is expected to have a negligible impact on the Exchequer. There are no anticipated costs to Her Majesty’s Revenue and Customs and neither will there be any significant economic impact nor any additional ongoing costs for businesses beyond the investment that will be generated.

In conclusion, this extension will incentivise the use of cleaner vehicles by encouraging companies to invest in electric vehicle charge points, giving confidence to drivers to shift away from current combustion propelled options in the knowledge that the further roll-out of charge points will continue and accelerate in the years ahead, and reduce all the damage to the environment and public health that follows. I commend this clause to the Committee.

Jonathan Reynolds: Having just passed clause 32, which ended first-year allowances on the basis they were little known about and ineffective, I cannot help but comment how clause 33 extends the first-year allowance for another technology for four years on the basis it will provide the incentives and drive Government policy in that direction. Forgive me for pointing out that there are mixed messages from Ministers on these clauses.

It is disheartening that this is one of the relatively few mentions of environmental issues in the Finance Bill. We were all at Mansion House in June when the Chancellor gave a speech about how we would lead the way on green finance, yet there have been no legislative measures to follow up on that promise. We still lag behind our European counterparts on things such as mandatory climate disclosure laws or sovereign green bonds, but we should welcome any measures we like the look of when we see them.

Transport is a major source of emissions and we agree that we rapidly need to shift away from fossil fuels towards electricity and renewable sources and, to a certain extent, hydrogen for heavier vehicles. Thankfully, electric vehicles are coming through the system quickly and are expected to move rapidly through their cost curves, getting cheaper and cheaper. I have been hugely impressed by the electric vehicles I have experienced. Some estimates have cost parity for purchasing an electric vehicle as soon as 2022, after which buying an electric vehicle will become cheaper than buying a fossil fuel powered car.

The transition to a decarbonised, clean and smart economy will offer the UK many advantages, particularly considering how tech-savvy and early adopting much of the UK population is. The Nissan LEAF is the most-sold electric vehicle in the world. I say with some local pride, as someone born in Sunderland, that Sunderland has been the sole producer in Europe of the Nissan LEAF, creating over 50,000 vehicles. Of course, electric vehicle and hybrid production in the UK has provided a £3 billion trade surplus.

With a growing list of countries setting a date to ban combustion vehicles and modelling showing strong uptake curves, the global move to electric vehicles will be rapid. The first mover advantage to capture supply chains and jobs in this coming market will be considerable.

Alex Sobel (Leeds North West) (Lab/Co-op): Norway is planning to ban combustion vehicles by 2025—the incentives and the infrastructure in Norway are sufficient for that. We are not planning that until 2040. Does my hon. Friend agree that there is a policy failure not just on this measure but more generally in terms of building our electric vehicle infrastructure?

10 am

Jonathan Reynolds: I agree with my hon. Friend, who has taken a major interest in these issues both before and during his parliamentary career. The availability of charge points is the greatest concern when it comes to achieving this shift. My hon. Friend the Member for Manchester, Withington and I were just talking about the local charge points in Greater Manchester, which we have both experienced.

A recent World Wildlife Fund report on accelerating the electric vehicle transition made some predictions about how it might evolve. It said:

> "Private charging infrastructure will be in most homes and many workplaces. The opportunity to charge at home rather than relying on public charging infrastructure is an attractive feature of electric vehicles, and we assume that owners who are able to charge at home will do so when convenient (for example overnight). Workplace chargers are also likely to be required; evidence suggests that around 20% of electric vehicles currently make use of workplace charging…In the 2040 scenario, 11 million home chargers and around 2.2 million workplace chargers are needed by 2030."

That last point is key in relation to the clause.

Electric vehicle charging will be facilitated by a combination of home and workplace charging, running to millions of stations. That is why it is essential to grasp every chance to promote the installation of infrastructure in companies. We support this capital allowance to help achieve that. However, although it is a positive move, it is a drop in the ocean of what needs to be done to encourage the use of cleaner vehicles. More than half of new car registrations last year came from businesses, so ensuring that there is an attractive package to encourage companies that are reliant on cars to use electric vehicles is clearly fundamental to tackling emissions.

Will the Minister elaborate further on how this measure will work for smaller companies? Our concern is that smaller companies, which have vast competing spending priorities, may find it difficult to source the cash they need to build charge points. We would also like to know the Government's long-term plans for the charging infrastructure investment fund, which has recently changed its grant system for the installation of plug points. Will the Minister elaborate on what the take-up of the programme has been among small businesses? How is the scheme being promoted to ensure the maximum possible take-up?

My hon. Friend the Member for Bootle raised a key issue about business rates. We must aim high to ensure workplace charging infrastructure is as widespread as possible. We should compare how this might evolve with the uptake of solar panels. A change in valuation methodology meant that some institutions had a 400% increase in their business rates after they deployed solar technology. That runs counter to everything we all want to incentivise. Why would we penalise those who lead the charge? In such a generous package of capital allowance for businesses, it is difficult to see why any Government would build a tax disadvantage into the system for users of renewable or climate change-solving technologies. That is not simply our view. That point has been heavily put across by trade associations, including the Solar Trade Association, which launched a fairly scathing attack on Budget 2018.

In conclusion, the extension of the first-year allowance on workplace charging infrastructure is a step in the right direction, but these things cannot operate in isolation. The Government must take serious further action urgently to promote the transition to a greener economy. Although this is a start, I hope the Minister can reassure us of the Government's ambition to go even further.

Robert Jenrick: I hope I can reassure the hon. Gentleman on those points. The first point was about why we would choose to extend this measure at the same time as bringing another to an end. We chose to bring the other one to an end because the evidence was not there to support its continuation. Having given the matter careful analysis, we believed that there was a better way forward.

We are still at a very early stage in the process. It is too early to assess the precise impact of this measure. We know that the total number of electric charge point connections has increased from more than 13,000 in November 2017 to more than 18,000 in October 2018—a 38% increase. Clearly, we would like that to accelerate even further, because that is still a small number across the whole of the country. We believe, anecdotally, that the measure is working and that it has been welcomed by the industry, but it is too early to assess that precisely. We are placing an extension in the Bill to ensure it can continue and to give certainty to the market. We will review this measure in time, as we have done with other measures, to determine its effectiveness. If it is not working correctly, we will take action accordingly.

The hon. Gentleman asked why the Budget did not do more for the environment. Of course, I contest that. The Budget did set out a wide range of measures to help the environment, from the new plastics tax, which will be consulted on and legislated on in the next Finance Bill—we hope it will be one of the world's first plastic packaging taxes—to the measures already set out in the Finance Bill, such as this one and the vehicle excise duty measure on taxis, which we brought into effect a year early, and which has ensured that cities such as London and Manchester are seeing a great increase in low emission taxis.

We have already spoken about the industrial energy transformation fund, which we hope will put heavy users of energy on a more sustainable path. These things build on recent announcements, whether it is the industrial strategy and its commitment to the environment and to clean growth, or the Road to Zero strategy with respect to electric vehicles. Across Government, we are taking a wide range of measures to support the environment and to help businesses and individuals to cut their energy bills and lower carbon emissions.

The hon. Gentleman asked about the electric vehicle charging infrastructure fund. This was announced at the Budget last year, and we have now progressed the fund. We are in the final stages of selecting a fund manager, and once they are appointed we expect the fund to be formally launched and to start investing in early 2019. I hope to be able to give the hon. Gentleman and others more information on that very shortly so that businesses that wish to participate in it can start to access that £200 million and we can increase public and private investment in charging infrastructure very rapidly.

Small businesses, which the hon. Gentleman raised, will be able to claim under the annual investment allowances, which we have debated on a number of occasions. As I have said before, 99% of businesses will be able to claim under the annual investment allowances, which is a considerable increase as a result of the Budget and will help businesses that want to invest in this area.

On solar, the feed-in tariff scheme has supported over 800,000 small-scale installations, generating enough electricity to power 2 million homes. The scheme has helped to drive down the cost of renewable electricity, including small-scale solar photovoltaic. We therefore think it is right to protect consumers and to review the incentives as costs begin to fall. The Government—and indeed the Government before us—have made significant interventions in this area. With those reassurances, I hope the hon. Gentleman will support the clause.

Question put and agreed to.

Clause 33 accordingly ordered to stand part of the Bill.

Clause 34

QUALIFYING EXPENDITURE: BUILDINGS, STRUCTURES AND LAND

Jonathan Reynolds: I beg to move amendment 79, in clause 34, page 19, line 38, at end insert—

"(4) The Chancellor of the Exchequer must lay before the House of Commons a report on any consultation undertaken on the provisions in this section within two months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to report on any consultation undertaken on the provisions in this clause.

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

Clause stand part.

New clause 2—*Review of changes to capital allowances*—

"(1) The Chancellor of the Exchequer must review the effect of the changes to capital allowances in sections 29 to 34 and Schedule 12 in each part of the United Kingdom and each region of England and lay a report of that review before the House of Commons within six months of the passing of this Act.

(2) A review under this section must consider the effects of the changes on—

(a) business investment,

(b) employment, and

(c) productivity.

(3) The review must also estimate the effects on the changes if—

(a) the UK leaves the European Union without a negotiated withdrawal agreement

(b) the UK leaves the European Union following a negotiated withdrawal agreement, and remains in the single market and customs union, or

(c) the UK leaves the European Union following a negotiated withdrawal agreement, and does not remain in the single market and customs union.

(4) In this section—

'parts of the United Kingdom' means—

(a) England,

(b) Scotland,

(c) Wales, and

(d) Northern Ireland;

'regions of England' has the same meaning as that used by the Office for National Statistics."

New clause 5—*Aggregate effect of changes to corporation tax and capital allowances*—

"The Chancellor of the Exchequer must, within one year of the passing of this Act, lay before the House of Commons an analysis of the effect of the changes to corporation tax and capital allowances made under sections 25 to 28 and 29 to 34 of this Act."

This new clause would require the Chancellor of the Exchequer to review the aggregate effect of the changes to corporation tax and capital allowances made under this Act.

Jonathan Reynolds: I regret to inform the Committee that we are reaching the end of the section of the Bill relating to capital allowances.

The capital allowances regime clearly requires a holistic review by the Government. We all agree that we want to make the UK a competitive and attractive place for businesses. As we contemplate our departure from the EU, that requirement has never been more pressing. Yet, these measures all come at a cost. The annual investment allowance increase will cost £1.24 billion in its first three years. By 2023-24, the buildings and construction expenditure allowance will cost over half a billion pounds. They need an assessment in the round so we can aggregate these reliefs against the corporation tax reductions and see what the package really looks like, what the economic justification is for these changes, and whether that money should be reprioritised elsewhere.

With the UK becoming such an outlier among other developed countries in relation to corporation tax, with an eventual rate of corporation tax well below the average of OECD countries, we need to ensure that our overall package of measures is properly targeted. That is why Labour is moving new clause 5, which would oblige the Government to present an analysis in a year's time of the full effect of these changes and the corporation tax alterations. We need to understand what this package looks like in the round, whether it is providing value for money, and what the real cost is to the taxpayer in aggregate. Only then can we make a judgment on whether this is the right and appropriate way to spend the money, when the UK has so many other priorities after eight difficult years of austerity.

That is why I urge Members to vote for new clause 5, which would obligate the Government to publish a review in a year's time. By then, we will be in a position to see how these allowances have been taken up, as well as to make some initial judgments on Britain's business investment landscape post our exit from the European Union.

Clause 34 will amend the Capital Allowances Act 2001 to clarify that land alterations qualify for capital allowances where plant or machinery is installed that qualifies for the same allowances. It helps to clarify the qualifications in place for businesses that seek to carry out such work. The Opposition have no particular objection to ending the mismatch, but this is another tidying-up measure. Will the Minister provide some insight on whether any further such measures are to come? How was the inconsistency brought to the Government's attention? Is there any estimate of the cost associated with this measure? There should be greater transparency and understanding of exactly where such a measure has come from. If there has been pressure from a particular sector, that needs to be clear. Opposition amendment 79 calls for the Government to present to the House a report on any consultation undertaken on these provisions. I call on Members to vote for this amendment to provide proper transparency on process to the House, so that the cost and benefit can be properly scrutinised and we can assess the motivations for bringing about this change.

Kirsty Blackman: It is a pleasure to speak in this Committee and to serve under your chairpersonship, Ms Dorries. I want to focus my comments on new clause 2, but if the Labour party presses amendment 79 or new clause 5 to a vote, we will support it. What we are trying to do in new clause 2 is not dissimilar from what Labour is trying to do in new clause 5—we are just going about it in slightly different ways. Putting the two new clauses together would make a lot of sense, to encompass what we are both trying to achieve.

New clause 2 looks at clauses 29 to 34 and schedule 12 to the Bill and provides for a review of the changes to capital allowances. It asks for a number of reviews and for us to measure against a number of outcomes that we hope the Government will seek through any changes they make to capital allowances or through having a capital allowances system in the first place.

The first review is of business investment. What changes do the Government expect for business investment as a result of all the changes made to capital allowances? Any tax system tries to do three things: disincentivise undesirable behaviour, incentivise desirable behaviour and get money for the Exchequer. It is important to consider whether the legislation does any of those things in the way we would hope. Business investment is key; surely, the point of capital allowances is to incentivise good business investment. Therefore, it is reasonable that the Government come back and explain to us the potential changes they expect to business investment resulting from their legislative changes.

The second review is of employment. That is important; the Government are never off their high horse about the level of employment they say we have. If they hope the changes will make a difference to employment levels, they should tell us how much change they expect so that we can measure their performance against whether that has been achieved. We just heard that the previous tax allowances put in place for first-year allowances did not have the desired effect, and the Government have to change them. Therefore, it would be useful to know what the Government expect to happen to the number of employed people as a result of their changes. We can measure the Government against that and say whether the measure has failed or has achieved what they intended to achieve.

10.15 am

The third review relates to productivity. The Government have struggled to increase productivity rates, which are not increasing nearly as fast as we hoped they would. Part of that is because companies are not making the appropriate investment—who can blame them, given that Brexit is on the horizon and they face economic uncertainty? If we want to increase productivity, we need to incentivise work; in manufacturing industries, for example, we need to incentivise the high-value products that are being created. It would be helpful if the Government came back to us and explained what they hope to achieve through the changes to capital allowances. I hope that they seek an increase in productivity, because our productivity is pretty poor compared with similar economies.

New clause 2 asks the Government to estimate the effects on the changes as a result of Brexit. Next week may bring us a little more clarity about where things might go with Brexit—or at least rule out some of the options, leaving slightly fewer scenarios on the table. However, we are very close to Brexit, and companies do not know under which rules they will be expected to operate. We therefore ask the Government to consider their changes to capital allowances in the light of Brexit in a no-deal scenario,

"if…the UK leaves the European Union without a negotiated withdrawal agreement",

but also

"if…the UK leaves the European Union following a negotiated withdrawal agreement, and remains in the single market and customs union, or…the UK leaves the European Union following a negotiated withdrawal agreement, and does not remain in the single market and customs union."

The Scottish National party's position is that we should remain in the EU. That is what the people of Scotland voted for and what would be best for the economy of the whole UK and its jobs, productivity, business and investment. It is really important that the Government provide us with an economic analysis of what will happen with Brexit, but they also need to consider their policy changes in the light of the Brexit options.

For the avoidance of doubt, the SNP's second preference is to remain in the single market and the customs union. Our last preference is no deal—a very bad scenario that the Government should do everything possible to avoid. However, the deal that has been presented to us is wholly inadequate. We need to remain in the single market and the customs union to ensure that we continue to have a successful economy.

To look at the issue in the round, we ask for analysis to be done for each country of the UK—England, Wales, Scotland and Northern Ireland—and for each region of England, so that we know the differential impact on each. The published cross-Whitehall analysis that explained the consequences of Brexit on each region was very illuminating, particularly with respect to north of England issues. The north of England is one of the places that could see the biggest productivity gains, because of its excellent levels of manufacturing, but if that part of the economy is the most drastically hit by Brexit, it will create real problems for the UK Government. Without increases in productivity feeding through into the economy, we will all be poorer.

Vicky Ford (Chelmsford) (Con): I would like to drill down a little on the point about the customs union. As I read the withdrawal agreement and the future framework, the Government have negotiated single market access that is tariff-free and quota-free and that carries no rules of origin checks. Effectively, the benefits of the customs union are in that package. What more does the hon. Lady want?

Kirsty Blackman: The other day, I was talking about the benefits of being in the customs union to a trade expert, who explained to me in quite simple—but incredibly useful—terms the difference between being in a customs union and not being in one. Within a customs union, the starting point is the assumption that the appropriate tariff has already been paid on every good, whereas outside the customs union the assumption is that that has to be proved. Even without rules of origin checks, we would be starting from a different point of view. However, I am not clear that the withdrawal agreement has agreed that there will not be rules of origin checks. I do not understand how the UK Government can say in their financial analysis paper that they will have a free trade agreement with China but no rules of origin checks for goods travelling between the UK and the EU.

Vicky Ford: The Government negotiating team have offered briefings on this deal to every Member of the House from every party. Establishing the answer to those rules of origin—

The Chair: Order. That has nothing to do with what we are discussing today.

Kirsty Blackman: I was just looking to wind up—*[Laughter.]* That is not entirely what I meant.

We are seeking more information from the Government about what they intend to achieve. It is incredibly important to do this in the context of Brexit, and it is incredibly important that companies know what the Government are trying to achieve, so that they are aware of what they are being incentivised or disincentivised to do and what the Government's changes to capital allowances are trying to encourage them to do. If more information could be provided to us and the general public, that would be hugely appreciated. I hope that we can vote on this new clause when we come to the votes at the end.

The Financial Secretary to the Treasury (Mel Stride): It is a pleasure to serve under your chairmanship, Ms Dorries. I thank the hon. Members for Stalybridge and Hyde and for Aberdeen North for their contributions, and I will endeavour to pick up the various points that have been made.

Since 1994, capital allowances have not been available for most buildings and structures, including aqueducts, bridges, canals, roads and tunnels. It has been long understood by HMRC—and by taxpayers—that nobody can claim plant and machinery allowances where the expenditure relates to an excluded structure or building. Specifically, nobody can claim capital allowances for expenditure on altering land for the purpose of installing an asset that is excluded from allowances. Expenditure on buildings and structures is excluded in this way by sections 21 and 22 of the Capital Allowances Act 2001.

To answer one of the specific points raised by the hon. Member for Stalybridge and Hyde, doubt has been cast on that principle by a recent tribunal decision, which HMRC is appealing against. The purpose of the clause is to ensure that the law remains clear and that plant and machinery allowances can be claimed only in relation to alterations of land to install qualifying assets. The clause clarifies the legislation to provide certainty going forward and to protect the Exchequer from potential spurious and windfall claims for historical expenditure.

The clause should be read alongside the introduction of a new structures and buildings allowance, which in time will become a very substantial relief that fills a significant gap in our capital allowances system. Taxpayers who alter land for the purpose of installing a structure or building should claim this new allowance—we covered it when debating clause 29—and should not claim the plant and machinery allowance.

As I have said, the clause clarifies that expenditure on land alterations cannot qualify for capital allowances unless it relates to the installation of qualifying plant and machinery. No expenditure on structures or buildings, as defined in sections 21 and 22 of the Capital Allowances Act 2001, will be counted as plant. This will apply to all capital allowance claims made from 29 October 2018 onwards, but not to claims already in the system—to do otherwise would be unfair. However, as this does nothing more than restore the commonly held interpretation of the law, we do not consider it to disadvantage any company that has already incurred expenditure. If we did not make this amendment, there is a strong probability that some businesses might make spurious or windfall claims, as there is no time limit for making a capital allowances claim.

Amendment 79 seeks a legislative commitment by the Government to report on any consultations that are undertaken on this measure. However, the measure addresses a potential source of ambiguity in the capital allowances legislation and protects revenue that we need for our vital public services. That needs to be done quickly to maintain a level playing field and to provide certainty for businesses incurring expenditure in this area. The Government's view is that this measure is not best supported by consultation, which would delay this change. In any case, it restores the interpretation of the law that HMRC and taxpayers commonly understood before the recent tribunal case.

New clause 2 aims to commit the Government to report on the impact of the capital allowances changes in the Bill, including under a number of different EU withdrawal scenarios, as well as on the impact on different parts of the United Kingdom. The Office for Budget Responsibility has provided its independent view of the impact of these policies, in particular on business investment, in its "Economic and fiscal outlook" report, in the box titled "The economic effects of policy measures". When available, HMRC will publish updated statistics on capital allowances claimed, split by asset type and by industry. Data on capital allowances claimed are based on where companies are registered rather than where the activity itself takes place. Requiring businesses to provide the more detailed information that this report would require about the precise location of their expenditure would represent a significant new administrative burden.

On the impact of the policies in different EU exit scenarios, the capital allowances package in the Bill is intended to boost business investment in all scenarios. The Government have already laid before Parliament a written ministerial statement under the title "Exiting the European Union: publications", representing cross-Whitehall economic analysis on the long-term impacts of an EU exit on the UK economy, its sectors, nations and regions and the public finances. The document is available on gov.uk and from the Printed Paper Office. Committee members will be aware that I also answered an urgent question at length on this very matter.

New clause 5 is intended to commit the Government to assess the aggregate effects of the changes to corporation tax and capital allowances made under the Bill. However, that information is already largely set out in the public domain. The independent Office for Budget Responsibility certifies the Exchequer impact of all the measures in the Bill, set out in table 2.1 and table 2.2 of Budget 2018. When they are announced, the OBR will also provide its independent view of the impact of these policies on business investment in its "Economic and fiscal outlook" report, in the box titled "The economic effects of policy measures".

Finally, every year HMRC will publish updated statistics breaking down corporation tax paid and capital allowances claimed. For those reasons, I urge the Committee to reject the amendment and new clauses, and I

commend the clause to the Committee.

Jonathan Reynolds: We would like to press amendment 79 to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 20]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Clause 34 ordered to stand part of the Bill.

Clause 35

CHANGES TO ACCOUNTING STANDARDS ETC

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

The Chair: With this it will be convenient to discuss that schedule 13 be the Thirteenth schedule to the Bill.

Mel Stride: Clause 35 and schedule 13 amend various parts of tax legislation to ensure that, despite changes to the treatment of leases in accounting standards, the legislation continues to operate as intended and does not give rise to unfair outcomes.

The long funding lease regime, the corporate interest restriction rules, and certain other tax rules require taxpayers to distinguish between operating and finance leases in order to determine their tax treatment. The tax legislation has relied on accounting standards to make that distinction, but changes to the international accounting standards mean that from 1 January 2019 companies that lease assets will cease to distinguish between operating and finance leases in their accounts.

That change will affect companies that prepare their accounts using international accounting standards and the UK accounting framework financial reporting standard 101, but not the alternative UK accounting framework FRS 102. It is therefore necessary for us to amend the tax legislation to ensure that it continues to operate as

[Mel Stride]

intended, and that companies do not face different tax outcomes depending on the accounting standards that they use.

The clause will mean that for tax purposes lessees will be required to continue to distinguish between operating and finance leases, even where that distinction is no longer required for accounting purposes. That will maintain the status quo and avoid unfair outcomes. Additionally, the changes to the treatment of leases in the accounting standards may lead to large tax adjustments on transition. To ensure that those adjustments do not lead to unfair outcomes or an excessive administrative burden, the adjustments will be spread over the weighted average length of all leases held by a company following the adoption of the new accounting standard.

The clause will ensure that, despite changes to the treatment of leases in some accounting standards, tax regimes that rely on those accounting standards continue to operate as intended. I therefore commend the clause and schedule 13 to the Committee.

Question put and agreed to.

Clause 35 accordingly ordered to stand part of the Bill.

Schedule 13 agreed to.

Clause 36

Oil activities: transferable tax history

10.30 am

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

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

Amendment 84, in schedule 14, page 260, line 15, leave out sub-paragraph (d).

The provision as drafted allows companies to transfer TTH worth double the value of anticipated decommissioning costs. This reduces the incentive for companies towards efficiencies in decommissioning costs and paves the way for decommissioning-related tax repayments far bigger than the companies are currently acknowledging. This amendment removes that provision.

Amendment 81, in schedule 14, page 261, line 29, at end insert—

"(aa) assessing the impact on employment, skills and the Exchequer from the asset's production life and planned decommissioning phase, and"

Amendment 89, in schedule 14, page 261, line 42, at end insert—

"(d) includes an assessment of the impact on the Exchequer from the amount spent on directly employed and contracted staff by the seller over the production life of the asset to date; and the impact on the Exchequer from the buyer's plans for employed and contracted staff up to and including the decommissioning stage."

This amendment requires a decommissioning security agreement to include an assessment of the impact on the Exchequer from the amount spent on staff, in order for that agreement to be qualifying for the purposes of this Schedule.

Amendment 85, in schedule 14, page 268, line 40, at end insert—

"(aa) the amount spent by the purchaser in post-acquisition periods on new capital investment, major maintenance work, retraining of redundant staff, initiatives to reduce methane emissions or initiatives to introduce carbon-capture techniques into the operations in relation to the relevant TTH assets ('post-acquisition qualifying investment')".

This amendment, and amendments 86 and 87 incentivize capital investment by new purchasers in job creation and emissions reductions. Combined, the amendments limit the TTH which may be claimed to an amount equal to such investment.

Amendment 86, in schedule 14, page 269, line 3 at end insert—

"(c) the amount by which total post-acquisition qualifying investment exceeded the higher of excess decommissioning expenditure and the total TTH amount as calculated for the first activation period under paragraph 35."

See explanatory statement for Amendment 85.

Amendment 87, in schedule 14, page 269, line 40, at end insert—

"(c) provided that the total activated TTH amount may never exceed the purchaser's post-acquisition qualifying investment for the relevant TTH assets or TTH oil fields."

See explanatory statement for Amendment 85.

That schedule 14 be the Fourteenth schedule to the Bill.

Clause 37 stand part.

Robert Jenrick: Clause 36 and schedule 14 introduce a transferable tax history—TTH, as it has become known—mechanism, and clause 37 amends the petroleum revenue tax rules for retained decommissioning costs. Both measures will apply to oil and gas companies operating on the UK continental shelf, and to transactions that receive approval from the Oil and Gas Authority or relevant regulator on or after 1 November 2018.

These measures are designed to encourage investment in late-life oil and gas assets that are approaching the point of decommissioning, prolonging the life of the basin and sustaining jobs across the UK, but in particular in north-east Scotland. Decommissioning costs are generally incurred at the end of a field's productive life, when taxable profits are not being generated. To provide tax relief for those costs, oil and gas companies within the UK's ring fence tax regime can carry them back against taxable profits generated since 2002. That prevents decommissioning from being performed early for tax purposes, thereby helping to achieve the Government's goal of maximising economic recovery of oil and gas.

When a new entrant without a history of taxable profits acquires an old field, there is a risk that the decommissioning costs of the field will exceed the taxable profits generated by the new owner, preventing effective tax relief via the traditional carry-back mechanism and leaving the buyer in a worse position than the seller would have been in. That can make old fields unattractive to new entrants and deter much-needed investment in this important industry. That is a growing problem in an ageing basin, but one that we now believe can be resolved by our innovative TTH measure.

The change to the PRT rules addresses the increasingly common scenario of a seller retaining some or all of a decommissioning liability after selling a field. The PRT system currently requires the seller to remain on the relevant production licence to receive tax relief for any retained costs. However, doing so often requires complex tax structuring that serves no particular purpose other than to protect the seller's tax position.

The changes made by these measures will create the right environment for much-needed new investment in our older fields. They will introduce a TTH mechanism that provides new investors with the certainty that they require about the tax relief they will receive for decommissioning costs. That will allow new deals to proceed, injecting new energy into a basin that still has 10 billion to 20 billion barrels of oil remaining. Initial feedback from the industry has been extremely positive—this change is already well received internationally and is helping new deals to continue.

TTH will allow companies selling oil and gas fields to transfer some of their tax payment history to the buyers of those fields. The buyers will then be able to set the costs of decommissioning the field against the TTH to generate a repayment. It should be noted that that should not be an extra cost to the Exchequer, as the repayment only replaces what would otherwise have been made by the seller. It will level the playing field between sellers and buyers of oil and gas fields, encouraging investment by providing new entrants with certainty on the tax relief available for their decommissioning costs. The new investment into the basin as a result of TTH is expected to increase tax receipts from the sector by £75 million over the scorecard period.

The clause also makes changes to enable petroleum revenue tax relief when a seller retains a decommissioning liability. A tax deduction will now become available to the buyer where the seller subsequently incurs decommissioning expenditure or where the seller contributes to the buyer's decommissioning costs. That will simplify the way that older oilfields can be sold to new investors and help to prolong their productive lives. Before turning to the amendments, I thank all hon. Members, including the hon. Member for Aberdeen North, who participated in the discussions that led to this important measure, which we believe will help the community around Aberdeen in particular, but also those across the country.

Amendments 81 and 89 seek to amend the definition of a decommissioning security agreement within the TTH legislation in schedule 14. Decommissioning security agreements are specific commercial agreements that provide assurance to partners in a field for which funds will be available for decommissioning. The proposed changes to the definition would make the decommissioning security agreement required for a TTH election incompatible with the industry standard decommissioning security agreement, which, in our opinion, would make TTH elections impracticable and unworkable for the vast majority of our oil and gas fields, which rely on the well-established and respected industry standard agreement. TTH has been carefully designed to leverage estimates of decommissioning costs, which are already used in decommissioning security agreements, taking note of the history of the agreements. The agreements are confidential and, as one might imagine, highly commercially sensitive and are typically shared only between the joint venture partners and HMRC, in accordance with taxpayer confidentiality.

Kirsty Blackman: Will the Minister tell us a little bit about the process that the Government went through in creating the Bill, and the work done between the Government and industry to ensure that the legislation works?

Robert Jenrick: Yes, I will turn to that. As the hon. Lady knows—she participated in and attended at least one meeting I held in Aberdeen with the Oil and Gas Authority and stakeholders—we have carried out a great deal of careful consideration and consultation with the industry, because TTH will succeed only if it works for both the buyers and the sellers. Our sole objective is not to raise revenue for the Exchequer but to extend the life of the basin and to create jobs and investment for an important part of the United Kingdom.

The new investment encouraged by TTH will prolong the life of the basin, which has 10 billion to 20 billion more barrels left, helping to protect the hundreds of thousands of jobs I have already mentioned. We believe that the amendments would introduce counterproductive additional requirements and inhibit the use of TTH. I urge the Committee to reject them. They may be well intentioned, but they would be contrary to the objective of the measure.

Amendment 84 would limit the maximum amount of tax history that a seller can transfer under a TTH election. The TTH legislation currently caps the maximum amount of tax history that can be transferred under a TTH election to double the decommissioning cost estimate agreed for a decommissioning security agreement. Decommissioning costs are inherently uncertain and can increase significantly for reasons outside the control of the operator and for reasons that were unknown at the time of the sale. For that reason, they are typically subject to a very large range of accuracy. For fields still years away from decommissioning, the range often includes a 100% cost increase. TTH has been designed to be compatible with this regularly accepted range of estimates and to ensure that the buyer cannot end up in a worse position than the seller.

Kirsty Blackman: I agree with the Minister's point about fluctuations. Does he agree that the cost of hiring boats has fluctuated massively over the past five years? If we had looked at this in 2010, we could not have predicted the fluctuations in just that small but nevertheless incredibly expensive area for oil and gas companies.

Robert Jenrick: The hon. Lady speaks from her deep knowledge of this area. It is absolutely right that some costs have fallen, particularly since the fall in the oil price, which has driven significant efficiencies in the sector, but other costs are rising. New technologies are coming on board. Taking on a project that entails such uncertainty while being tied to a single estimate of decommissioning costs, without a wide range as we have allowed in the measure, would be a major disincentive for a buyer coming in to one of these projects.

Let me address the concern inherent in the amendments about disincentivising cost-reduction, or that the measure, in providing such a wide field, would make it unlikely for buyers to try to reduce the cost and therefore would gain higher tax relief as a result. I think the buyer will retain a strong incentive to minimise total costs, as they will be liable for meeting the remainder of the decommissioning costs. The amendment is therefore unnecessarily restrictive and would harm TTH.

Amendments 85, 86 and 87 and schedule 14 would change the TTH activation mechanism to restrict decommissioning tax relief on a field, so that it could

[Robert Jenrick]

not exceed the level of new capital investment made by a purchaser. Decommissioning costs generally occur at the end of a field's life, when its reserves are exhausted and new capital investment will not result in further economic recovery of oil or gas reserves. For many purchasers it would therefore not be practical to make significant capital investment during the decommissioning process.

Furthermore, requiring the purchaser to match what can be very high decommissioning costs with an equal level of new capital investment could easily bankrupt many of the smaller operators that we want to take part in the industry. The best way to ensure that we get new investment into the industry, to protect jobs and create new ones, and to maximise economic recovery of our natural resources, is to have an effective TTH mechanism. That is exactly what we believe we have achieved, as a result of the deep consultation that we have conducted with industry, which I will explain in a moment. The amendments would make TTH completely unattractive and ineffective. I therefore urge the Committee to reject them.

In answer to the hon. Member for Aberdeen North, I will briefly summarise the steps that we have taken to consult with the industry since TTH was announced at Budget 2017. Even prior to Budget 2017, the topic had been discussed with stakeholders for some time. We have built on numerous discussions held between July and December 2016, by issuing at the time of the Budget a discussion paper on tax issues affecting late-life oil and gas assets. We received 28 detailed responses and then held an expert panel, working with the industry to design the measure. I myself held two meetings in Aberdeen this year with the Oil and Gas Authority and stakeholders. Draft legislation was published over the summer on L-day, for technical consultation with the industry. We received further feedback as a result and much of that has been incorporated into the final legislation. Although there are always ways to take the measure further, we believe we have reached a point where the industry is satisfied and welcomes the steps we have taken.

Peter Dowd: Trade unions have argued that more conditions need to be attached to TTH to bring it in line with OGA and maximising economic recovery objectives, and for broader commercial behaviours, which should include minimum compliance with UK employment law—workers being paid and employers paying tax and national insurance. Did that form any part of the discussions with the industry and stakeholders?

Robert Jenrick: I do not think we spoke specifically with trade unions but we did speak with a wide range of industry stakeholders. To return to TTH, its purpose is not to give an incentive to industry that it would not ordinarily have. The owner or operator of one of those fields would already be able to take advantage of those tax reliefs to set aside decommissioning costs, but they would be difficult to sell on to a new operator. This measure will make it much easier for new entrants to enter the market, for fields to continue or be developed further, and for jobs to be created that would not ordinarily be created. We believe that this is a win-win for all involved: for the Exchequer, which will make modest additional receipts as a result, for industry, and for all those employed in north-east Scotland—I see the hon. Member for Aberdeen North nodding. I believe this measure will be widely welcomed and well received by all stakeholders in the industry.

The best way to get new investment into our industry is, as I described, to protect jobs and maximise the economic recovery, and we believe that we have reached that point with this measure. The Government take their environmental responsibilities seriously, as we described when debating the previous clause. We have legally binding commitments to reduce greenhouse gas emissions under the Climate Change Act 2008 and the system of carbon budgets it sets out, as well as the Paris agreement that we ratified in November 2016. Nothing in this measure takes away from our efforts elsewhere, but we want the UK oil and gas industry to continue to thrive. It has been through a difficult period following a significant reduction in the price of oil, and that price has fallen once more since the Budget. That industry makes an important contribution to the UK economy, supports more than 280,000 jobs, and provides around half our primary energy needs. To date, it has paid around £330 billion in production taxes. By introducing these changes for late-life oil and gas assets, we hope to encourage new investment in the UK continental shelf, and I commend the clause to the House.

10.45 am

Clive Lewis: It is a pleasure to serve under your chairmanship, Ms Dorries. I look forward to speaking on behalf of the Opposition, and I draw attention to my entry in the Register of Members' Financial Interests. I am particularly pleased to speak to our amendments to the clauses and schedule that relate to transferable tax history, and I hope that the Minister will answer some questions on the proposed measures.

As the Minister outlined, the clause creates a mechanism for companies that are buying equity in UK oil and gas fields to acquire the tax histories of the selling companies and use them to reduce the future decommissioning costs of those fields. The Government's intent, as we understand it, is to extend production from late-life oil and gas fields in the UK by encouraging their purchase from companies that are no longer willing to extract from them by companies that are. The Government seek to achieve that by overcoming what they believe is a barrier to sales—namely the concern that new companies will not make enough profit from the field to pay for future decommissioning costs. Transferable tax history will allow the buying company to draw on the taxes paid by the previous owners to claim the maximum tax relief possible for decommissioning.

The Opposition believe there are a number of fundamental flaws to the proposals. Transferable tax history is fiscally irresponsible. It expands the very tax breaks that put the Exchequer on the hook for exorbitant future decommissioning liabilities, which the Government have set aside no money to pay for. It creates perverse incentives, providing a windfall for companies exiting the North sea, and it fails to ensure a long-term commitment from incoming buyers on workers' rights, capital investment and emissions reductions for the benefit of the UK. It also totally disregards the UK's role in avoiding catastrophic climate change, and does nothing to address the urgent need for a just transition to a low-carbon economy.

With that in mind, amendments 81 to 89 seek to ensure that no transfers are approved that increase taxpayer liability for decommissioning tax-related rebates. They would also limit TTH transfers to current estimates for decommissioning costs, thus ensuring that transferable tax history does not spiral and is no higher than estimated for current reliefs. The Bill currently allows companies to transfer tax history that is worth double the value of anticipated decommissioning costs. The UK taxpayer is already committed to footing the bill for a staggering £24 billion of the estimated £64 billion decommissioning costs in the coming decades, despite the massive profits made by oil and gas companies from the North sea. Do the Government expect the £24 billion decommissioning bill to double to £48 billion over the life cycle of TTH? The UK cannot keep spending revenues that it knows it will have to pay back and that are derived from oil we cannot afford to burn, yet TTH doubles down on those policy failures. If that is not addressed now by ring-fencing a portion of oil revenue to prepare for those costs, our fiscal and environmental future will become hostage to oil revenues.

The most staggering thing about this measure, which perhaps the Minister will confirm, is that the Government have set aside no decommissioning fund to deal with the consequences of these promises. As it stands, our share of decommissioning costs is completely unfunded, and a consequence of short-term priorities and incentivising investment decisions that have been taken regardless of long-term fiscal planning and environmental exigencies. Will the Minister explain the long-term fiscal strategy for dealing with those costs when they inevitably land on the taxpayer in the not-too-distant future?

The Government's arguments appear to rest on the assumption that additional decommissioning tax rebates will be compensated for by higher revenues from oil and gas fields, generated by increased investment and production by buyers. There is, however, an alarming lack of evidence to support that assumption, and detailed modelling of the long-term impact on decommissioning costs is conspicuously absent. Indeed, it could be argued that TTH reduces the incentives for the buying companies to increase production and generate more revenues, so have the Government considered the potential implications of that? It is perhaps unsurprising that the Government have provided no data on how much additional decommissioning rebate the Treasury might give away due to TTH, and neither have they undertaken any analysis of what would happen in a future scenario in which the oil price changes. Will the Minister commit to conducting such analysis and present the results to the House?

In our view, the measure reduces the incentive for companies to move towards efficiencies and decommissioning costs, and paves the way for decommissioning-related tax repayments that are far bigger than those companies are acknowledging. The clause is representative of the Finance Bill as a whole: it fails to deliver for the people of this country who are so desperately in need of investment in our public services, and instead it favours tax cuts for the wealthiest corporations, with the taxpayer left vulnerable to huge potential payouts. Our amendment would remove that provision and ensure that runaway decommissioning costs will not become a taxpayer risk.

Moving on, amendments 81, 85 and 86 seek to incentivise capital investment by new purchasers in job creation and emissions reductions—two crucial things that the Bill does not address. Exacerbating the problem is the fact that no clear plan has been set out by Government in the Bill to ensure a commitment to continued investment and employment from incoming buyers. Will the Minister tell us what plans he will put in place to ensure job security? Will he consider making TTH transfers conditional on maintaining employment levels? Similarly, will the Government consider limiting TTH claims to incoming companies' investment in infrastructure, maintenance, retraining and methane reduction?

The irony of TTH becomes clear when looking at that last point. The stated aim of TTH is to prolong the life of North sea assets, yet it has the potential to do the opposite, reducing incentives for incoming companies fully to develop late-life fields. Currently, a new entrant to the North sea would have to ensure several years of production to generate sufficient taxable profits fully to carry back decommissioning losses. TTH removes that incentive. Rather than ensuring sufficient production, should the oil price dip, a company can simply claim against transfer tax history.

Far from ensuring stable future investment, the irony is that TTH has the potential to subsidise the cost of an early exit should the oil market turn against the companies, thereby making UK jobs in that industry more, not less, vulnerable to market conditions. Amendments 81, 85 and 86 limit the TTH history that may be claimed to an amount equal to such investment, ensuring that the measure will not result in increased future liabilities for the Exchequer. They will also act as a starting point for addressing issues of job security and the environment, which I will come on to in more detail.

Amendment 89 builds on ideas that the Committee has already discussed, and extends them to a decommissioning security agreement. It would require such an agreement to include an assessment of the impact on the Exchequer of the amount spent on staff in order for the agreement to qualify under the schedule. The amendment seeks to encourage transparency and accountability between the seller and the buying company, ensuring that the cost of staff, and expectations for staff retention levels, are made clear, and I look forward to hearing the Minister's response.

There are a number of additional questions about the clause. The first expands on the issue of workers' rights. Although the Government may argue that transferable tax history is a way of protecting jobs by extending the life of those assets, research by Oil Change International, Platform and Unite, which represent those workers, found that major North sea tax cuts over the last 40 years have not led to higher employment, and neither did tax rises reduce employment. Will the Minister say what the net flow of revenue has been between the Treasury and North sea oil and gas companies over the last three years? It seems clear that those companies have used the raft of recent tax cuts not to create new jobs—160,000 have gone in the last three years—but to enrich their shareholders.

How can the Government ensure that TTH will work in the interests of workers employed on those assets? No clauses in the Bill provide safeguards for workers' jobs and workplace rights—it seems that the benefits of TTH will go to the private owners of oil and gas

[Clive Lewis]

companies, and that the clause has been drafted in their interests alone. We argue that it is the Government's responsibility to promote the stability of jobs in the region, and to ensure they are protected once smaller businesses take over the running of those sites. Will the Minister commit to conduct an analysis of the stability and security of those jobs, including the impact of the provisions, and to share that with the House?

Secondly, there is a huge concern about the environmental consequences of TTH and the encouragement of further exploitation of oil and gas in the North sea. The Government have yet properly to explain how the proposed policy fits with the UK's commitment to the Paris climate agreement. Despite the continued claim that the UK is a global leader in taking action to meet those targets, the Government's policies continue to fall far short of their green rhetoric. Climate science states clearly that to avoid global warming of more than 1.5°, at least 80% of known oil and gas reserves must stay in the ground. Every nation bears some degree of responsibility for leaving a portion of its fossil fuel reserves untouched.

Rather than assessing purely commercial viability, we should also assess how much remaining oil and gas in the UK can be exploited within the confines of the Paris climate agreement. It would therefore be helpful to know if and how the Government intend to assess the compatibility of TTH with that agreement. Do the Government have a view on how much of the UK's remaining 7.5 million barrels of discovered undeveloped oil and gas resources can be equitably developed if we are to play our part in meeting the Paris goals?

Ultimately, this issue ties into the Government's wider policy of maximum economic recovery, by which they have committed to extracting as much oil and gas as is commercially viable. Recent reforms, such as tax reduction and the decommissioning relief deed, as well as the proposal before us, are designed to make ageing marginal fields attractive to investment, even if that means reducing the per-barrel tax take or subsidising decommissioning costs to improve corporate returns. That approach is wholly inappropriate in a climate-constrained world, and it is entirely inconsistent with the Paris agreement, which requires not only a moratorium on new exploration, but the winding down of a substantial portion of current projects. In short, we need sustainable economic recovery, with Paris-compatible maximum-production targets, and a strategy to determine which combination of oil fields can most safely, efficiently and equitably exhaust the UK's quota.

Kirsty Blackman: To clarify, is the Labour party position now no longer to maximise economic recovery?

Clive Lewis: I sat on the Bill Committee for the setting up of the OGA three years ago, and we put forward amendments for sustainable economic recovery. I recall that the Scottish National party and the Conservative party favoured maximum economic recovery. That was a difference of opinion between the two sides back then.

Thirdly and finally, there are huge risks for the taxpayer. Those risks are acknowledged by the Office for Budget Responsibility, which concluded:

"The underlying tax base is volatile and the behavioural response to these relatively complex tax changes is uncertain. We have assigned this measure a 'high' uncertainty rating."

Ultimately, the policy is based on a gamble on the future oil price. Independent expert research commissioned by Global Witness states that there could be a loss of over £3 billion in tax revenue for the Exchequer over 10 years, as compared with the tax take if TTH is not introduced.

Transferable tax history has an impact on the results of investment decisions only when oil prices are relatively low. When the prices are above $50 a barrel, the impact of and need for transferable tax history is less, or even nil, since the higher prices tend to mean higher taxable income to the acquirer, who would generate enough new taxable income on their own to cover decommissioning costs.

Transferable tax history effectively provides acquirers with a hedge against lower oil prices. It jeopardizes future tax returns to incentivise investment in fields that are likely to be less efficient and with lower yields, without any consideration of climate limits or guarantees on jobs. Why is the Exchequer willing to push that cost on to the taxpayer, rather than on to the multinational companies that make vast profits from production every year and are seemingly unwilling to share them with their own workers?

11 am

At some point, decommissioning-related tax breaks will exceed revenue from the dwindling field production, wiping out the remaining tax revenues available from the North sea. In 2011-12, the Government collected £11 billion in taxes from the North sea. Current figures from the Office for Budget Responsibility project that it will be £1.2 billion this fiscal year. At what point do the Government expect the UK to reach the tipping point?

Historically, Conservative Governments decided to privatise our oil and gas industries, and the tax take from North sea oil was funnelled into tax cuts skewed to the wealthiest. We now have no say in how the profits are used, or how and when the oil and gas industry structures are to be decommissioned. By contrast Norway, for example, created a sovereign wealth fund—the Government Pension Fund Global—built off the surplus revenues of the Norwegian oil and gas sector. Transferable tax history continues with the opposite approach, by which Conservative Governments give huge tax cuts to the biggest corporations and encourage the exploitation of our natural resources, with no guaranteed long-term benefit to society as a whole. It tells us everything we need to know about that policy that the richest man in Britain, Sir Jim Ratcliffe, is currently holding exclusive talks with US oil major ConocoPhillips on acquiring assets in the North sea, and will benefit from those tax breaks, despite his majority stake in Britain's biggest privately owned company, INEOS.

The assumption underpinning TTH appears to be that deals for late-life assets will not happen without financial support, and companies will abandon the fields early rather than accept what they consider a low bid. Most other countries permit oil production on a use-it-or-lose-it basis. If a company is unwilling to develop a UK oil field fully, would the UK not be better to block early abandonment or re-award the permit to someone prepared to invest in the continued production, rather than bribing them with public money?

The Government have many questions to answer, starting with those mentioned today, to reassure us that transferable tax history is a justifiable risk for our economy and our environment. I hope the Minister can provide some answers.

Kirsty Blackman: It is not often that I will be found in Committee agreeing with clauses in any Government Bill—least of all in a Finance Bill. However, on clauses 36 and 37, I agree with the provisions on transferable tax history and thank the Government for including them.

I first raised the issue of transferable tax history on the record in March 2016 in Westminster Hall. The debate was led by the hon. Member for Waveney (Peter Aldous), the chair of the all-party parliamentary group on the offshore oil and gas industry. It is an active all-party group and does a huge amount of lobbying of the Government. I am sure the Chancellor is sick of hearing from us about things to make the industry more effective and maximise economic recovery, as we have been discussing. We have regularly proposed transferable tax history since we first discovered that the industry was concerned.

I will give a little background on the importance of transferable tax history and the reasons why we have called for it. There are smaller oil and gas fields around the central ones. The decommissioning of the central oil and gas field results in secondary oil and gas fields, and the smaller pools around the site, no longer being accessible without the building of significant new infrastructure. It is therefore important that, whenever the Oil and Gas Authority takes decisions about which assets can and should be decommissioned at a given time, it does so in the full knowledge of the knock-on impact. We need to ensure that we continue to have access, for example, to the small pools that are not economically viable now but are likely to be once the technology has improved. Decisions about decommissioning must be taken with full knowledge of the knock-on impacts.

The other thing that must be taken into account with decommissioning is the effect that removing assets might have on future carbon capture and storage plans. It is incredibly important that some pipelines are kept in place for the carbon capture and storage systems that are currently in train to be viable. That is another thing the Oil and Gas Authority must consider when it decides whether a field is ready for decommissioning.

One recent issue is that big operators that own a huge number of oil and gas fields, some of which are reaching the end of their economic life, must put in enhanced oil recovery mechanisms to get the rest of the oil out, which means working at higher pressures and temperatures. Big companies that have a huge number of operations in the North sea and around the world will not want to put in the necessary effort to maximise the recovery from the asset. It will think, "Actually, we are not fussed about this asset. Potentially we should just decommission it."

Clive Lewis: When the deliberations were taking place with the Government, was any consideration given to climate change, the Paris agreement and the sustainable level of oil extraction? Was the fact that we will need to leave a substantial amount of oil in the ground—80% by some estimates—to ensure we play our part in tackling climate change and remaining within the Intergovernmental Panel on Climate Change targets taken into account?

Kirsty Blackman: The SNP position and the Government position is to maximise economic recovery. Oil extraction does not have a particular impact on carbon levels. It is not about oil extraction; it is about what is done with it afterwards. Carbon capture and storage, for example, has a major impact on reducing the emissions that are produced when oil and gas are used. We have been pushing very hard on carbon capture and storage. If the extracted oil is made into tarmac or plastic products, it would not cause the emissions that would be caused if it is put into a car or turned into heating oil.

The Government have taken steps on electric vehicles and the Scottish Government are doing incredible things to promote them. They are increasing insulation in houses, because domestic heating is a significant contributor to climate change. A lot is being done in this space, and it has been recognised that Scotland has the most ambitious climate change targets in the world.

All of our oil and gas fields will be decommissioned at some point. That is how this works. It was always going to be a time-limited industry, because eventually the oil and gas that can be recovered economically will run out. Once an oil and gas field is decommissioned, there will be no jobs associated with it anymore, and there will be none of the anciliary services, so it reduces the amount of employment. A new player may come into the market and want to take on a field that is not a major asset for a big oil and gas company—it would rather decommission the field because it has had enough of it and cannot be bothered with it anymore. Transferring the asset on to the new company means that, however much technology it uses, jobs will be associated with the asset—there will be no jobs if it is decommissioned. We will still get the decommissioning spend and the jobs associated with decommissioning—we will just get it later. The continuing jobs on the asset will be a good thing.

Vision 2035 is the Oil and Gas Authority's vision, which has been picked up by the industry. It is still not talked about enough, particularly by parliamentarians. We are doing our best to raise its profile, but more hon. Members could do more. Vision 2035 is about what we want the oil and gas industry to look like in 2035. Hon. Members will understand that it is hugely important for the north-east of Scotland because of the significant percentage of jobs supported by the oil and gas industry, but it is important throughout the UK. A huge number of companies throughout England provide widgets—I tend to call goods widgets—that are used in oil and gas. If we do not have a successful North sea operation, those widgets will not be bought or used in the north.

Vision 2035 is about anchoring the supply chain. It is about a system where, once there is no viable oil and gas left in the North sea, we can continue to have oil and gas jobs anchored in the north-east of Scotland and throughout the UK. The only way we can do that is if we support the industry now and support the jobs that there are now. The Oil and Gas Authority states that the North sea and the UK continental shelf are seen as a gold standard. If a technology is trialled and works in the North sea, other countries will be happy to roll out that technology if it suits their sea conditions, because they know it has been tested in one of the most rigorous regimes and by some of the best people—they will know that the technology works.

For us to continue to have a viable oil and gas industry and a viable anchored supply chain, we need to ensure that we continue to be at the forefront of any technological changes. What we are doing on enhanced

[Kirsty Blackman]

oil recovery is genuinely world leading. There are few fields in the world that are at the supermature stage of the North sea, so we are doing some of the most amazing things with technology. We can see by the increase in productivity in the North sea that technological advances have been made. If the companies making the widgets that improve production continue to be anchored here in the UK, we will be able to export those technologies and the services that sit alongside them around the world even when there is no recoverable oil and gas in the North sea.

Many of the companies that I have spoken to in Aberdeen and Aberdeenshire are providing widgets and, yes, they are exporting them, but they are also exporting the people power and the services that go with them through ongoing maintenance contracts, which are a big revenue stream for the region. It is important that we do not talk only about the amount of money oil and gas generates for the Exchequer through petroleum revenue tax and the money that comes in because oil and gas comes out of the ground. We should also talk about the wider impact on the economy, which can be felt particularly in the north-east of Scotland.

When the oil price went down, we had a massive issue with house prices and redundancies in the north-east of Scotland. Very real change took place not just in those jobs directly involved with operating assets in the North sea, but in those jobs working in supermarkets in Aberdeen or in hotels. We saw the knock-on impact on the economy. It is important for the entire economy that we pursue Vision 2035.

As I have said previously, and I think the Minister covered this, this has been a good example of the UK Government and industry working together. I particularly thank Mike Tholen and Romina Mele-Cornish from Oil & Gas UK, who worked incredibly hard on this. Romina had a particularly difficult time trying to explain transferable tax history to a room full of MPs and managed to get there eventually, but that was not an easy task because it is quite complicated. If people do not understand particularly how decommissioning liabilities work, we have to explain that first before explaining why TTH makes a big difference, which I think it really does.

Regarding the amendments tabled by the Labour party, there is a suggestion that companies will try to inflate the cost of decommissioning or will be disincentivised from reducing the cost of decommissioning as a result of TTH. I do not believe for a second that that is the case; the point the Minister made in relation to the increase and potential fluctuation in decommissioning costs is well made, but the other thing is that companies do not want to have to spend that money. They want decommissioning not to cost a huge amount of money. I am clear that when decommissioning is done, it must be done right, and the Oil and Gas Authority must be on top of that. I am not in favour of companies being able to drive down costs to the very furthest reaches. I want them to drive down costs, but I want the decommissioning to be done properly and at the right time.

11.15 am

I have an issue with the Labour party's amendments. The Government are trying to level the playing field between new entrants and those already operating in the North sea. The amendments seek to create a two-tier system whereby new entrants to the industry will be required to have different conditions around jobs and capital investment, but the big oil companies that already operate a large number of assets in the North sea will not be asked to make the changes that the Labour party will ask new entrants to make. It concerns me that that would create a two-tier system.

I would be interested to see an assessment of how many jobs would be lost. I am concerned that the Labour party is giving up on the north-east of Scotland. As I said, a huge number of jobs are supported by this.

Clive Lewis: Given the fact that this could see a doubling in the current estimate of reliefs to about £48 billion—I know there is uncertainty about what that could be, but the legislation here is for that potential for TTH to double the current estimate of £24 billion to £48 billion—can I be cheeky and ask the SNP this? If they did achieve independence, would they carry on with this policy as a sovereign Government and bear the costs associated with it?

Kirsty Blackman: In the event of independence, as was laid out in our White Paper, "Scotland's Future", the Scottish and UK Governments will have a negotiation about what will happen to decommissioning tax reliefs. We will do what we can to maximise economic harmony in the North sea and create jobs for the long term. It is incredibly important that those jobs are kept in the UK. The jobs could simply relocate if the Government do not take action. They could do more to support the supply chain, which has been squeezed by the cuts that the bigger operators have had to make because of the reduction in the oil price. The Government could do more to ensure that the supply chain companies are provided with the support that they need. The Oil & Gas Technology Centre is doing a very good job in that regard.

Access to finance is incredibly important so that companies can begin to support and monetise the technology that they have created. They have incredible reserves of intellectual property, some of which have not had the chance to be developed. I would rather not see the IP sold on to somebody else. I would rather the Government supported such development.

All the oilfields will need to be decommissioned eventually, but we want the jobs to be kept for the longer term. We are making a case for the maximum economic recovery to be made from the fields. It is important to note that once a field is decommissioned, there are no longer any jobs associated with that field. If we can prolong the life of that asset, we prolong a situation whereby jobs and therefore money for the Exchequer are secured. That is incredibly important for the north-east of Scotland. I will not support the Labour party's amendments; I will choose to abstain. However, I will support the Government's clause in relation to TTH. I thank them for taking action, although I would rather they had taken it sooner.

Sir Robert Syms: In my lifetime, the greatest British success story has been the development of North sea oil. As the Minister set out very clearly, billions of pounds of taxation have been generated. Under successive

Governments we have had a tax regime that has been balanced against the risk of the investment that companies have had to take. It is therefore perfectly sensible at this stage of the maturity of the oilfields to use tax policy to ensure that the oilfields continue longer and continue to create jobs and to support, as the hon. Member for Aberdeen North said, the worldwide oil services sector based in Aberdeen.

I thank the Minister for what he is doing, which is perfectly sensible. It will generate more tax revenue. I hope we will oppose the amendments because they would make an intended simplification of the tax system more complicated. At the end of the day, we want people to continue to pump oil in the North sea and keep the jobs rolling. The Government's policy supports that.

Robert Jenrick: In the few minutes that remain, I wish to thank the hon. Member for Aberdeen North for her comments and her helpful exposition of the purposes of this policy, which is to create jobs and wealth for the whole country, and particularly for the area that she represents. We would be concerned, as the hon. Lady said, if we created a two-tier system where new entrants—predominantly smaller and often innovative businesses that want to enter the market—had to live up to higher standards than the predominantly larger and more established businesses that they are trying to take on. As she has done, I thank some of the stakeholders who have helped us to develop this policy, including Oil & Gas UK, which has been excellent throughout the preparation of this measure.

Rather like my hon. Friend the Member for Poole, I am surprised by the Labour party's position in this area. There has been a broad, cross-party consensus throughout my lifetime that North sea oil and gas are of benefit to the United Kingdom and an important asset to the country. Political risk will deter new investment into that field, if international companies that would like to invest in the North sea oil and gas sector believe that the Opposition in the United Kingdom are likely to increase their taxes, make those taxes more complex and disincentivise future investment.

Clive Lewis: We would like to put on the record that we are not giving up on North sea oil. Rather, we have an appreciation for the climate emergency that is taking place, and we ask for a reassessment of how we can sustainably recover those assets. That is all we are asking for.

The Chair: Mr Lewis, this is an intervention, not a speech.

Clive Lewis: Our amendments are simply about not exposing the Treasury to the vast costs that these companies could unload on to the Treasury and the taxpayer. The Bill contains no protection for the taxpayer in that regard.

Robert Jenrick: I will briefly answer some of those points. There has been a misunderstanding about the cost of the policy to the Exchequer. We believe, as is set out quite clearly, that over the scorecard period the measure will raise £65 million of revenue for the Exchequer. Because of the nature of the oil and gas industry and oil price fluctuations, that is a difficult assessment to make. However, we see no evidence for the more outlandish estimates in the press of a £3 billion cost to the Exchequer. Neither did the independent OBR, which checked our figures in relation to the measure and agreed that £65 million was an appropriate estimate over the forecast period. We believe that the measure is fiscally responsible because no additional tax relief will be due until the field is decommissioned. That will enable more fields to be developed, and decommissioning costs will be as they always were.

We see no evidence that the measure will disincentivise efficiency savings and productivity increases. As the hon. Member for Aberdeen North said, there is a great incentive on all parties to reduce the cost of decommissioning. The industry has signed up with Government to a target of reducing the costs of decommissioning by 35%. We would like them to go even further in the years ahead, and there is a lot of work going on to achieve that. We believe that the United Kingdom, particularly the area around Aberdeen, could be a world centre for decommissioning, and we are investing in facilities and training in that regard. We would like to work on that with the industry, because we see it as creating knowledge, new technology and jobs, which would then be exported to other fields around the world.

Kirsty Blackman: I am really pleased to hear the Government make that commitment in relation to the world centre for decommissioning. We are talking about one of the first oil and gas fields to decommission on a mass scale. It is important that the lessons that we learn from that are used to improve and export the technology.

Robert Jenrick: I think I have answered those points. There was a misunderstanding about decommissioning security agreements, which I hope I have answered. Decommissioning security agreements are confidential and commercially sensitive documents. Amendment 89 would not achieve the aim that the hon. Member for Norwich South set out, because such agreements will not be in the public domain. The documents will be received by HMRC, and decommissioning costs are regulated by the Offshore Petroleum Regulator for Environment and Decommissioning.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.